

N Brown Q3 FY23 Trading Update 12 January 2023

Conference Call Transcript

Steve Johnson:

Good morning, everyone, and thank you for joining the trading update call. This is Steve. And also with me is Rachel. I do hope everyone's alright and everyone's well. Turning to the morning statement, I'm sure you've read it, but let me cover the main points before opening up for Q&A.

We traded in line with our expectations in a tough environment, as consumers continue to be more cautious with their discretionary spending. The more cautious customer behaviour is reflected in a lower level of website sessions and conversion rates, but partially mitigated through higher average order values.

Our balance sheet remains strong with unsecured net cash of £83 million and total accessible liquidity of almost £200 million as of the 31st of December. We did announce on Monday that a payment of £49.5 million will be made in the coming weeks relating to the settlement of the legal dispute with Allianz. After satisfying this, the group will retain a strong unsecured net cash position of circa £30 million, with both the RCF and the overdraft facilities remaining undrawn. I'll come back to Monday's announcement again in a moment.

With peak season behind us, we do expect Q4 to be softer than Q3 in what are typically our quietest months of the year. Against this retail backdrop and assuming a continuation of the trends we have been seeing in financial services revenue and margin, we expect FY23 adjusted EBITDA to be in line with market consensus.

The market for UK discretionary consumer goods is expected to be soft in 2023, particularly in the first half. We will also commence FY24 with lower active customers year on year due to the difficult trading environment we are experiencing in FY23. However, although we are cautious about the macro environment over the next 12 months, we remain confident in the resilience of our business and in the strategic investments we are making for the long term.

Finally, touching back on the announcement which we issued on Monday, we were pleased to have reached full and final settlement in respect of the legal dispute with Allianz. This removes a significant element of uncertainty and distraction and allows us to focus on creating shareholder value through our core business activities as we continue our transformation. And with that, we will open up to questions. So over to the operator.

Operator:

Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. We'll pause for just a moment while waiting for the questions. Thank you. And I'll take our first question from Dr. Clive Black from Shore Capital Markets. Your line is open. Please go ahead.

Clive Black:

Thank you very much. Thank you, Steve. Good morning. A couple of questions, if I may. First of all, can you give some colour as to the quality of the credit book over Q3, how it's ended at the end of Q3? Given what you've said about the tougher macro environment and indeed trading conditions. And secondly, you touch upon the strategic workstreams in your narrative. It might be helpful just to

remind us what those workstreams are and what you hope to achieve from them, please. That would be really helpful. Thank you. And good morning, Rachel too.

Rachel Izzard:

Good morning, Clive.

Steve Johnson:

Good morning, Clive. Thanks for the questions. I mean, why don't I touch on some of the sort of strategic sort of side of things first and we'll come back to the question on FS, and maybe Rachel can add a bit colour from what we're seeing in the in the sort of metrics, et cetera. But listen, the business as we've set out, we've been very clear that this is a medium term transformation. We've effectively restructured the business to be a pureplay business, and we have five strategic levers in relation to the what, and we're also implementing an agile enterprise operating model in relation to the how. Now I'll give a full update at the year end position in May. But we are actually pleased with the progress we're making and that's probably sort of the first key message. And you know, there are a few key things that we're working on in terms of deliverables, but overall, the five principles are building a differentiated brand portfolio, elevating the fashion and fintech proposition, transforming the customer experience and win with our target customer, whilst also establishing data as an asset to win.

In relation to the work we are ongoing with, and so take something like transforming the customer experience, we have actually got all of our customers now onto our Simply Be new front end website. We launched an MVP, a minimum viable product. We then go fast follow and build the features in that website, and then we roll out to Jacamo and JD Williams and we're on plan to have both of those brands on that by the end of the next calendar year, not financial year, calendar year. So that's the current plan that we're on with and we're on track with that.

In relation to financial services, elevating the fashion and fintech proposition. We have spent a lot of time in discovery in relation to building a new financial services platform which will offer a series of products to our customers, and that is past the sort of embryonic stage and in fact is in build mode now. And we have allocated money for that. And there is a team up and running and they're building. And again in similar timeframes, I would expect and hope, albeit this one's a little bit less developed to be in the same place as we are with the retail platform. So, by the end of the next calendar year, we should start to see some of the value coming through from that and starting to deploy it to our customers.

