

## **N Brown FY22 Results Presentation 18 May 2022**

### **Steve Johnson:**

Good morning everybody and welcome to N Brown's full year results for the year ended February 2022. I am joined by Rachel Izzard our CFO.

Let's turn to the agenda for today. First, I'll give you an update on our highlights this year. Then, I will then hand over to Rachel who will take you through the Group's financial results. I will then return to talk in a little more detail about our KPIs and our strategic progress and then look ahead to our strategic focus for FY23. After that, we'll open up for Q&A.

I'm pleased with the continued progress that we have made in the financial year. While the consumer environment has remained volatile, we have continued to make progress across our business. Customers have responded well to our improved product ranges, and we saw that reflected in the 9.9% Strategic brands product revenue growth we delivered. And the number of active customers returned to growth for the full year for the first time in four years, up 4% for the full year.

This is a business which is now in a stronger position than pre-pandemic as a result of all the work we have done over the last few years. We continue to be cash generative and deliver double-digit EBITDA margins and are pleased to report EBITDA growth in line with our guidance.

The year was one of unusually low levels of consumer credit defaults as our customers transitioned through the pandemic. As a result, while profitability was boosted by the strength of the Financial Services margin, it allowed us to more than offset the increased investment that we made in areas including marketing as well as a normalisation in other costs compared to last year, at the onset of the pandemic.

We also continue to have an incredibly strong balance sheet, which is a point which I think sometime gets missed. Adjusted net debt of £259m is nearly twice covered by our net customer loan book.

We also update today on our legal dispute with Allianz. We have recorded a provision in our FY22 results of £28m as an estimate for accounting purposes for potential costs of settlement, or award at trial, plus future legal costs.

We've also been making good progress with our sustainability strategy, something which has been deeply embedded in the DNA of N Brown for many years. More on this later.

And we've taken the opportunity to refine our strategic focus heading into FY23 to make N Brown a simpler, more focused business able to allocate colleagues, investment and marketing spend in the most effective manner and which I'll go through later.

I'll now hand over to Rachel to talk you through the financial results.

### **Rachel Izzard:**

Thank you, Steve.

Let me start with giving you a financial summary of the Group's performance in the year.

The overall Group Revenue was down circa £13m – which is a result of some key drivers. First of all the closure of Figleaves which reduced both revenue and costs with a net neutral impact on earnings; lower financial services interest income as the customer loanbook entered the year smaller; managed decline of the non-strategic brands product revenue; and finally, offset by strong strategic brands product revenue growth, which is now above pre pandemic levels.

Now we have highlighted the 9.9% growth in Product Revenue from Strategic brands which I will cover in more depth later.

Gross Profit Margin has improved by 4.9 percentage points, driven by a high Financial Services margin in the period which I'll also talk to later. This more than offset the opex costs to sales ratio normalising post pandemic, with the 36% in the period well below the pre pandemic level of c40% as we have retained efficiencies and flexibility.

Combining the gross margin step up, with the opex cost normalising, led to an adjusted EBITDA of £95m, £10m favourable to the prior year. Combining the £10m additional EBITDA with the £3m reduction in interest costs from reducing net debt and optimising our funding facilities, drives the adjusted profit before tax position of £43m, up £13m or 47%.

Unsecured net cash was £38m lower than prior year. We successfully introduced flexibility into our funding facilities this year allowing us to voluntarily reduce our FS securitisation draw below the max available for this size of loanbook and at year end this under draw was circa £61m, leaving net cash of c£43m and optimising our finance costs. The full value of the securitised facility remains available if required. Combining the cash and the undrawn amount on that facility gives a total of £103m, ahead of last year's £80m as we have continued to generate cash in the year.

Finally, Adjusted EPS of 7.69p reflects the profit growth over prior year offset by the full year effect of share dilution due to the equity raise in November 2020.

Looking at the revenue performance in more detail there are the 3 distinct drivers. Firstly, the closure of Figleaves and the managed decline of the non-strategic brands. Secondly, the lower interest income on the Financial Services loanbook which entered the year smaller than the prior year; and third, the growth in strategic brands product revenue, which is now above pre pandemic levels.

The brands included within strategic on this slide of JD Williams, Simply Be, Jacamo, Ambrose Wilson and Home Essentials, posted 9.9% Product Revenue growth and which is a significant improvement over last year's 6.9% decline.

Within this, we have seen strong demand in Clothing and Footwear, and we anticipate some further normalisation in the market towards these categories in FY23 as customers return to previous patterns of life and refresh their wardrobes. I will talk more around product mix and returns rates on the next slide.

Simply Be and Jacamo were the first of our brands to benefit from the refresh of brand profiles and product ranges. These brands both delivered growth rates in double digits in the year and both now

have their highest ever active customer files – having returned to their growth trajectory after the dip caused by Covid last year. We are confident that the investments we have made in brand and product will result in continued growth from our Strategic brands.

Product Revenue from “Other” brands has declined by approximately 30%. Just over half of this is from Figleaves closing. The impact of ceasing to trade HOB and High and Mighty as B2C brands has now annualised, with the impact from Figleaves no longer causing a drag into FY23.

That covers the product revenue side, let’s move onto Financial Services. FS revenue was down in line with the smaller opening debtor book due to lower product sales last year and continuing solid customer repayments. We know FS revenue follows product revenue, with a lag and this can be clearly seen in the visuals on the slide, showing a clear revenue trajectory.

As I said on the previous slide, we saw a strong return into clothing & footwear in the year. Looking at this on a mix basis, clothing & footwear reflected 66% of FY22 mix, an increase over the 59% mix seen in the prior year. However, it’s notable that the mix is still around 5%pts behind the 71% seen in FY20 as the normalisation phased in through the year.

