FLASH REPORT

next plc (LON: NXT) 1H17 SALES SHOW

RESILIENCE: SEQUENTIAL QUARTERLY SALES IMPROVEMENT

- **British fashion retailer Next reported 1H17 full price sales decreased 0.3%, with new space adding 1.5% to sales. However, total sales, including markdowns, increased 1.8% in 1H17.**
- **In 2Q17, full price sales increased 0.3% year over year, a sequential improvement from the fall of 0.9% in 1Q17.**
- **The company narrowed its FY17 guidance range for full price Next brand sales by 1% on both the upper and lower bounds. The company now expects total full price sales growth of the Next Brand to be between the range of (2.5)% to +2.5%.**
- **Next will report full 1H17 results on September 15, 2016.**

1H17 SALES

In 1H17, Next full price Retail segment sales declined 4% year over year, and total Retail sales, including markdowns, decreased 0.7% year over year. The Retail segment covers in-store sales only.

Next full price Directory sales exhibited stronger growth of 4.9% in 1H17, and Directory sales, including markdowns, increased 5.4% year over year. The Directory segment covers catalog and online sales.

In 2Q17, Next Retail full price sales declined 3.3%, a sequential quarterly improvement from down 4.7% in 1Q17. Next Directory full price sales in 2Q17 also showed an improved trend with a 5.7% increase, up from 4.2% in 1Q17.

The company noted it has not witnessed any clear impact on consumer behavior in the time period since the UK's referendum on EU membership, apart from the first few days that directly followed the vote.

The company discussed the impact of the referendum outcome on continental European business. Next generates about €200 million in sales from EU countries and already operates a warehouse and fulfilment operation in mainland Europe. The Continental operation could be expanded to service most of the EU business in the event fulfilling sales from the UK becomes less efficient. Tariffs and other trade barriers will most likely remain the same because most of the company's product is manufactured outside the EU.

The company forecasts no material effect on FY17 financial results from the sterling devaluation as currency exposure has been hedged. However, Next is likely to incur higher product costs in the medium term.

The impact of sterling devaluation for FY18 has been partially offset by pre-referendum hedging and the benefit from overseas revenues in euros and dollars. Based on current exchange rates, the company expects its inventory purchasing costs to increase by 9% and translate into 5% like-for-like cost price increases in FY18 versus the previous fiscal year. However, management expects other factors to mitigate cost increases, including the weakening of some Asian currencies vs the US dollar, increased sourcing efficiencies in supplier countries such as Bangladesh, Cambodia and Burma, as well as fewer capacity constraints and increased competition between supplier countries. Next will provide a more detailed sourcing cost update in

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September 2016 in its 1H17 results, when it will have "greater visibility of Spring and Summer sourcing contracts."

GUIDANCE

Lord Wolfson, the chief executive officer, noted sales patterns remain extremely volatile on a week-by-week basis and highly dependent on the weather. Furthermore, Wolfson stated sales volatility is indicative of the underlying weakness of consumer demand for apparel. He expects the consumer environment to remain tough for the rest of the year. He said 3Q17 will be particularly challenging due to demanding comparatives in 3Q16, when sales were up 6%. The company forecasts 3Q17 full price sales growth to decelerate sequentially vs 2Q17. Comparatives will ease in 4Q17 due to the exceptionally warm 4Q16 winter and inventory shortages in the Directory channel last year. These factors may provide an upside in 4Q17, particularly if the winter months are cold.

The company narrowed its brand sales growth range by 1% and now expects total full-price sales growth of the Next Brand to be in the range of (2.5)% to +2.5% in FY17. Furthermore, the company expects FY17 profit before tax (PBT) in the range of €775 million and €845 million, to fall in the range of (5.6)% and +2.9% year over year PBT growth. FY17 earnings per share growth is expected to fall between (2.5)% to +6.3%.

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