We have a very clear data strategy, and that data strategy was approved by the PLC board in December. There are a key set of deliverables actually which our Director of data is working on and again, we'll see a lot of those put in place over the next 18 to 24 months.

And when I think about the product itself, you know, the product has improved massively, and we continue to do that. We continue to focus on improving our product and getting our good, better, best architecture right. And I know a series of sort of developments that the guys are looking at that there. We're also investing in our design team internally in Manchester and we continue to make good progress there. And again, I think similar timeframes on that.

So that's the what. The Agile enterprise operating model I think is really important because there's no point creating technology that's adaptable and giving it and putting it in the hands of colleagues if you don't empower them to make a difference. And we've been working with Deloitte to help us on this transformation. And again, I'd say similar timeframes to that. I would expect by the end of the

next calendar year we will have really good progress and the business will be operating entirely in that way. So, from my perspective, I'm really pleased with the strategic developments we're making. And, you know, when we think about where our investment is and our capital investment and we have -- we look at it on the basis of run, grow and transform. Run is keeping, you know, good things done, its compliance things, it's keeping sort of systems up to date. Grow is sort of let's call them tactical things that you can sort of respond to and transform is the medium term work. And I would say that the majority of colleagues in this business are focused on keeping the lights on and doing the work that makes this business win in the medium term. And where I'm at today is in a pretty decent place on that. So hopefully that answers the question on the strategy side. I will deliver updates at the year end, and I'll be clear on those deliverables as well, Clive. So we will make that sort of point.

In relation to FS, look, I mean, you know, the FS business has been running in this organization for some time, have got a good handle on it. We have seen a slight increase in arrears as we were expecting, but it is still lower than pre-COVID levels and the team is doing a good job of managing that area of the business. So I'll sort of pause now and see whether Rachel wants to sort of add anything to that.

Rachel Izzard:

Yeah, I'd just -- as Steve said, over the pandemic, we actually saw incredibly low arrears in the consumer credit market across the market, not just with N Brown, and that had great conditions. And we've seen that normalize through into this year. And what we've seen in the run up to peak and through peak with that plateaued and normalized to just under pre-pandemic levels. So actually for Q3 across all our kind of size and shape metrics, whether that's returns, arrears or mix between home and tech and fashion, this felt like a much more normal pre-pandemic set of metrics and stabilized as far as we could see through the peak. Now, within financial services, people clear down their open to buy, buy through of the peak. And then January, February normally tend to be the area where we very carefully monitor and work with our customers to see what level of defaults. So that's what we're keeping an eye on through January and February. But actually in that Q3 peak period in the run up, it stabilized really well, and we really saw kind of like the pre-pandemic norm start to settle back into the book and into the retail sales and actually saw both our existing customers and our new customer acquisition tend more and trend more into the credit arena. We already have a large proportion of our sales made on credit, but actually our customers tended to use more of it through this peak period than we've seen over the last couple of years.

It's a slow moving book because as you'd imagine it would be, we're very careful with it. So none of these are massive change in metrics, but they're all of -- all as expected and moving in the right direction. And we're keeping a close eye on it in the January-February post peak period and then into next year it's a great time in our perspective to have a consumer credit proposition out in the market. It's a soft market. The macroeconomic conditions in particular in half one are softer. But to have a credit proposition out there at that time, we think it's a great place to be.

Clive Black:

Very helpful and comprehensive Rachel and indeed, Steve, thank you for that. I'll let other people ask questions, if -- and if not, I'll come back with another one. Thank you.

Steve Johnson:

Thanks, Clive.

Operator:

Once again, ladies and gentlemen, if you would like to ask a question, please press star zero -- star one. I'm sorry. Thank you. We will now take our next question from Andrew Wade of Jefferies. Your line is open. Please go ahead.

Andrew Wade:

Morning both. Just a couple of quick ones for me. The first one, in terms of mix of revenues, as you've gone through the half, how is that change versus how you'd expected it to change, i.e. between home, tech, clothing, and so on? And -- or has it tracked exactly as you'd expected? And then the second one, just in terms of P&L shape, you're obviously talking to EBITDA or reiterating EBITDA expectations, but has there been any change in the makeup of how we get to that EBITDA number? Thank you.

