

21 March 2014 | 16 pages

Next Group PLC (NXT.L)

Good Thing Going

- **FY15 PBT raised +2% to £752m** — Next has guided to a £730-770m FY15 PBT range, driven by +4-8% Next Brand sales growth. We raise our FY15 PBT forecast by £17m to £752m (fully diluted EPS 389.3p, +9.5% yoy).
- **Citi's Take — c.+10% EPS CAGR, plus 5% div yield** — Next Retail is forecast to deliver a modest (low single-digit) growth, c.16% EBIT margin store-based clothing business, and a high-growth (double-digit, driven equally by International and the UK revenues), c.26% EBIT margin Directory/online operation (c.40% group sales). In combination this should allow Next to maintain c.+10% p.a. EBIT progress, assisted in cal 2014E-15E by the improving UK consumer demand outlook. Taken together with a c.5% dividend yield (including special dividends), we argue for a mid-teen total return for investors. Buy.
- **Buy, Target price 7,400p** — Our 7,400p target price (raised from 7,000p following the valuation year roll forward) assumes a c.5% FY17E dividend yield, including an ongoing 200p special dividend forecast. This target equates to a 12.5x EV/EBIT multiple and 16.5x PE for the same forecast year.

Results Summary

- **Full-Year PBT £695.2m, in line with our forecast (Citi £695m)** — FY14 PBT at the top of the £684-700m range guided in the January IMS statement. This drove EPS 355.6p (Citi 354p), +22.7% yoy. DPS 129p (Citi 128p), +22.8% yoy.
- **FY14 results by division** — FY Retail total sales were +1.7% (Citi +1.2%), with LFL sales -1.4% (Citi -2%). Combined with GM +130bp (Citi +110bp) this drove £347.7m EBIT (Citi £361m). Directory sales were +12.4% (Citi +12%), alongside GM +150bp (Citi +90bp), driving £358.5m EBIT (Citi £350m).
- **Net debt £517m (Citi £410m)** — Year-end net debt was £517m (Citi £410m), a £24m increase yoy, primarily due to a £94m working capital outflow. In the year ahead net debt is guided to c.£500-750m post £300m special dividend.

Figure 1. Next – Statistical Abstract

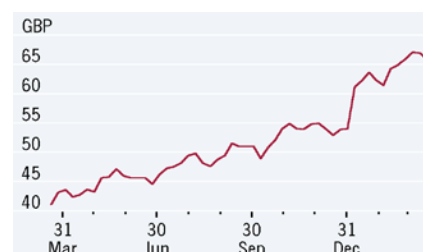
Yr to Jan	EBIT (£m)	PBT (£m)	Tax Rate	EPS (p)	EPS (p) (Old)	P/E	Net Div (p)	Div Yld (%)	EV/ Sales	EV/ EBIT	EV/ EBITDA
2012A	599	570	25.1%	247.5	247.5	27.1	90.0	1.3	3.1	17.7	14.8
2013A	650	622	23.9%	289.9	289.9	23.1	105.0	1.6	3.0	16.2	13.7
2014A	723	695	20.4%	355.5	353.9	18.8	179.0	2.7	2.8	14.6	12.6
2015E	782	752	21.0%	389.3	376.1	17.2	342.0	5.1	2.7	13.5	11.8
2016E	838	810	21.0%	419.9	404.1	16.0	356.0	5.3	2.5	12.5	11.0
2017E	896	870	21.0%	451.0	Na	14.9	371.5	5.5	2.3	11.5	10.2
							Price	Ytd	-1m	-3m	-12m
Gearing	181%	Shares		150.0		Ab%	20.7	1.4	21.6	60.1	
FV=	10,625	MV		10,050		Rel%	22.9	4.2	20.8	53.3	

Retailing - Broadlines
Western Europe | United Kingdom

- Estimate Change
- Target Price Change

Buy	1
Price (20 Mar 14)	£66.95
Target price	£74.00
	from £70.00
Expected share price return	10.5%
Expected dividend yield	5.1%
Expected total return	15.6%
Market Cap	£10,379M
	US\$17,170M

