

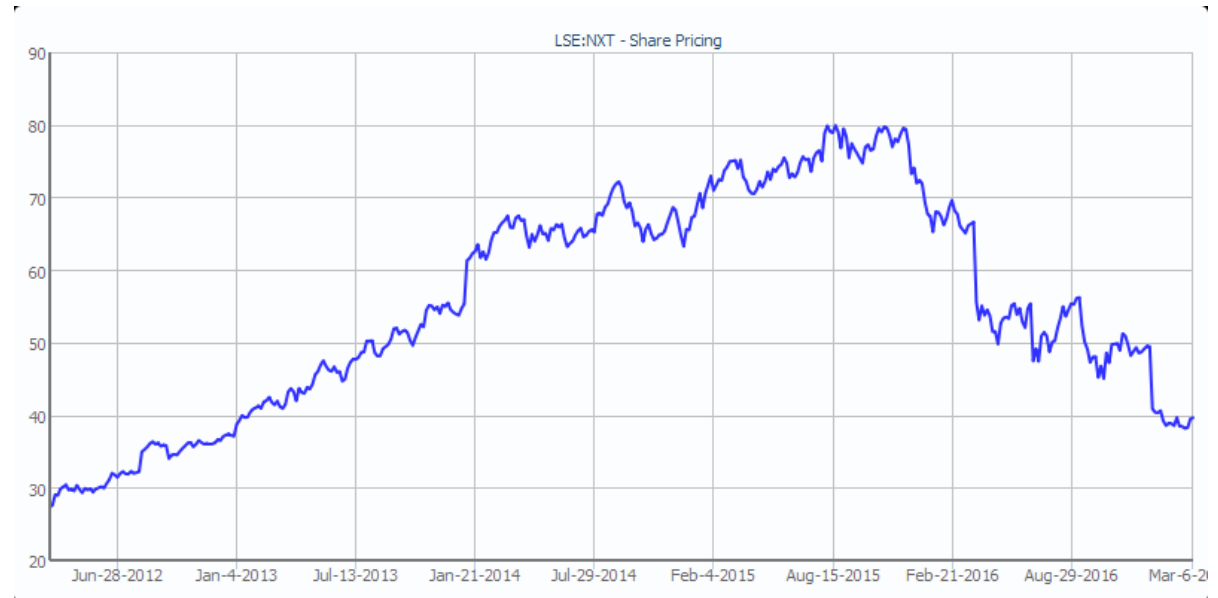
Next plc – BUY (TP £60)

9th March 2017

Tom Livesey



5 year price history



- Brexit
 - UK consumer spending
 - Weak Sterling
- Channel shift
- Minimum wage
- Barriers to entry
- Fashion cycle

