

## NEXT: UK's Mr Price

*NEXT plc is a large multinational clothing, footwear and home retailer. Similar to Mr Price, but based in the UK, this company has delivered good growth through various strategic investments. NEXT plc is a frontrunner in omni-channel sales, with physical stores playing an important role in supplying their online customers. Although the Group doesn't have as broad a store footprint as Mr Price, NEXT is able to generate much higher revenues thanks to its superior online capabilities. A testament to its online efficiencies, NEXT plc was able to generate peer-leading operating margins when most other pure online apparel retailers fell short. In this article we take a closer look at NEXT and the outlook to ascertain whether this is a company that suits our philosophy here at Harvard House.*



**Jana  
van Rooyen**

online customers, who total 7.6 million in the UK and 1.7 million overseas.

With a market cap of £12 billion, NEXT is a constituent of the FTSE 100 Index. Just to give some context, Mr Price's market cap in Sterling is a mere £258 million. Much like Mr Price though, NEXT is known for quality fashion at affordable prices, but at a much larger scale. Its range covers 75,000 different products, giving their consumers a much larger breadth of choice. We delve into some key considerations to ascertain whether this is a company suited to our investment philosophy.

### Online excellence

The sheer volume of products in their range is not due to their store footprint (800 stores) – in contrast to Mr Price with almost 3,000 - but rather due to their online capabilities. NEXT's proportion of online revenue (excluding Total Platform that I will delve in to shortly) to total revenue is 53%, versus just 2.1% for Mr Price.

It all started in the late 1980s when NEXT launched Next Directory, the company's mail-order arm and a big gamechanger for the company. Supermodels like Naomi

### SPEED READ

- NEXT plc is a multinational clothing company with excellent online capabilities as it leverages off a well-established, efficient distribution network.
- Its operating margin is peer-leading - a testament to its online capabilities and efficiencies, as most online retailers usually struggle to generate adequate profits.
- Consequently, NEXT was able to increase its diluted Earnings Per Share by 15% to 655.9p for the full year, and with a dividend payout ratio of 31%, declared a DPS of 207p.
- NEXT is also a discretionary retailer poised to benefit from a consumer recovery. The Group is guiding for sales and profit growth of 6% and 7% respectively for FY25, which is conservative, in our opinion.
- Much like Mr Price here in South Africa, NEXT should deliver inflation-beating dividend growth to its shareholders.

Cambell and Yasmin Le Bond graced its covers and much like how we order online today from the comfort of our home, one could order clothes via mail-order and wear it within days. This meant that the warehousing, distribution, credit and logistics operations that were put in place were miles ahead of their competitors. Today when you go to NEXT's website there are dozens of apparent competitor brands all under one roof, all thanks to CEO Simon Wolfson's "Total Platform" concept that was launched recently.

Total Platform provides a complete suite of services to third party brands, including websites, marketing, warehousing, distribution network and contact centers, so that these third-party brands can leverage from NEXT's infrastructure. NEXT also has a minority shareholding in some of these third-party brands. Total Platform now contributes 7% of the total group revenue and saw a 380% growth in revenue for the 2024 financial year.

For the American apparel retailer, GAP, this platform was a saving grace. Between 2019 and 2020 Gap was forced to close all 81 stores in the UK and Ireland, as they were unable to keep up with the evolution of online shopping.

NEXT now owns 51% of the UK operations in a joint venture with GAP, where NEXT opened new GAP shop-in-shops withing flagship NEXT stores. Gap's e-commerce operations have been transferred over to NEXT's Total Platform and leverages from their free next-day delivery and returns system across NEXT's store network.

### The numbers

NEXT generated group sales of £5.8 billion in the 2024 financial year (January year-end), growth of 6% in a year where UK GDP growth was a mere 0.1%. That revenue growth translated in growth in operating profit of 5%, caused by higher costs, and earnings per share growth of 0.3% - due to higher interest paid and higher taxes, offset by a smaller number of shares in issue from ongoing share buybacks.

Given their high proportion of online sales, NEXT has an enviable operating margin, especially compared to other online fashion retailers across the EU. This is illustrated in the chart below, which compares NEXT to Zalando (online fashion retailer based in Germany). Margins are more than 5x higher due to their omni-channel presence and the combined efficiencies of their physical stores and logistics infrastructure.