Price Performance (RIC: NXT.L, BB: NXT LN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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NXT.L: Fiscal year end 31-Jan						Price: £66.95; TP: £74.00; Market Cap: £10,379m; Recomm: Buy					
Profit & Loss (£m)	2013	2014	2015E	2016E	2017E	Valuation ratios	2013	2014	2015E	2016E	2017E
Sales revenue	3,563	3,740	3,970	4,215	4,472	PE (x)	23.1	18.8	17.2	15.9	14.8
Cost of sales	-1,600	-1,617	-1,717	-1,826	-1,943	PB (x)	37.2	35.3	26.9	20.6	16.0
Gross profit	1,963	2,123	2,253	2,389	2,529	EV/EBITDA (x)	13.8	12.7	11.8	11.1	10.3
Gross Margin (%)	55.1	56.8	56.7	56.7	56.5	FCF yield (%)	4.9	4.6	5.6	6.0	6.4
EBITDA (Adj)	785	854	912	968	1,026	Dividend yield (%)	1.6	2.7	5.1	5.3	5.5
EBITDA Margin (Adj) (%)	22.0	22.8	23.0	23.0	22.9	Payout ratio (%)	36	50	88	85	82
Depreciation	-117	-117	-115	-115	-115	ROE (%)	186.1	193.5	181.5	150.7	125.0
Amortisation	0	0	0	0	0	Cashflow (£m)	2013	2014	2015E	2016E	2017E
EBIT (Adj)	650	723	782	838	896	EBITDA	767	840	897	953	1,011
EBIT Margin (Adj) (%)	18.2	19.3	19.7	19.9	20.0	Working capital	26	-94	-20	-25	-30
Net interest	-29	-28	-30	-28	-26	Other	-170	-160	-188	-198	-209
Associates	0	0	0	0	0	Operating cashflow	624	586	689	730	772
Non-op/Except	0	0	0	0	0	Capex	-92	-103	-115	-115	-115
Pre-tax profit	622	695	752	810	870	Net acq/disposals	-73	-55	0	0	0
Tax	-149	-142	-158	-170	-183	Other	0	-1	-75	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow	-165	-158	-190	-115	-115
Reported net profit	473	553	594	640	687	Dividends paid	-148	-165	-512	-528	-549
Net Margin (%)	13.3	14.8	15.0	15.2	15.4	Financing cashflow	-390	-317	-512	-528	-549
Core NPAT	473	553	594	640	687	Net change in cash	69	111	-13	87	108
Per share data	2013	2014	2015E	2016E	2017E	Free cashflow to s/holders	531	483	574	615	657
Reported EPS (p)	289.9	355.5	389.3	419.9	451.0						
Core EPS (p)	289.9	355.5	389.3	419.9	451.0						
DPS (p)	105.0	179.0	342.0	356.0	371.5						
CFPS (p)	382.2	376.7	451.6	478.9	506.8						
FCFPS (p)	325.6	310.6	376.2	403.5	431.3						
BVPS (p)	179.7	189.4	248.6	324.8	418.0						
Wtd avg ord shares (m)	159	151	148	148	148						
Wtd avg diluted shares (m)	163	156	153	152	152						
Growth rates	2013	2014	2015E	2016E	2017E						
Sales revenue (%)	3.5	5.0	6.2	6.2	6.1						
EBIT (Adj) (%)	8.6	11.2	8.2	7.2	6.9						
Core NPAT (%)	10.7	16.9	7.4	7.7	7.4						
Core EPS (%)	17.1	22.6	9.5	7.9	7.4						
Balance Sheet (£m)	2013	2014	2015E	2016E	2017E						
Cash & cash equiv.	136	273	288	390	513						
Accounts receivables	718	808	824	853	880						
Inventory	332	386	406	431	461						
Net fixed & other tangibles	537	509	509	509	509						
Goodwill & intangibles	45	44	44	44	44						
Financial & other assets	125	124	124	124	124						
Total assets	1,894	2,145	2,196	2,351	2,532						
Accounts payable	537	594	606	627	647						
Short-term debt	93	3	3	3	3						
Long-term debt	567	801	801	801	801						
Provisions & other liab	411	461	418	440	462						
Total liabilities	1,608	1,858	1,827	1,870	1,912						
Shareholders' equity	286	286	368	482	620						
Minority interests	0	0	0	1	1						
Total equity	286	286	368	483	621						
Net debt	524	530	515	413	290						
Net debt to equity (%)	183.3	185.2	139.8	85.6	46.7						

For definitions of the items in this table, please click [here](#).