We do expect some further normalisation of the clothing & footwear mix into FY23 in particular in H1 as customers continue to refresh their wardrobes and purchases are triggered by the likes of holidays and events. Clothing and footwear remains the heartland of the business and where we see the most opportunity for future growth. As the mix has moved back into fashion and customer behaviour normalises, we have also seen an increase in customer returns of 4.5% points year on year. Versus 2 years ago we are still down circa 4.3% points, approx. 2/3 driven by mix of clothing and SKUs and 1/3 reflecting the improvements in our product ranges, which is great to see. As a result, we see some further normalisation in the returns rate to go in the first half of FY23 through the expected continued product mix change but believe we are well placed to hold onto the underlying improvements in returns rates achieved through our improved product offering.

The Group’s adjusted Gross Margin was 49.3%, compared to 44.4% in FY21. Product Gross Margin improved in the second half of the year, up 0.5%pts compared to a decline in half one of 2.8%pts and despite highly elevated freight rates in both H1 and H2 and which I’ll come onto shortly. On a full year basis, product gross margin declined by 1%pt. The main causes of this have been:

Number 1, freight rate increases. We experienced significant increases towards the end of FY21 and this has intensified driving a c1.5% pts drag on Product Gross Margin. At the time of our interims in October, we anticipated rates to remain high throughout FY22 then normalise back down. However, as explained in our full year trading statement in March, due to the ongoing elevated levels, we have revised those expectations and believe that rates will continue for the foreseeable future.

Second driver - Mix Effect and trading. We’ve pulled a variety of levers in the year. With the mix back into clothing there is a natural upswing in margin vs home. We have also actioned a level of price rises in response to the freight rates. And finally, we have needed to keep a flexible active approach to discounting and promotion as the online market has had challenging points throughout the year. In total across these areas, we saw a benefit of approximately 1%pt to margin.

Third Driver – due to the low levels of write offs in Financial Services, we have claimed back a lower amount of associated VAT Bad Debt Relief. This gets credited to the Product Gross Margin as we can only reclaim it due to that combined benefit of being a combined retail and credit provider. This reduced Product Gross Margin by c0.5%pt.

This leads me on to the largest part of our movement in Group Gross Margin, Financial Services, where we saw a 16.0% pts increase year on year. Turning to the next page I'll talk through the main components of this.

The FY22 FS margin rate reflects a number of non-underlying factors which are important to talk through to better understand both the year just finished and understand trends into the new year. In our trading statement in March we communicated that we expected the FS margin rate to normalise post pandemic to a low to mid 50s per cent range.

And that's very much where our underlying margin rate for FY22 finished – at 52% – around 10%pts lower than the 62%pts we reported as our margin rate. There are 3 main components of the 10%pts delta between the 2:

Firstly, a £15.4m overlay in the bad debt provision was made last year as we looked ahead into Covid uncertainty. Customer behaviour was actually better than expected and the provision was only partially utilised with £13.7m released in FY22, reflecting a one off benefit of around 6%pts within our reported margin.

Secondly, we have seen a lower-than-normal level of write-offs this year, c. £16m lower than a normal year, as customers have been supported through the pandemic, with government schemes, reflecting unprecedented conditions within the consumer credit market. Repayment rates have been higher than normal, and arrears rates have been low within the year. This has also benefitted reported margin rate by around 6%pts.

Thirdly, and going the other way, with a net drag on our FY22 margin rate of 2%pts, we made an additional provision of £5.8m at the year end for future economic uncertainty as a result of rising inflationary pressures and the associated risk of higher defaults linked to this.

To give you a sense of this in the actual customer data. Normally we see high retail sales on credit in the peak period in the second half of our fiscal year and then slightly higher write off rates associated with that peak spending circa 6 months later in H1 of the next year.

Looking at the first three bars of the top graph showing H1 performance, you can see how low H1 this year was compared to the previous 2 years for write offs, this shows the benefit of customers being supported through the pandemic with higher repayment rates and lower write offs. H2 in FY22 conversely has moved back to a more normal level.

On a full year basis, this meant that write offs net of recoveries were c. £14m lower than prior year. In the bottom graph, for IFRS9 we look ahead at future expected credit losses. At the end of FY21 we had a significant overlay for Covid uncertainty with the average rate increased to c14%. At the end of FY22 we have reduced that to c12%, but that's still higher than the pre pandemic norm despite a more up to date book, as we are looking ahead at a year of heightened stress for the UK consumer.

This slide on Adjusted Operating Costs ratio demonstrates the flow through of the changes we have made over the last few years, holding the level of efficiency below pre Covid levels with a higher level of volume variability to match our revised digital retail model.

Operating costs were particularly low in FY21 due to actions in response to the first Covid lockdown that included materially reducing marketing spend, stopping all but essential other spend and utilising the furlough scheme to protect employment. In comparison to last year, marketing and production costs have increased by 2%pts as a percentage of group revenue. Half of this is due to investing in brand building to support strategic brands - with the remaining half driven by a combination of cost inflation market wide for digital marketing channels and mix back into higher cost per click and higher returning clothing SKUs.

The Admin and Payroll cost increase reflects last year's cessation and deferment of non-essential spend and a greater level of investment spend now being expensed rather than capitalised. This change to expense rather than capital is a non cash impact, moving costs up into EBITDA but with an associated reduction in amortisation expense. Net over time we believe this to be a c1pp reduction in EBITDA margin with net neutral impact on PBT.

And finally , Warehouse and Fulfilment costs have increased driven by around 6% more items shipped – this is higher than revenue growth due that product mix change and returns.

The Group's is involved in a legal dispute with Allianz. The eventual financial outcome of the dispute is highly uncertain for both parties. We believe that it remains economically rational for the parties to settle the dispute and have made an accounting provision of £28m to cover settlement, or award at trial, plus future legal costs. Outside of this there were no new exceptional charges in the year. Last year's exceptional costs of £10.2m covered a range of items including redundancy costs and the impairment of assets on brand closure.