Steve Johnson:

Hi, Andy. Thanks for the questions. Appreciate it. In relation to the revenue, I mean, I think it's probably worth just sort of reflecting on what we have seen through the last sort of quarter. And we see the sort of -- we are a business that operates across home and gifts as well as technology, as well as clothing and footwear. And whilst we lead with clothing and footwear, and that's predominantly the majority of our business and it has still remained the way through the last quarter, we do obviously lean into home, tech and those areas where possible. So what we've probably seen as a slight improvement in relation to the home tech sales than perhaps we were expecting. Clothing and footwear was perhaps a little bit more challenging than we were expecting and that's how I would describe it. We're in a little bit more, rather than any big swings.

Andrew Wade:

Right.

Steve Johnson:

And within that, there's sort of some real sort of positives as well. So, menswear actually continues to sort of perform really, really strongly, actually. And Jacamo, I think when I'm looking at my colleagues around the table, but while Q3 was still slightly challenging on a year to year basis, I think Jacamo is actually in growth and we haven't majored on that point. But after three quarters, I think it's a couple of points up. Now, menswear continues to sort of perform well for us; womenswear, we've had a few more challenges on. And I -- look, my personal perspective is that she's chosen to sort of spend the money on the family in the main rather than on herself. And I think actually you can see that in one or two of our competitors' results as well. So that's what we've seen over the sort of quarter, as I say, a little bit more and a little bit less rather than any big swings. And the business is still majority clothing and footwear.

Rachel Izzard:

I'd echo that. Q1 and Q2 in our quarters, we were still seeing the normalization in of things like returns rates and mix. Q3, as I said earlier, to Clive's question, it felt a lot more normal and pre-pandemic normal. We're getting week to week or month to month variations, so the weather profile through the season was warmer at the start and colder at the end. So, outerwear definitely moved back. You could definitely see the mix into home and tech as people kind of prioritize the home and prioritize the Christmas events. You could see the value proposition really resonating so people buying kind of keen price point or must have, must do, purchases or the odd splurge in the real kind of, I'll buy a party dress again or men's suiting was still good, menswear was still good, as Steve said. These were more muted swings versus some of the pandemic massive swings that we've seen before. And it was good

to be able to have the stable of brands and the stable skews within each brand such that you can lean into the ones that are flying and we can manage through on the ones that you get softer demand on. So yeah, it's an interesting quarter, but a little bit more settled than previous kind of pandemic swings

In terms of the P&L shape, Andy, so we said minus nine, we hit minus nine on the product revenue --

Andrew Wade:

Yeah.

Rachel Izzard:

-- we had to pedal a little bit harder to do that than we necessarily expected, but we've got a range of levers in terms of cost flexibility and credit. We're slightly better than retail. So all in all, we reiterated guidance and moved from in the region of 60 to matching guidance to where the market consensus has been at 57 million. You know, we still need to see how the credit book settles into January and February, as I said earlier, but we're pretty much steady as she goes. So, margin held up on the retail side, through half one, it's still holding up through half two, not a massive explosion up, but we're not seeing margin decline. We're being rational because we've got the balance sheet to be able to do that with how we're managing pricing, how we're managing margin. And so aiming to do it kind of steady into year end. But the main item now between now and year end is how the credit book lands, because as we say, January and February are pretty light for retail, but they always are. So, no major swings, no major changes to that shape. Little -- had to work a little bit harder for the revenue than we expected, but we've got enough breadth within levers in the business to be able to manage that.

Andrew Wade:

Great. Very helpful. Thank you.

Multiple Speakers:

Thanks.

Operator:

Thank you. I will now move on to the next question from Darren Shirley at Shore Capital. Your line is open. Please go ahead.

Darren Shirley:

Yeah. Morning, all. Apologies, I missed the very start of the call, but I was just wondering how you saw -- so you obviously you've got challenging market conditions at the moment. I mean, is this all down to the consumer or how much would you put down to sort of your peers with their sort of relative performance, maybe relative inventory and balance sheet positions? Do you think you've been operating in a particularly irrational market for your period of time? Any colour on that would be helpful.