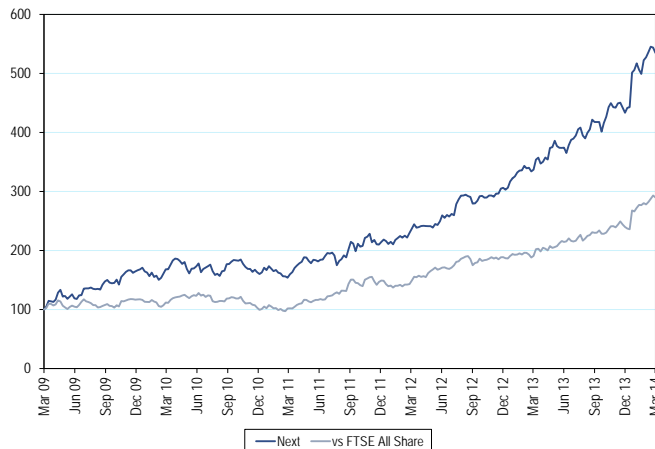
Performance Charts

Figure 2. Next Group – 1 Yr Share Price Performance, 2012-2013



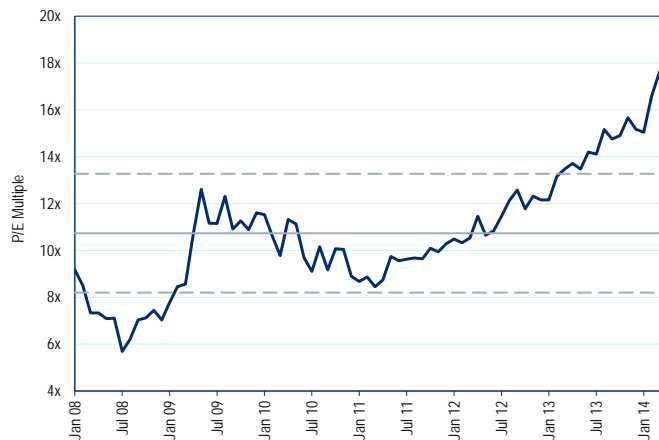
Source: DataStream

Figure 3. Next Group – 5 Yr Share Price Performance, 2008-2013



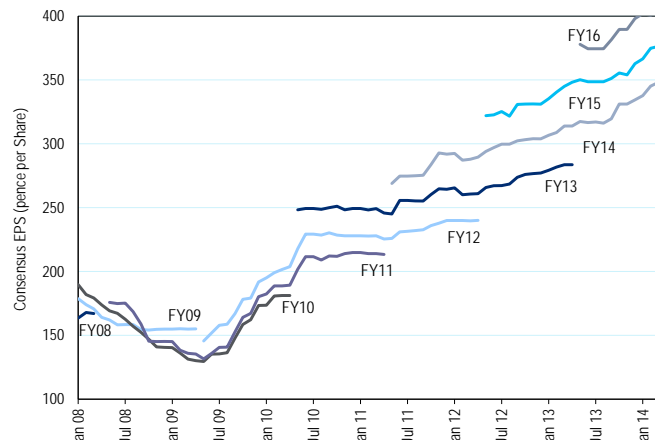
Source: DataStream

Figure 4. Next Group – PE Valuation



Source: DataStream

Figure 5. Next Group – Consensus EPS



Source: DataStream

Recent announcement: FY14 Preliminary Results

Changes today: FY15 PBT increased +2% to £752m

Next news flow: Q1 IMS, 30 April 2014

The market view?* 9 Buys, 14 Holds, 3 Sells

*Bloomberg

Results Analysis

£695.2million January 2014 PBT was as forecast

At £695.2m, Next's full year PBT was within the advertised £684m-£700m range, and in line with our £695m forecast. This delivered 355.5p diluted EPS, +22.6% year on year, a fifth year of mid-teen or better EPS growth. Breaking out the 2H performance (see below), Retail LFL improved to +0.5%, which net of c.+3.5% space growth, drove c.+4% 2H total Retail sales progress. 2H gross margins rose +130bp, primarily due to a mix increase in full-price sales. 2H operating costs rose +5.8% year on year, reflecting the stronger 2H revenue performance. These Retail P&L dynamics delivered +3.9% 2H sales, an EBIT margin +60bp yoy, and £223.4m 2H EBIT, +7.2% yoy.

Next Retail 2H EBIT +7.2% yoy to £223.4m, Next Directory +23.1% to £202.4m

Directory sales rose +16% in 2H, of which c.+12% points stemmed from UK the UK, and c.+4% from International Online. The +220bp 2H gross margin increase was primarily driven by reduced mark-down activity (c.+180bp). Operating costs/sales rose +70bp due to the higher International distribution costs, driving +150bp 2H EBIT margin increase and +23.1% 2H EBIT growth to £202.4m. Net of Overseas, Sourcing and Other costs, and a £14.5million interest charge (post £286 million of share buyback activity), this left 2H PBT +14% year on year at £423.47million (2H dil EPS 217.4p, +25% year on year).

Figure 6. Next Plc – Half-yearly P&L, 2008-2013

Year end Jan	2009		2010		2011		2012		2013		2014	
	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H