Cash generation has continued to be healthy. This slide shows how the EBITDA of £90m has converted through to net cash generation of circa £22m. Starting at the top, we have seen investment in inventory & working capital of £15m. During the first lockdown last year, we focused on selling through our existing inventory, and kept it tight through the second half enabling us to start FY22 in a clean position. By the end of FY22 we have seen an increase in inventory of circa £10m reflecting a combination of buying into new product volumes but also the increase in freight rates which are captured within the year end cost price on the balance sheet.

The customer loan book in financial services has contracted slightly this year, which net has released working capital as when the customer repays us the amount we repay the bank on the associated securitised funding is ~72% of what we loan out so net funds are returned back into the Group. We also saw a non cash movement in EBITDA for the IFRS9 provision for bad debts which we covered in the previous slides.

Non-operational cash flows of c.£51m include a capital investment of £20m, which is in line with last year; it also includes exceptional cash outflows, and tax and treasury charges, which are lower than last year as we reduce exceptional cash flows related to previously provided charges; and lower

interest costs. We expect the level of capital expenditure to increase in FY23 as we invest in our strategy.

Across all these categories we net generated £22.4m, which added to the strong position from prior year gave us the opportunity to paydown debt further. Hence we have taken the opportunity to reduce our securitisation facility draw approximately £61m below the max level for this size of loanbook, leaving net cash of c£43m and optimising our finance costs. The full value of the securitised facility remains available if required.

There are some specifics within our cash and funding positions which are worth explaining on this slide. The three key points to highlight are:

Firstly, we have unsecured net cash of £43.3m at the year end. After including the amount voluntarily underdrawn on the securitisation facility of £60.1m, this reflects a figure of over £100m which is ahead of last year's comparative due to the cash generated in year.

Secondly, the securitisation funding of £302.5m is well covered by the customer debtor balances with our gross debtor book being £578m at year end.

Thirdly, rolling the two components up to our combined adjusted net debt figure, we have net debt at the year end of £259m which represents a further reduction of over £40m in the year. You'll see that about half of this reduction is due to the cash generation – the £80.8m increasing to £103.4m; with the other half due to the reduction in securitisation borrowings – the £381.9m moving to the £362.6m.

On the first of these, on cash, we're pleased by the continued cash generation of the business; on the second of these, this is a function of the debtor book having reduced as we explained earlier – and we aim to see securitisation borrowings return to net growth along with the debtor book as we look ahead into the future.

We rebased net debt in FY21 to a manageable level and have further improved this into FY22. Looking ahead we see controlled growth in the debtor book and securitisation borrowings as a success factor and target keeping corporate financing in a net cash position.

Now, looking ahead and guidance for our new financial year. We are reiterating our guidance for FY23 EBITDA to be similar to FY21's reported level .

The trading environment has become more challenging since the start of FY23, with inflation impacting consumer confidence. We are expecting softer volumes and revenue growth than previously anticipated, but we expect to be able to mitigate these through our continued focus on product margin rate, where we saw an improved trajectory at the back end of last year, and volume variable cost savings.

Product margin improvements are supported through pricing in response to cost inflation, the movement of the product mix back into clothing, and continued use of data. Our expectation is for continued growth in strategic brands product revenue and managed decline of heritage brands. The

rate of decline of FS revenue will continue to improve as we went through earlier and we expect FS margin to normalise.

We also anticipate an increase in the cost to sales ratio due to the heavy market wide cost inflation plus holding to investments in strategic areas including brand above the line marketing.

Finally, we expect to maintain a strong unsecured net cash position and for year-end adjusted net debt to be in line with FY22. Now with all that I'll now hand you back to Steve to talk you through progress on our strategy.

**Steve Johnson:**

Thank you, Rachel. I'll now talk about some of the strategic progress that we have made in the year. We have made good progress across our strategic pillars and there is real momentum across the business. Picking up on a number of areas of progress:

We said at the start of the year that, with a greatly improved brand and customer proposition, we would increase investment in marketing activity, to build customer awareness of our brands. At JD Williams, we launched our brand ambassador partnership with Davina McCall and Amanda Holden, increasing visibility and relevance with our target customers. Both women represent the brand's values and are aspirational for JD Williams' target audience.

At Simply Be, marketing campaigns showcased our core message around inclusivity and fit, elevating the importance of product where fit is key and we have increased use of influencers as part of our brand building strategy. At Jacamo, campaign work has focussed on positioning size as a positive, working with influencers such as Big Zuu to build credentials in the market. We have been accelerating our use of social media and are seeing very positive results. We now have over 2 million social media followers, an increase of 10% over last year.

In addition to our social media and brand marketing activities, we have invested in our in-house content production capabilities. This allows us to create high quality content tailored to each brand's style whilst also enabling us to tailor the content to different media, such as social or video and as it's in-house we do this at an efficient cost per unit aligned to our objective of delivering a sustainable and efficient cost base.

Now moving onto product. We have invested in our in-house design team and improved product, which has led to greater customer purchase frequency. We have been investing in our in-house design team and the proportion of unique product designed in-house is now at 53% across Womenswear and Menswear.

I've spoken before about our good/ better/ best price architecture and creating product which represents great value and great quality, while introducing brands which stretch the range within the 'best' category. We have made progress on replacing elements of third-party ranges with more aspirational product. We launched new third-party brands on our websites including Nobody's Child and Hope & Ivy on Simply Be and built on existing relationships such as Ralph Lauren and Hugo Boss on Jacamo.

Our clothing, footwear and beauty range breadth continues to be optimised in order to create a clearer customer proposition and buying efficiency, reducing by 7% to 25k SKUs during year. We have increased range sizing to become a more inclusive fashion provider, moving from 10 womenswear size options to 13.