Share price: £39

Market cap: £5.8bn

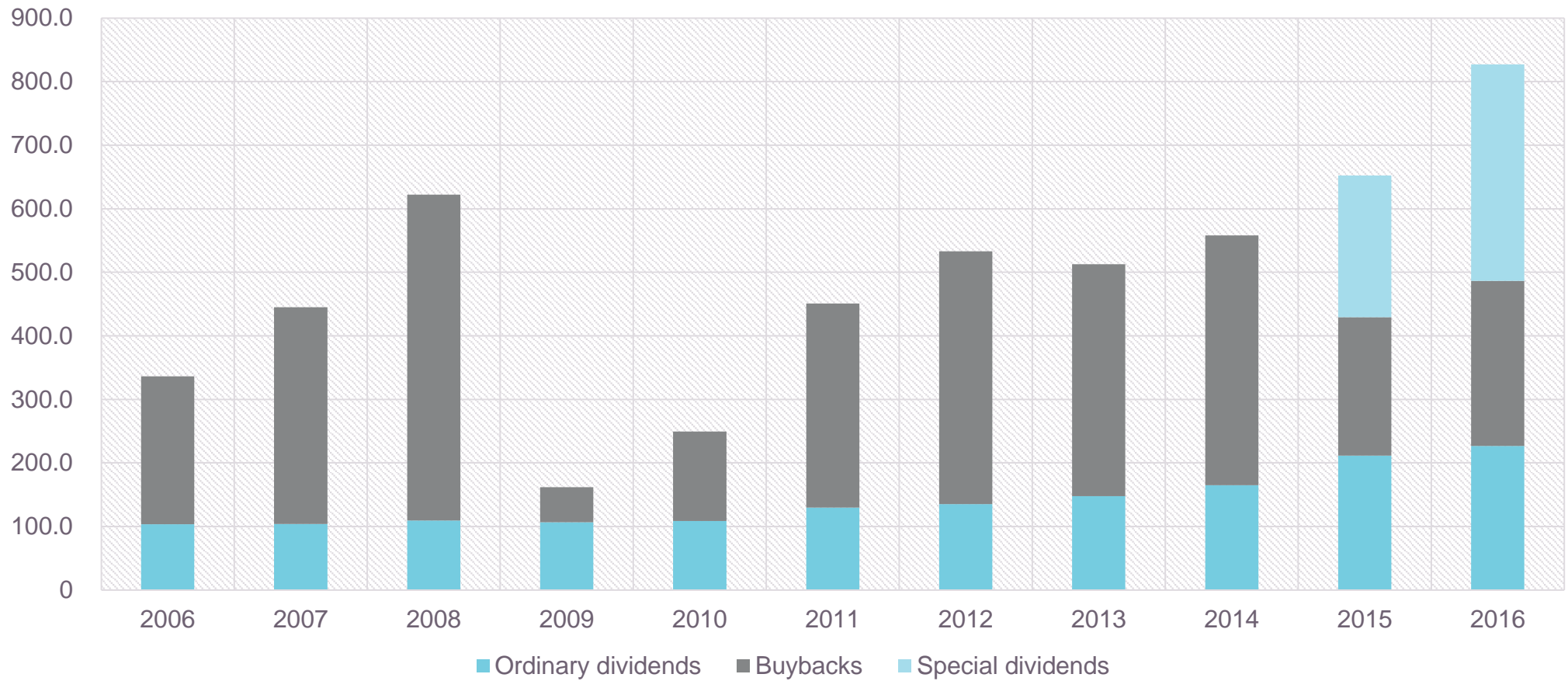
EV: £6.7bn

Superior margins but lower valuations

	5 yr avg		today	5 yr average		today
	EBIT margin	ROIC	EV/fwd EBIT	net profit margin	ROE	P/fwd EPS
Next	19%	64%	8.0	15%	204%	9.1
Debenhams	6%	12%	8.4	4%	14%	8.6
Marks & Spencer	7%	13%	11.2	5%	17%	11.7
ASOS	5%	32%	42.0	4%	23%	54.5
H&M	16%	47%	13.0	12%	38%	17.2
Sports Direct	9%	23%	10.8	7%	25%	16.8
JD Sports	6%	29%	12.5	4%	21%	17.4
American Eagle	7%	21%	6.7	5%	12%	11.9
Urban Outfitters	12%	27%	8.0	8%	17%	13.6
GAP	12%	42%	7.0	7%	37%	12.2
Median ex-Next	7%	27%	10.8	5%	21%	13.6