Group Sales	1,526.8	1,792.8	1,558.6	1,880.8	1,622.1	1,831.6	1,565.4	1,875.7	1,640.3	1,922.5	1,682.2	2,057.8
Next Retail Sales	996.4	1,201.5	1,004.3	1,237.7	1,026.2	1,195.9	1,008.2	1,183.2	1,009.9	1,181.0	1,000.6	1,227.0
Next Directory Sales	379.9	436.5	386.2	470.4	422.8	512.7	486.6	602.1	551.7	640.9	597.6	743.4
Other Sales	150.5	154.8	168.1	172.7	173.1	123.0	70.6	90.4	78.7	100.6	84.0	87.4
Next Retail Sales	996.4	1,201.5	1,004.3	1,237.7	1,026.2	1,195.9	1,008.2	1,183.2	1,009.9	1,181.0	1,000.6	1,227.0
% change	-3.1%	-2.0%	0.8%	3.0%	2.2%	-3.4%	-1.8%	-1.1%	0.2%	-0.2%	-0.9%	3.9%
Lfl Sales Growth %	-7.3%	-5.8%	-2.5%	-0.1%	-1.5%	-6.0%	-5.8%	-5.6%	-3.5%	-3.0%	-3.6%	0.5%
Gross margin %	59.6%	54.3%	60.4%	55.5%	60.8%	56.2%	61.3%	57.1%	62.0%	57.5%	63.4%	58.8%
Next Retail Gross Profit (est)	593.9	651.8	606.6	686.3	623.9	671.6	618.0	675.2	626.1	679.6	634.4	722.1
Less Operating Costs	(486.3)	(470.6)	(494.3)	(474.6)	(501.0)	(465.7)	(495.5)	(474.0)	(503.4)	(471.2)	(510.1)	(498.7)
% Change	3.1%	3.9%	1.7%	0.8%	1.4%	-1.9%	-1.1%	1.8%	1.6%	-0.6%	1.3%	5.8%
Next retail EBIT	107.6	181.2	112.3	211.7	122.9	205.9	122.5	201.2	122.7	208.4	124.3	223.4
Next retail EBIT margin %	10.8%	15.1%	11.2%	17.1%	12.0%	17.2%	12.2%	17.0%	12.1%	17.6%	12.4%	18.2%
Next Directory Sales	379.9	436.5	386.2	470.4	422.8	512.7	486.6	602.1	551.7	640.9	597.6	743.4
% change	2.2%	2.0%	1.7%	7.8%	9.5%	9.0%	15.1%	17.4%	13.4%	6.5%	8.3%	16.0%
Next Directory EBIT	78.4	79.2	83.3	100.3	101.3	120.6	112.8	149.8	137.7	164.4	156.1	202.4
Next Directory EBIT margin %	20.6%	18.1%	21.6%	21.3%	24.0%	23.5%	23.2%	24.9%	25.0%	25.7%	26.1%	27.2%
Overseas/Other	13.8	27.2	19.3	17.6	14.8	17.7	13.3	15.7	15.2	24.0	18.7	27.5
Ventura	3.5	1.6	2.1	3.9	3.1	4.9	0.0	0.0	0.0	0.0	0.0	0.0
Share options and other	(5.4)	(8.8)	(17.5)	(3.2)	(16.4)	0.0	(7.3)	(9.3)	(9.8)	(12.4)	(14.2)	(15.4)
Group EBIT	197.9	280.4	199.5	330.3	225.7	349.1	241.3	357.4	265.8	384.4	284.9	437.9
Net Interest	(24.4)	(25.1)	(14.0)	(10.5)	(12.4)	(11.0)	(13.3)	(15.1)	(14.5)	(14.1)	(13.1)	(14.5)
Group PBT	173.5	255.3	185.5	319.8	213.3	338.1	228.0	342.3	251.3	370.3	271.8	423.4
Net Dividend	18.0	37.0	19.0	47.0	25.0	53.0	27.5	62.5	31.0	74.0	36.0	143.0
% Change	0.0%	0.0%	5.6%	27.0%	31.6%	12.8%	10.0%	17.9%	12.7%	18.4%	16.1%	93.2%