Moving onto Home, we have been evolving the category with an acceleration of own Home and Furniture design product which is unique to us, now at 70%. Home is sold across a number of our brands with JD Williams, as a multi-category platform, representing the largest share at 39%. We have also secured more premium brands such as LG and Samsung and grown our existing offer in areas which resonate with the customer at key times. We see an opportunity for customers to shop more aspirational products with flexibility around payment options in conjunction with credit account.

Now onto digital. Investing in our digital capabilities is a key part of our strategy. We've made significant progress in ensuring that technology is established for release of new front end websites from FY23. Simply Be will be the first trading website to be migrated, with beta testing currently taking place.

And finally, in Financial Services, we have continued to focus on enhancing the existing proposition including a six-month 0% campaign for new customers. Our medium-term strategic priority for Financial Services remains building a new, more flexible, FS platform, which will enable us to launch new credit products that will widen our appeal to customers. We have completed a detailed design phase for the new financial services platform which will commence build in 2022.

Last year we started providing a range of digital customer metrics to help track the progress of our business. As we move forward with strategic change, there's plenty of opportunity for further progress but as I look at these KPIs, I see continued signs of improvement. Today I'd like to highlight five of the KPIs.

First, is the 5% year on year increase in website sessions. This is a result of the progress we have made improving the brand and customer proposition in our target segments, as well as the investment we have made in marketing. We recognise that this isn't as strong as in the first half of the year as we lapped lockdown periods post Christmas 2020 but does represent real progress.

Second, average order value rose by 3%. We have been able to pivot back from casual clothing purchases during the early part of the pandemic towards higher priced dresses and outerwear, adapting as the customer mindset shifts.

Third, is our total active customers. The number of customers who have been active with us in the year have grown by 4%, representing a return to full year growth for the first time in four years, which we're really pleased about. This is through momentum in our strategic brands which saw active customer growth of 6%. Total progress is masked by the managed decline in non-strategic brand customers, as well as the closure of brands such as House of Bath, which we closed last year and folded into Ambrose Wilson

Fourthly, our arrears rates have seen an increase of half a percentage point, reflecting some normalisation against the low rates of last year as a result of an unusually high propensity of credit customers to pay down balances in FY21, but still significantly lower than pre-pandemic.



Finally, touching on NPS. We recognise it's down on last year as a result of global supply chain disruption and particularly a lack of drivers during peak due to Covid-19. NPS remains an important metric for us and one which each of our strategic focuses including brand, product and customer experience feed into.

At N Brown we are fully committed to embedding sustainability throughout the organisation, our product ranges and all our processes. We are now two years into SUSTAIN, our leading sustainability strategy. To highlight a number of our achievements and commitments in the year;

Responsibly sourced product now makes up 30% of our own-brand clothing and home textile ranges, achieving our target for FY22. We have achieved the 2030 target of the British Retail Consortium Climate Action Roadmap for the second year running, with all electricity purchased from renewable sources. And finally, following a successful trial of Green Polyethylene, or PE, despatch bags last year, we have now fully rolled these out at our Shaw distribution centre. This has saved over 400 tonnes of CO2 compared to using virgin material.

Now moving on, looking ahead into FY23 I'm going to talk to you about our ambitious and exciting plans for the future and how we've evolved our business strategy to take us closer to our vision. Over the last few years, we have undertaken a programme of transformation to become a leading, digital retailer. We have a clear vision, mission, and purpose that puts our customers at the heart of everything we do.

We reset our strategy almost two years ago, with a clear focus on five strategic pillars and three enablers. We have achieved a huge amount so far through the refocus and simplification of our brand portfolio, improvement in our retail product and credit propositions, and investment in our digital and data capabilities, all while navigating a global pandemic and increased regulatory environment.

As we've emerged from the pandemic, we've taken stock of our business and the broader ecommerce environment, and evolved our strategy, to make sure it's focused on driving the business for growth. As a result, we have simplified our strategy to make it more focused on the things that will have the biggest impact for our customers and support the growth ambitions of the business.

We will prioritise our money, time and resource on the biggest priorities of the greatest value. This is a strategic evolution, not a revolution. We have refined our priorities through greater focus, to set ourselves up for success for the future. These iterations will make N Brown a simpler, more focused business able to allocate colleagues, investment and marketing spend in the most effective manner. We'll focus on growth through 3 strategic brands of Simply Be, JD Williams and Jacamo, allowing further simplicity, rigour of execution, delivery of strong customer propositions and marketing efficiency.

Home remains an important category, and our focus will shift to growing this through the multi-category platform of JD Williams, enabling marketing efficiency and cross shopping.

We'll establish our remaining brands as a "heritage" portfolio including Home Essentials and Ambrose Wilson, focused on stabilisation and value protection rather than growth, with no further closures planned in the near future.

We'll fully integrate our flexible credit offer into the core of the customer value proposition. And we'll elevate data as an asset at the core of the strategy, driving daily decision making and activating our unique data pool

The result of this is an evolution in the focus of our strategic pillars to the following:

1. Build a differentiated brand portfolio
2. Elevate the fashion and fintech proposition
3. Transform the customer experience
4. Win with our target customer
5. Establish data as an asset to win

I want to talk you through each in turn, so you can understand more about what it means, and why they have evolved.

The first pillar is around building a differentiated brand portfolio. Now, we've done a huge amount of work over the past two years on clarifying our brands, looking at the brand purpose, the target customer and the overall proposition, and this has already yielded some good results. We will now focus our growth efforts on three strategic brands, which are JDWilliams, Jacamo and Simply Be.

Simply Be is an inclusive fashion brand for young women. Simply Be already has a strong emotional connection with customers who resonate with our size inclusive message, and this is what gives us a right to win in this space.