£5.4bn paid out over last 10 years

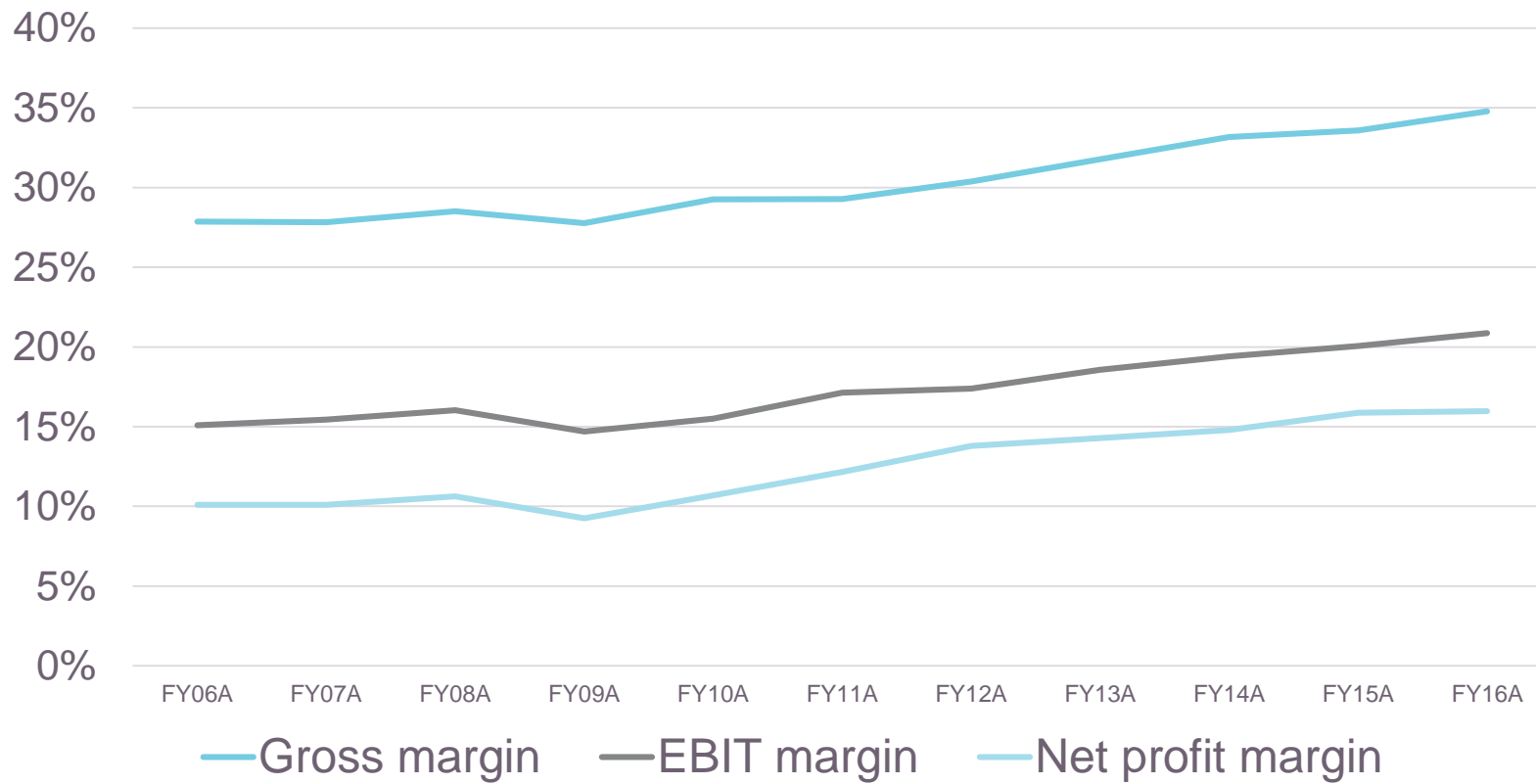
Transactions with shareholders (£m)



Directory has driven growth



Group-level margins have steadily improved



Healthy market share for a fragmented industry

Category	Market share (approx.)
Kidswear	13%
Menswear	8%
Womenswear	5.5%
Online clothing	11%