This high level of profitability allows it to generate substantial free cash flow after allowing for annual capital expenditure, which is either reinvested into the business, used to reduce debt or to reward shareholders. Last year, NEXT generated free cash

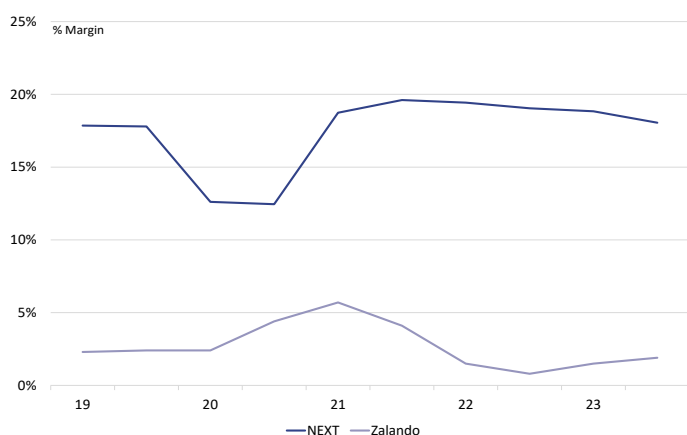
flow of £880 million, more than 3x the amount of Mr Price's market capitalization. Encouragingly, dividends paid only comprise 29% of free cash flow, so there is ample cushion to absorb a tougher year without dividends being affected.

### Looking forward

As much as NEXT is driven by its technology and logistics advantage, it is still ultimately a discretionary retailer poised for growth as the global consumer cycle turns more positive. UK GDP expanded 0.7% in Q1 2024, which was higher than initial estimates, and a further 0.6% in Q2 2024. It is the strongest rate of growth in over two years, signaling an end of the recession that they entered during the latter part of 2023. The Group has already beat estimates for revenue growth in the first 2 quarters of FY25. Having guided for growth of 2.5% for the first half of their current financial year, NEXT actually delivered growth of 4.4%,

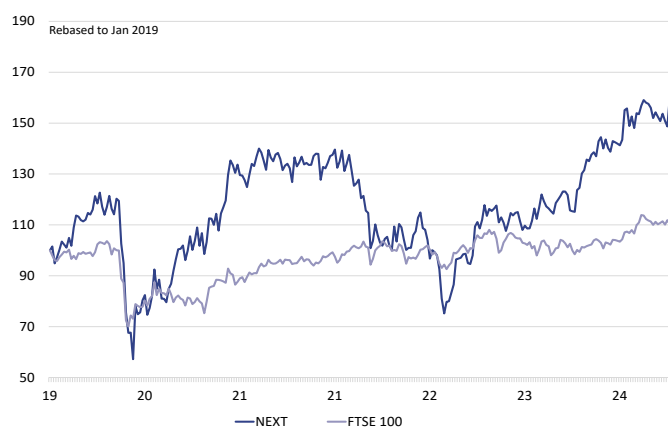
*“NEXT generated group sales of £5.8 billion in the 2024 financial year (January year-end), growth of 6% in a year where UK GDP growth was a mere 0.1%.”*

### COMPARISON OF OPERATING MARGIN



*NEXT generates margins more than 5x those of Zalando, thanks to its wealth of experience and its ability to leverage efficiencies from its store network and logistics infrastructure.*

### SHARE PRICE PERFORMANCE



*NEXT has outperformed the broader UK market, especially over the past 18 months. Over that period, NEXT has risen 74% versus a comparable gain of 12% for the FTSE 100.*

rising further to 8% if sales from subsidiaries are included. That firmly beat expectations, resulting in a rise in the share price of 7.8% for the day.

Apart from a turn in the consumer cycle, NEXT continues to develop their brand and infrastructure which gives them three distinct new avenues of growth:

- Growth of the NEXT brand overseas in existing and new territories.
- The development of new brands and licenses.
- Generation of revenues from Total Platform and its equity investments.