For Jacamo, we want to elevate its status in the UK as a menswear platform for all men, and our marketing approach is evolving to showcase the styles, brands and sizes relevant 'for every man' and which will be showcased through the year. Customers love our one-stop shop of own brand essentials, matched with amazing 3rd party brands available for all men regardless of size.

JD Williams is a fashion and lifestyle platform for women. As it's already a platform today, it is a one-stop shop for fashion and home with a blend of own-brand and 3rd party brands, so our ambition is to capitalise on this positioning. Oxendales, our Irish brand will also become a part of JD Williams in the future.

We are also mindful that our brands Ambrose Wilson, Fashion World, Marisota, Home Essentials and Premier Man represent a significant proportion of the business. These brands remain important for value as we focus growth on our strategic brands and will form our heritage brand portfolio. These heritage brands will focus on serving their existing customer bases which are some of our most loyal and longest standing customers.

Our strategic and heritage brands are both extremely important to the health of our business and make a meaningful contribution both financially and to the customers we serve.

A huge amount of work has been put into improving our retail proposition over the past few years. We've built a design team with excellent creative talent, which means we can truly create unique products for our customers that they can't get anywhere else. We'll continue to grow the mix of our own designed product to build handwriting and uniqueness.

We will also continue to offer the best 3rd party brands in the market to excite our target customers. We will build on the strengths of existing partnerships, onboard new brands and continue to build momentum in premium labels. And we'll bring a greater mix of our supply chain closer to home as we rationalise and drive efficiencies through our base.

Flexible credit has been a core part of our offer for many years, and we know the connection between our retail and credit offer is the secret sauce of our business, enabling customers to buy what they want and manage how they pay for it in a way that suits them.

These two elements are intrinsically linked as part of the experience of shopping with our brands. There is no separation between retail and credit, it's all the same customer, and the same experience. In recognition of this, we have set up a new squad with people from across financial services, marketing and digital technology, who are focused on building one truly seamless journey for our customers

As a digital retailer technology is key, and we know that to best serve our customers, we must deliver a fantastic experience. We will continue investing to modernise and upgrade our technology estate to transform our customer experience and give us the flexibility for future innovation.

We anticipate a launch of our new website later this year to customers on Simply Be, to be followed by other brands, this will provide easier navigation and reduce friction in the check out. We have also started to build a new platform for Financial Services, which will help us evolve our credit proposition with more products and a better, digital first, service for our customer.

The new front end to the website and the FS platform are key strategic focuses for the business and we look forward to building on the progress which has already been made. And, we are implementing a new Product Information Management system or "PIM", which reflects the importance of fit to our proposition. It will provide a more consistent customer experience and drive lower returns through increasing the accuracy and completeness of content across channels.

Being clearer on who our customer is allows us to refine our proposition to tailor their needs. It also allows us to be more effective with our marketing strategy.

We have identified three core priorities:

Retain our high value loyal customer; winning back high value lapsed cash and credit customers; and, target a new, younger generation of customers.

This year we will focus on the first two, which are retaining and winning back loyal customers. This is a huge opportunity: there are 4m lapsed customers out there with whom we can re-engage. To facilitate this, we've established a dedicated CRM team who will be looking at how we can re-engage with these customers and get them shopping with us again.

Data was already an enabler to our strategy and we have elevated it to be a core part as we move forwards. We want to use our data to help better decision making in the business to enable teams to be empowered and move at pace. To do this, data is going to be fundamentally embedded in the business

Last year, we saw huge success with the build of our internal tool Pricetagger, which helps us optimally promote product using pricing elasticity curves. It's also replaced a 3rd party product that we used to pay for, so this move is aligned to our sustainable cost base focus.

Building on the success last year, we have four focus areas for the year ahead:

Dynamic pricing/promotions which is about in season pricing adjustments;

Markdown optimisation which defines optimal timing and size of end-of-season markdowns;

Customer centric buying which is making in-season buying adjustments based on early detection of sales performance and online traffic movements; and

In-session personalisation to help show the right customers to the right products based on their personal profile.

We will also be investing in our data platform, ensuring our data is governed and managed in the right way, and has the right infrastructure to support how we want to use our data in future. As previously communicated, we have a medium term target of 7% for product revenue growth. Alongside this, we have a business which generates a superior level of EBITDA margins given our integrated retail and financial services proposition.

As Rachel said earlier, we have seen an increase during the year in the proportion of spend which is included within operating expenses rather than capital which is a theme we will continue to see. This increases operating costs and reduces depreciation and so nudges down the EBITDA margin rate. So, we've tweaked our medium-term EBITDA margin rates targets to 13%. There's no impact to cash from this and no significant change to the bottom line – just an accounting impact at the EBITDA level.

We are confident in achieving these medium-term targets which will deliver significant returns for shareholders.

Over the last year we have continued our progression, with growth in strategic brands product revenue and customer numbers, despite what has been an ongoing volatile consumer environment. We have delivered EBITDA growth and in line with our guidance. We see consumers responding positively to our improved product offering and our brand propositions. We have a strong balance sheet and continue to be cash generative.

Inflationary impacts mean that we are cautious in the short-term but we remain confident in investing in our evolved strategy and in achieving our medium-term targets which will deliver significant returns for shareholders.

And now we'll turn to Q&A, so if you are not already dialled into the conference call, please do so now and we will take your questions in a moment.

**Operator:**

If you would like to ask a question, then please dial in for the conference call and press star followed by the number 1 on your telephone keypad. Our first question comes from Clive Black from Shore Capital. Clive, please go ahead.

**Clive Black:**

Well, good morning. Good morning, Rachel and Steve, or Steve and Rachel, whichever way you prefer it. Thank you for the presentation. A few questions if I may. Firstly, I'll deliver them one at a time, probably easiest. On the infrastructure, particularly around the evolution of financial services platform, can you give an indication of A, the timeframe for that work and B, what sort of benefits you anticipate that bringing to both customers and the business, please?