e-tailer trend toward establishing physical presence

Lord Wolfson



CEO since 2001

Still here 16 years later



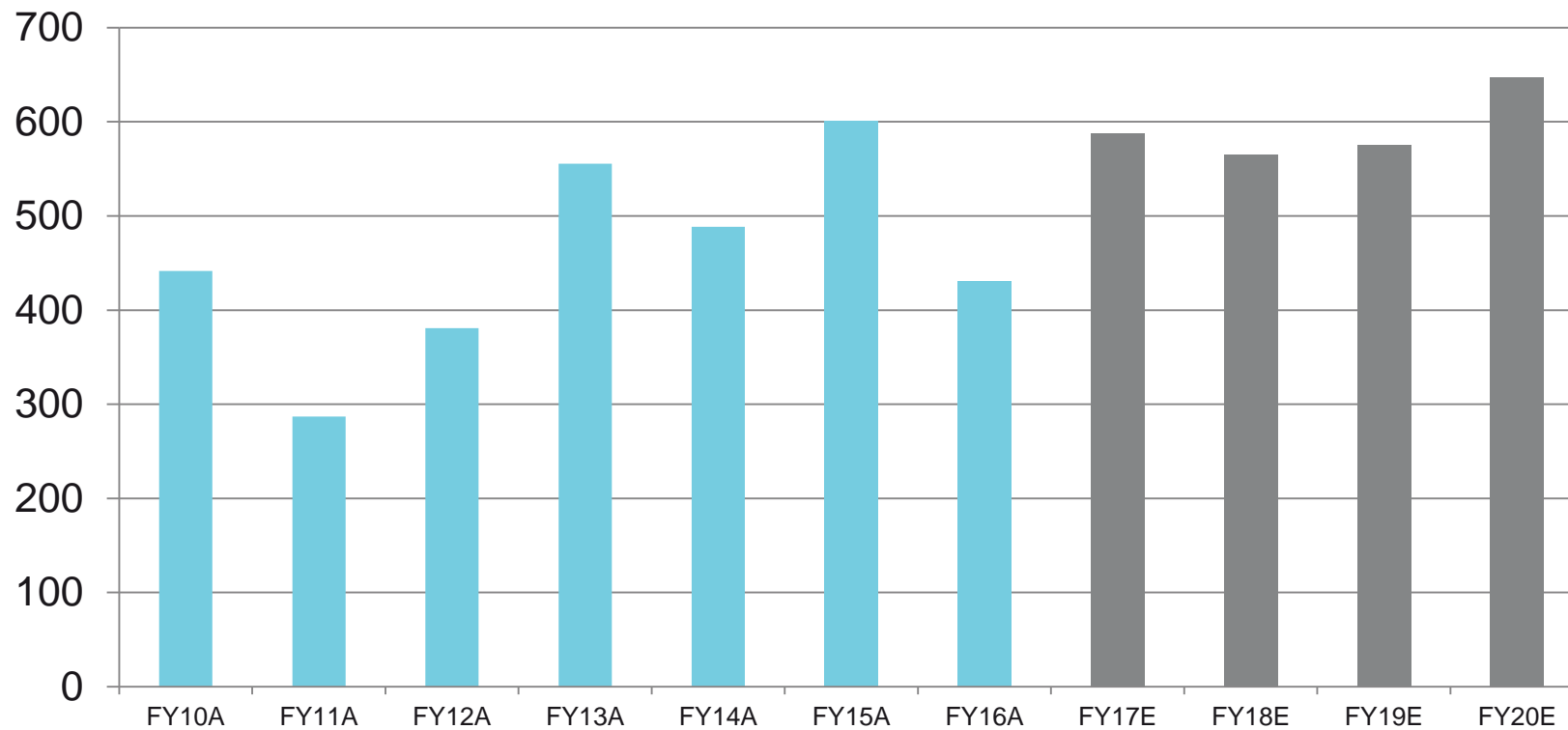
Margins are expected to fade

	FY16A		FY17E		FY18E		FY19E	
Revenue (£m)	4,177		4,226		4,139		4,190	
EBIT (£m)	872		830		773		763	
EBIT margin	21%		20%		19%		18%	
Net income (£m)	667		635		596		591	
EPS	£	4.35	£	4.32	£	4.04	£	4.04
Free cash flow (£m)	431		587		565		575	

Consensus estimates (Capital IQ)

However, NXT remains a cash cow

Free cash flows (historic & consensus forecast), £m



c.85% of capital employed in debtor book