Source: Company Reports and Citi Research Estimates

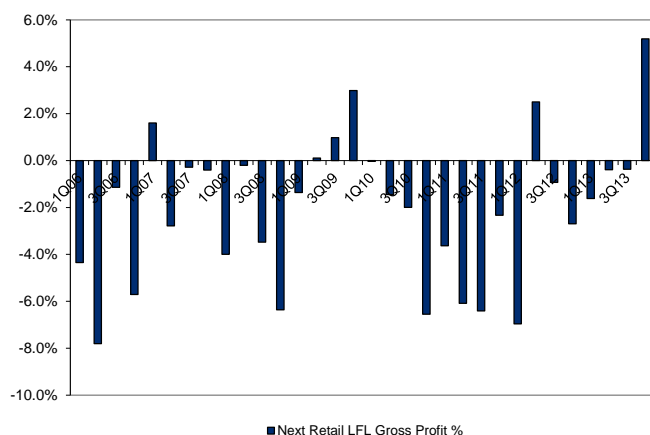
FY14 end Net Debt £517m (Citi £410m)

Higher FY14 net debt largely due to WC year-end timing

The higher than forecast £517m year-end net debt figure is largely explained by a £94m January 2014 working capital cash outflow (Citi Nil). Of this, c.£70m is explained by year end timing and should reverse over time.

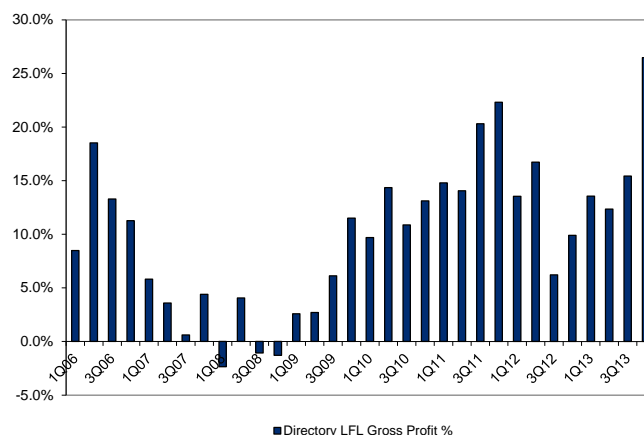
LFL Gross Profit Analysis

Figure 7. Next Retail LFL Gross Profit growth 2006-2012 (Cal)