**Steve Johnson:**

Sure. Hi, Clive, it's Steve. I mean, I think the sort of key -- let's start with the sort of benefits first of all, and then we'll talk about our overall programme and the way of working. So we see at the moment a business that would benefit from modernizing its credit products further to enable us to sort of support choices by customers in a way that's right for them over time. So ultimately, the way that I think about this is we're effectively creating products in the retail perspective which is getting more and more aligned to our target customer. And we need to do the same in financial services.

Now, the benefits therefore you would see are probably twofold. You would hopefully see a sort of - a bigger take-up from the sort of credit perspective, but also you should, if that sort of works over time, start to see shopping behavior change as well to benefit us as well. So we are quite excited about it.

However, I'll come back to the sort of, you know, where the business is. So in previous updates, I've talked about, you know, choices. We had to make a choice. The choice was to focus on the retail front end websites first of all, and then we would move to the financial services engine. The main reason for that is that we believe the benefits in the retail side outweighed the sort of longer-term delivery of the financial services piece. So for example, a lot of our pages are currently written on static code. When we move to our new website, it won't be static code anymore, which means we can improve our SEO and our natural search as a result of making sure that the synergies are there in the wording. So that's one example. The second is that the new websites are mobile-enabled and adaptable, whereas our current website is built on older technology, which is more desktop-enabled. So -- and the majority of our traffic is now -- as it is most places -- more smartphone. So the benefits of getting the experience right on the retail side outweighed the sort of choice when it came to financial services. But that one has come second.

And I'm excited about where we are. But we are embryonic in relation to the build on financial services because we spent our time focusing on one clear outcome, which is to improve the experience of customers in our retail side. We are now setting that up as an incubator squad. It has started. We spent 12 to 18 months in discovery phase. And we're very clear what we're doing, very clear how we're going to do it, and we have started. And I'll update further on that as we go.

**Clive Black:**

Okay. That sounds then, Steve, it is still a relatively medium-term project to finalization?

**Steve Johnson:**

Absolutely, yeah.

**Rachel Izzard:**

Correct.

**Clive Black:**

And then second question I think related to -- definitely related to credit -- is in some respects, you talked to reduced consumer confidence and indeed softer current sales or recent sales. But also, I guess particularly given the wider commentary, that demands for credit may be even greater, particularly amongst low-income households. So I just wonder how you are going to balance that, and indeed what recent trading is telling you about the nature of the credit book and risk.

**Steve Johnson:**

Yeah. So I'll cover that at a high level first of all, and then Rachel might chip in on this one as well. But look, I mean, what we've seen in recent weeks -- I would say weeks rather than months -- is higher levels of interest for our credit product. So the sort of initial start of this sort of inflationary pressure that consumers are under is leading quite squarely to a nominal increase in interest to our credit product. So that's really good. So that's a good thing for us. We're very happy about that.

The sort of flipside of that and why we remain cautious is, you know, I think it's well documented, no different in N Brown as it is anywhere else, that the economic conditions for consumers are, you know, are stretching. And we, you know, we therefore, we're very early into the year. We are happy to see the increase take up in credit. But clearly, we're cautious on short-term guidance really just around that volatility that exists in the market. So at this stage, we're not seeing anything that would make us change our view. Everything is wrapped up in the guidance. We were delighted to sort of hold the guidance.

We will offset the sort of -- the sort of perhaps softer sales with improved revenue and improved margins and actually lower costs as well in relation to operation costs. So, you know, we're sat here with a sort of decent position which is why we've reiterated guidance. But it is early on in the year. And that's the key message from me. Rachel, is there anything you want to add to that?

**Rachel Izzard:**

No, so it's still over 80 percent of our retail sales are made within a credit account. So we don't enforce that, we allow choice to our customers across all our brands. But we're seeing a slight pivot back into choice, into credit, Clive, and both existing customers utilizing their credit account versus they can always pay on cash, and a slight tip-up in new applications, new customers coming in applying for credit. I think it's worth noting, we are a well experienced credit provider in near-prime, sub-prime territory. So we are well experienced in how we do credit risk at the top of the funnel. And we are holding our bar on our credit risk acceptance. So we could accept a considerable amount more than we are at the moment, but we are holding our risk profile. But even within doing that, we are seeing a higher proportion of new customer sign-ups for credit. It's kind of early days. It's a slow-moving ship, credit, and purposefully, it's a slow-moving ship because we make sure it is from a credit risk management perspective. But definitely, we feel it's a good year to be offering a credit proposition to our customers to help smooth out the payment profile throughout the year, so it's not big shocks into people's outgoings. They can smooth it through the year with a credit proposition.

**Clive Black:**

Okay, thank you. And then look, finally for me, can you just say something about your marketing strategy and cost? Because you have a big reduction in paper utilization in recent years. Has that now -- has that process now been completed? And how do you see this profile going forward, please?

**Steve Johnson:**

Yeah, again, Rachel and I will do a double act here. So I think it's important to note that two to three

years ago we were sort of very clear, this is going to be a digital business. And we have taken choices, very focused choices, as a result. But at the same time, we've been building our capabilities. And I talked a bit about that in the presentation. But I just want to reiterate those. You know, investing in our own sort of digital app so that we can effectively create video content internally, that's really important to build out our social media presence. I said that we'd got over 2 million social media followers. It's actually probably closer to 2.3 million. It's growing all the time. And this is enabling us to work with influencers to enable us to sort of build bigger reach. And in a different way to how paper used to operate. Now, this is very, very important for us. It was a conscious choice that we made. And we are seeing that.