Steve Johnson:

Yeah, good questions, Darren. Thank you. It's got us talking. Look, I mean, I think the market, the market is clearly volatile. It's quite irrational. And I think when we sort of, I don't want to really sort of talk about individual peers, but it seems clear that the omni-channel businesses have had some sort of bounce back post-COVID. I think that's well documented. And some of the sort of pureplays as we are, are going through a sort of bit of a restatement. We've also seen, I think it's fair to say, a lot of

stock shifting around. And with that, you know, comes levels of discounting. I'd probably say I don't know whether the market was irrational or more intentional, but I would say there was quite high levels of sort of discounting as we went through that sort of golden quarter period. And I think there's a lot going on. But that's how I would -- that's how I would articulate it in response to your question.

Rachel Izzard:

And I'd say, you know, we saw discounting earlier than we'd normally expect in what is a normal peak period now. And I think, as Steve said, that's a combination of other peers might have had different stock profiles and consumer markets being cautious. I think it was just a much more cautious, softer UK consumer, in particular at our demographic, because we -- we're not Burberry or Watches of Switzerland, our customer demographic was definitely more intentional in their choice in the run up to Christmas. And you could see some peers moving a bit earlier than we would expect in some of the promotional elements. But, you know, again, not massive swings, but definitely a little tougher in the market than I think anybody thought in the run through in particular from an online perspective.

Darren Shirley:

Okay. And can you give us any colour in terms of how your sort of collaborations have performed? Have they performed in line with the broader business or have there been any elements of under or outperformance in there?

Steve Johnson:

I think we'd say we were just happy with the performance. I wouldn't say it was over or under. I think, you know, we performed in line with our revised expectations, which took into consideration all of the aspects of the sort of trading period that we had ahead of us. If there was a sort of big call out Darren we would have made it in the RNS, I think it's probably the call. As I sort of responded to Andy, you know, actually we've seen some movements, but none of them are sort of huge swings which would sort of focus on. The one thing I would sort of say is that some of our brand launches have gone particularly well and that's really put us quite promising actually, as we look forward again to that sort of transformation set of capabilities that are dropping over the next 18 months to two years. Nobody's Child is definitely a brand that landed incredibly well for us. And actually, suiting in Jacamo was pretty good through the period as well. So we have seen some real green sort of shoots of optimism through that period. But overall there's been no sort of real major swings. Hence, we kept the RNS quite tight.

Darren Shirley:

Okay, maybe just one last one, if you don't mind. Just in terms of that 9 percent decline you've seen in product, I mean, how does that compare with your website data? I mean, does that sort of correlate with customer visits you've had? Have you had any major change in terms of the conversion of customers or people in sort of your demographics not tempting themselves by not looking?

Steve Johnson:

Yeah. I think it's fair to say that conversion has been a little bit more depressed through the quarter than we would have this time in the prior year. Again, I say the customer has been a bit more cautious in the way that he and she has shopped. There's been a lot of discounts available at a market level and clearly a lot more sort of shopping around on that basis. So again, no big swings, Darren, but, you know, conversion, I definitely say, has sort of declined a little bit through that period. But I think that's

all led by consumer behavior. And again, listen, we sort of were quite front foot on this in October when we spoke about it. This is what we were expecting and we got what we were expecting.

Rachel Izzard:

Yeah. And we said within the voiceover at the start from Steve, sessions were lower, conversion was lower. I think you're right. People, you know, on balance, are they really wanting to be tempted and are they being a bit more intentional with whether they're going to sit there and browse or not. So just generally a lot more intentional from the customer behavior and a lot more cautious in the customer behavior. But if she needed it or she really wanted it, she did engage, but there was less of the, you know, the general browsing on a Friday night, which you can see as an online retailer normally when you track the trade through.

Darren Shirley:

Yeah. Okay. Thanks for the colour. Best of luck.

Operator:

Thank you. We currently have no questions coming through. Once again, Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you.

Steve Johnson:

So, if there are no further questions on the table, I'll call time on the meeting, if that's okay. It's a very busy day today. I can see that externally. Thank you very much for making the time, from all of us here at N Brown. We remain confident in the transformation that we are ongoing here. And again, our colleagues are focused on medium term work. And I look forward to updating you on some of those deliverables at the year end. So have a great day, everyone.

Rachel Izzard:

Thanks, everybody.

Operator:

Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

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