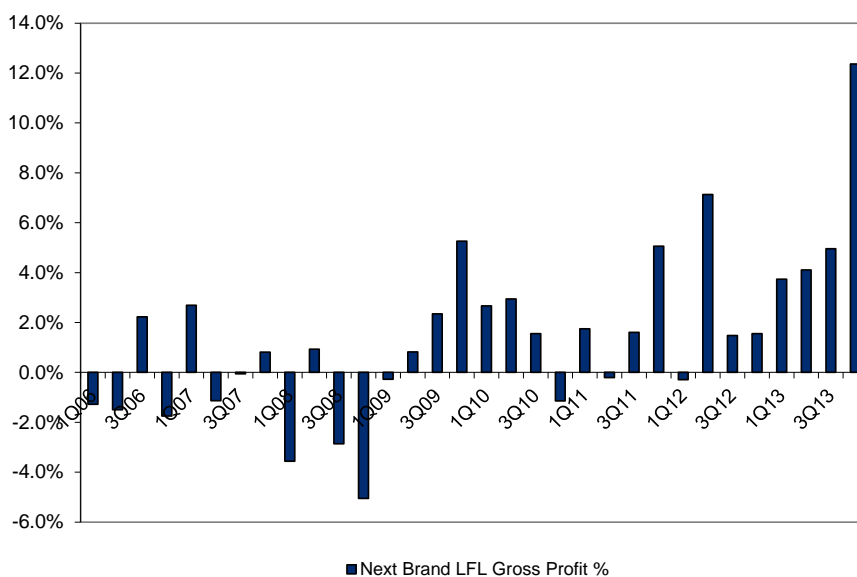
Source: Company reports, Citi Research

Figure 8. Next Directory LFL Gross Profit growth 2006-2012 (Cal)



Source: Company reports, Citi Research

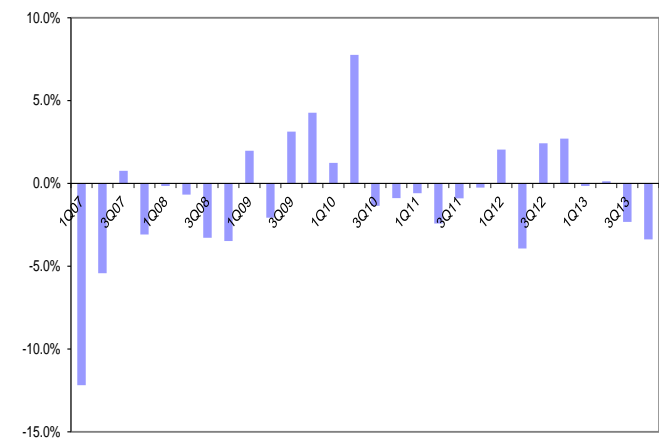
Figure 9. Next Brand LFL Gross Profit growth 2006-2012 (Cal)



Source: Company reports, Citi Research

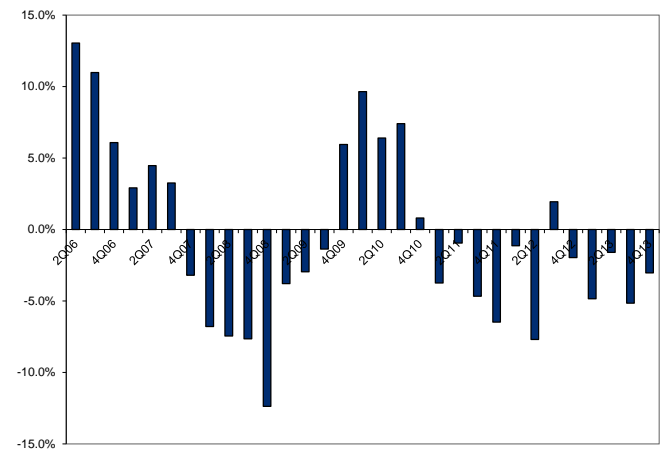
For context we illustrate the LFL gross profit performances of Debenhams and M&S over a similar time period (below).