So where we are investing, we're investing into sort of campaigns like the Live Louder campaign with Big Zuu, who did a great job for us, and Jacamo. And we've got all sorts of things going on in relation to JD Williams and Simply Be as well. And I think that the key critical point for us is that we moved away from perhaps the sort of older way of operating as a sort of retailer to becoming the sort of digital retailer that we want to be. And we're building that very well. Thanks. So with that, we'll go to Rachel. I don't know if there's anything you want to say around the sort of cost distribution there.

**Rachel Izzard:**

Yeah. So to be clear, we do still do a level of paper, Clive. Because we see it as a targeted kind of drops on some of our older brands. So winners' booklets rather than, once a season, a big book. So we use it to bolster, and then it more and more just drives traffic into the website to do the digital sale. Because in particular at the older age range and some of our brands like Fashion World or Oxendales do actually appreciate, and you can see the incrementality, when we test it through the data science teams rigorously, that they can do the feedback loop of what paper's working, what paper's not. So we don't do the blanket book, we don't do the blanket drops, but we do targeted drops where we know it can have incrementality. And sometimes actually it will be social media channels for those older brands. But the broad majority now, as Steve said, is through the digital channel below the line. And then we do a range -- and we reintroduced this year a range of above the line marketing. Some kind of media spend in terms of TV and radio, a lot of out of home spend. And then a lot of kind of complementary social -- above the line channels as well as the below the line channels through social. So if you follow us on Instagram, we're doing a lot more Instagram, including trialing shopping through from Instagram. So we're getting more and more of a digital footprint, in particular on Simply Be and Jacamo, but starting to see more of that build on JD Williams and some of the others as well. So a real reset.

And then what we're seeing in terms of the step up in cost as our ratio year on year, half of it is getting back into the above the line, so £6 million more spend on above the line marketing, and the other half is the performance marketing across the industry, we're seeing cost inflation in particular from Google and Facebook. That's not bespoke to us, that's bespoke to everybody, because everybody pays the same. We all bid for the same words in the same way. So about half cost inflation, half an active choice to get back into brand marketing. But -- reset, but significantly versus two, three years ago.

**Clive Black:**

Really appreciate it, thank you, guys.

**Rachel Izzard:**

Thanks, Clive.

**Steve Johnson:**

Thanks, Clive.

**Rachel Izzard:**

I think Matthew had a question as well?

**Female Speaker:**

Yes, our next question comes from Matthew McEachran from Singer Capital Markets. Matthew, please go ahead.

**Matthew McEachran:**

Yeah, thank you very much indeed. Yeah, I've got a few questions. And probably -- maybe just go through them one by one. I have quite a few on financial services again actually. I mean, there's been a few trends obviously in the year just reported, and some of these may reverse. And one of them is potentially, you know, early repayment and, you know, early collection. So I'm thinking that that's probably already changing. And you've obviously got an improving products sales trend. And you're also talking about credit performance or credit interest and participation on the rise. So I think the question for me is, it seems to me like FS income is probably going to inflect into growth quicker than might otherwise have been the case. Guidance is unchanged on that. Do you want to just give us a little bit more granular detail in terms of how those building blocks play out, and is it a Q1 or is it a Q2 or is it H2? When do you think that the business moves back into FS income growth again?

**Steve Johnson:**

Thank you, Matthew. I mean, just again, I'll just reiterate that we've seen nominal sort of increases in credit interest. So just for the avoidance of doubt, it hasn't doubled overnight. It's a sort of step forward. We are seeing it, we're pleased with it. But I think given the sort of size of the tanker that, from an FS perspective, is something I do know about, is it takes a while for that to sort of play through into sort of revenue. Now, with that, I'll hand over to Rachel just to sort of cover that point.

**Rachel Izzard:**

Yeah. So you asked about repayment rates. So absolutely, through the pandemic, we saw repayment rates step forward. And we're not alone in that. By the look of our peers, communications out in the market, they were seeing similar. So what we're actually seeing with the customer loan book, that we had muted retail sales at the start of the pandemic, and we had a higher repayment rate. And we had lower write-offs, but net, the book was contracting because customers were paying back.

**Matthew McEachran:**

Yeah.

**Rachel Izzard:**

We've seen that normalize back. We're not seeing lower repayment rates than pre-pandemic yet, absolutely not. But we're seeing more normal repayment rates versus FY21 and FY22. But as Steve said, you know, it is a slow supertanker to move. So when we're talking about credit sales penetration, you're talking about going from kind of 80, 81 percent to 82, 83 percent-type kind of move. You're not talking about going from 80 percent to 90 percent credit sales penetration.

And then in terms of that turning into interest income, it takes several months. You know, obviously, we're happy if a customer stays up to date and doesn't generate into a in-arrears position generating income. But it does take a while for that balance to build into an interest-bearing balance. So, you know, we normally say six to nine months in terms of the flow through of changing upfront sales behavior into something that would actually start hitting the financial services P&L. So it won't be Q1, Q2 where that change in credit penetration turns into something in the FS P&L. It will be the back end of FY23 and into next year. But it's all healthy, strategic moves for us in terms of building long-term shareholder value.



**Matthew McEachran:**

Yeah.

**Rachel Izzard:**

Now, we could change that via lowering our bar in terms of our credit risk acceptance. But we wouldn't be willing to do that in terms of the credit risk management.

**Matthew McEachran:**

Yeah, yeah. That's very clear. Okay, thanks for that. And, I mean, you -- I wouldn't say you put it up in flashing lights. But the, you know, the new FS platform. I mean, actually it's quite far down the road. Could you just clarify what payment options you currently offer to consumers? Obviously, you've got an interest free period. You've then got the move into interest-bearing. But you have variants on risk, you know, pricing for risk and buy now pay later. Do you have variants on those already in place or not?