The Group is guiding for conservative sales growth of 6% for FY25 and expected profit of £980 million, which is an increase of 6.7% from this past financial year. The probability of further dividends declared for the FY25 year, should they achieve their own guidance, is bullish, supported by a reasonably geared balance sheet and strong free cash flow generation.

The share price trades at an attractive PE Ratio of 15x, very much in line with its long-term average valuation. Like



*NEXT's valuation is very much in line with its long-term average, despite the strong growth in recent years and the prospect of a better consumer cycle.*

Mr Price in South Africa, NEXT has proven its ability to deliver growing returns over time, even through the tough times. That stands the company in good stead, and places it firmly on our watchlist for offshore portfolios.



*NEXT has exceeded expectations again in 2Q 25, despite the high base from favourable weather last year. That has prompted the company to raise its full year guidance."*





Our next seminar will focus on financial planning, and will deal with the perception of common risks, and how to mitigate them.



[Harvard House is on Facebook](#)



[Harvard House is on YouTube](#)

## CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

### HARVARD HOUSE GROUP



3 Harvard Street, Howick, 3290, South Africa



P.O. Box 235, Howick, 3290, South Africa



+27 (0) 33 330 2164

**Topic:** **Unpacking Investment Risk**

### Natal Midlands

Date: 12 September, 2024

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

### Johannesburg

Date: 10 September, 2024

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

### Cape Town

Date: n/a

Venue: SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor

Time: 7.30am

Venue: ABRU Motor Studio, Lourensford Wine Estate, Somerset West

Time: 5.30pm for 6pm



+27 (0) 33 330 2617



[admin@hhgroup.co.za](mailto:admin@hhgroup.co.za)



[www.hhgroup.co.za](http://www.hhgroup.co.za)

The information contained in this newsletter comes from sources believed to be reliable, but Harvard House Investment Management (Pty) Ltd, Harvard House Financial Services Trust, Harvard House Insurance Brokers and Harvard House, Chartered Accountants (collectively known as the Harvard House Group), do not warrant its completeness or accuracy. Opinions, estimates and assumptions constitute our judgment as of the date hereof and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any investor who wishes to invest with the Company should seek additional advice from an authorized representative of the firm. The Company accepts no liability whatsoever for any loss or damages whatsoever and howsoever incurred, or suffered, resulting, or arising, from the use of this newsletter. The contents of this newsletter does not constitute advice as contemplated in the Financial Advisory and Intermediary Services Act (FAIS) of 2002.

The Harvard House unit trusts are registered under the Boutique Collective Investments. Custodian: Standard Executors & Trustees: Tel (021) 007-1500. Collective Investments are generally medium to long term investments. The value of participating interests may go down as well as up and past performance is not necessarily a guide to the future. Collective Investments are traded at ruling prices and can engage in script lending. Forward pricing is used. Commission and incentives may be paid and if so, are included in the overall cost. This fund may be closed to new investors. Collective Investment prices are calculated on a Net Asset Value basis and auditor's fees, bank charges, trustee and RSC levies are levied against the portfolio. The portfolio manager may borrow up to 10% of portfolio NAV to bridge insufficient liquidity. Boutique Collective Investments (RF) Pty Ltd ("BCI") retains full legal responsibility for the third party named portfolio. Boutique Collective Investments is a member of ASISA and is an authorised Financial Services Provider. Should you have any further queries or complaints regarding the suite of units trusts offered by The Harvard House Group please contact: Boutique Collective Investments Call Centre, Tel: (021) 007-1500, Email: [clientservices@bcis.co.za](mailto:clientservices@bcis.co.za). For your information, the FAIS ombudsman provides an independent and objective advisory service. Should you not be satisfied with the outcome of a complaint handled by Boutique Collective Investments, please write to, The Ombudsman, PO Box 74571, Lynnwoodridge, 0040. Telephone (012) 470 9080/99. Fax (012) 348 3447. Email: [info@faisombud.co.za](mailto:info@faisombud.co.za)

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

Harvard House Investment Management (Pty) Ltd\*, Licence no: 675 Harvard House Insurance Brokers\*, License no. 44138  
Harvard House Financial Services Trust\*, Licence no: 7758 \* Authorised financial service providers in terms of FAIS (2002)