**Steve Johnson:**

Yeah, what we've been doing over the last few years, Matthew, is making sure that our product is as fit for purpose in a modern environment as it can be without obviously the big structural change where things start to become more personalized and a bit more, you know, dynamic, let's say, for want of a better phrase. So we do operate, you know, it's very simple in my mind. We operate a revolving credit facility. You know, people come to us, they spread the cost, they pay for it when they believe there's a minimum payment, they can pay more than that. You know, they can choose to sort of manage it. And what we've been able to do is overlay a few different sort of product variations that sit within it. So an interest free period for our customers, which is a great -- a great situation for customers in a -- in a world where everything is going up in price. So, you know, that's happening, we're making it easier and we're making it more affordable. So from our perspective, there are a range of those types of things. They are more targeted, they're a little bit more cohort driven, as in a bunch of customers rather than personalization. And that's how I see the evolution when we -- when we deliver on the financial services platform. That will be about, you know, essentially creating something that provides a bit more sort of personalization in the engine for individual customers as opposed to thinking about it in relation to products. But look, you know, we are happy with where we are. We have been running a credit business for quite some time. You know, business is strong in this area. And we continue to evolve it and we continue to sort of see that as a positive.

**Rachel Izzard:**

And if you look at the numbers, we've got circa 1 million statemented credit accounts. So, you know, we've got a longstanding, existing base that works well with a revolving credit facility. We know that isn't as modern or as exciting as it needs to be for new customer acquisition, but in the meantime, it does work well for the base.

**Matthew McEachran:**

Yeah.

**Rachel Izzard:**

And does work well for this customer segment in a difficult year. You know, because circa 1 million credit accounts is pretty high relative to the market out there today.

**Matthew McEachran:**

Yeah. Yeah, okay. No, that's super, thanks for that. In relation to your underdrawn position in the securitization facility -- I mean, I think I understand why you're doing that. It looks very sensible. But

could that end up being a structural shift to funding more of the book internally, or do you think this is probably more just a transitional temporary move?

**Rachel Izzard:**

So for me, I love flexibility. I would always want to maintain that flexibility, and the banks are comfortable to maintain that essentially offset mortgage approach. And it's the right thing to do in the near to medium-term, in particular whilst we're waiting to close out the Allianz, and we're getting back in terms investment. So I would always look to have that structural flexibility. Would I -- would we need to be running with that level of headroom on a normal basis? No. It's always good to be in a net, unsecured cash position, though. So we are targeting -- on the corporate side, so in the slide, we tried to be really clear between FS financing versus corporate financing.

**Matthew McEachran:**

Yeah.

**Rachel Izzard:**

On the corporate financing side, our committed target is we will keep that in the positive net cash position. Does it need to be as strongly positive in the net cash position? We are at the moment in the medium to long-term, no. But it means we're well set to close out the Allianz case, make sure we can invest, and make sure we can ride out further volatility. So we'll stay net positive cash, we'll absolutely stay flexibility, because I think it's helpful for us to be able to flex as needed. And then longer term, I think it will settle.

**Matthew McEachran:**

Yeah, yeah. No, that makes sense. Thank you very much. And if I could just chuck one more in if that's okay. You've talked a lot about the balance sheet. And that was one of your opening remarks, Steve. I think the business also retains quite a considerable amount of freehold property. Could you just remind us of the value of that? I was unconfirmed whether that's book or market value.

**Rachel Izzard:**

Value is always what somebody is willing to pay. And at the moment, we're not out for selling them. So we have three main properties that you're talking about Matthew. So we've got Griffin House that we're sitting in, which is in the northern quarter in Manchester, which is our headquarters, and it's a freehold asset. We also have Shaw and Hatfield, which are our distribution centres and both also freehold assets. So, you know, as you say, but they're available if we so need we don't need at the moment. And that's a good place to be. So as and when we look over the medium to longer term, change our operational facilities, you know, it was a good way to self-fund doing that change, to be blunt in terms of --

**Matthew McEachran:**

Yeah.

**Rachel Izzard:**

-- a longer term and then we've got no plans in the near future to get out of Griffin House. It's a good asset for us. It's an ongoing low operating cost. We don't have the liquidity or the funds, but we have those three facilities and it gives us the ability to wait and utilize them at the right time. But we don't need to like --

[talking simultaneously]

**Matthew McEachran:**

Yeah, but you -- no, that's great. Absolutely. I mean, do you want to -- can you just give us a sort of approximate value of the three assets just for clarity? Even if it's not -- I won't hold you to it.

**Rachel Izzard:**

No, in terms of -- if you won't hold me to it very easily, it would be 20 million a pop for each of the three.

**Matthew McEachran:**

Yeah. Okay, yeah.

**Rachel Izzard:**

-- really low value.

**Matthew McEachran:**

Interesting. Yeah.

**Rachel Izzard:**

I think what you'd like to do is do it in the right time, in the right way, with a package deal. But we don't need to do it at the moment. And we're eating through our plans as we go. [unintelligible], then in the medium term it'd be operations, but we're not constrained at the moment. And Griffin House does what it needs to do for us.

**Steve Johnson:**

Yeah. So no, no plans to do anything with those properties is my --

**Matthew McEachran:**

I'm not asking you for that. I'm just asking from the perspective of you. You've got, you know, you've got your net debt almost twice covered by the net book and then you've got assets here and you know, you've got your EBITDA margin guidance intact. So no, that's really very helpful. Thanks, guys.

**Steve Johnson:**

Yeah. Thank you, Matthew.

**Rachel Izzard:**

Thank you, Matthew. All right.

**Steve Johnson:**

So I think that, probably -- we've probably run out of time anyway, actually. So I'm just going to sort of thank everyone for joining. The key message again, we're very pleased with the progress. Actually, we're making good strategic progress. We're cautious on the short term. N Brown is no different to any other business. But we're very happy to continue to invest in our strategy. We believe it's taking us in the right direction. And with that, I'll wish you a very good day.

[end of transcript]