Figure 10. Debenhams LFL Gross Profit growth, 2007-2013 (Cal)



Source: Company reports, Citi Research

Figure 11. MKS Gen Merch LFL Gross Profit growth, 2007-2013 (Cal)



Source: Company reports, Citi Research

Figure 12. Next Plc – LFL Gross Profit Analysis, 2008-14

2013-2014		1QA	2QA	H1A	3QA	4QA	2HA	FYA
Next retail	LFL %	-4.2%	-3.0%	-3.6%	-2.8%	2.6%	0.5%	-1.4%
	GM (bp)	140	140	140	130	130	130	129
	LFL GP%	-1.6%	-0.4%	-1.0%	-0.4%	5.2%	3.0%	1.0%
Directory	Sales %	8.9%	7.7%	8.0%	10.7%	21.3%	16.0%	12.4%
	GM (bp)	220	220	220	220	220	220	221
	LFL GP%	13.6%	12.3%	12.9%	15.4%	26.5%	20.9%	17.3%
Group	LFL%	0.7%	0.3%	0.6%	1.8%	10.1%	5.9%	3.5%
	LFL GP%	3.7%	4.1%	3.9%	5.0%	12.4%	9.3%	6.8%
2012-2013		1QA	2QA	H1A	3QA	4QA	2HA	FYA
Next retail	LFL %	-8.2%	1.1%	-3.5%	-1.5%	-3.9%	-3.0%	-3.2%
	GM (bp)	70	70	70	30	67	48	59
	LFL GP%	-7.0%	2.5%	-2.2%	-0.9%	-2.7%	-2.1%	-2.1%
Directory	Sales %	11.8%	14.9%	13.4%	5.6%	7.3%	6.5%	9.5%
	GM (bp)	80	80	80	30	125	78	78
	LFL GP%	13.5%	16.7%	15.1%	6.2%	9.9%	8.1%	11.2%
Group	LFL%	-1.7%	5.6%	2.0%	0.9%	-0.5%	0.2%	1.0%
	LFL GP%	-0.3%	7.1%	3.4%	1.5%	1.6%	1.4%	2.3%
2011-2012		1QA	2QA	H1A	3QA	4QA	2HA	FYA
Next retail	LFL %	-4.0%	-7.5%	-5.8%	-8.0%	-4.0%	-5.6%	-5.7%
	GM (bp)	20	80	50	90	92	91	71
	LFL GP%	-3.6%	-6.1%	-4.8%	-6.4%	-2.3%	-4.0%	-4.4%
Directory	Sales %	14.8%	15.4%	15.1%	16.9%	18.0%	17.4%	16.4%
	GM (bp)	0	-60	-30	150	190	170	80
	LFL GP%	14.8%	14.1%	14.4%	20.3%	22.3%	21.3%	18.2%
Group	LFL%	1.7%	-1.0%	0.3%	-0.1%	2.7%	1.3%	0.9%
	LFL GP%	1.7%	-0.2%	0.8%	1.6%	5.1%	3.6%	2.3%
2010-2011		1QA	2QA	H1A	3QA	4QA	2HA	FYA
Next retail	LFL %	-0.8%	-2.2%	-1.5%	-3.3%	-7.8%	-6.0%	-4.0%
	GM (bp)	40	40	40	70	70	70	60
	LFL GP%	0.0%	-1.4%	-0.7%	-2.0%	-6.6%	-4.7%	-2.9%
Directory	Sales %	7.2%	11.8%	9.5%	7.9%	10.1%	9.0%	9.2%
	GM (bp)	120	120	120	142	142	142	130
	LFL GP%	9.7%	14.4%	12.0%	10.9%	13.1%	12.0%	12.0%
Group	LFL GP%	2.7%	2.9%	2.8%	1.6%	-1.1%	-0.1%	1.2%
2009-2010		1QA	2QA	H1A	3QA	4QA	2HA	FYA
Next retail	LFL %	-2.3%	-2.7%	-2.5%	-1.3%	0.7%	-0.1%	-1.2%
	GM (bp)	50	150	100	120	120	120	99
	LFL GP%	-1.4%	0.1%	-0.6%	1.0%	3.0%	2.2%	0.7%
Directory	Sales %	1.6%	1.7%	1.7%	5.1%	10.4%	7.8%	4.9%
	GM (bp)	50	50	50	50	50	50	48
	LFL GP%	2.6%	2.7%	2.6%	6.1%	11.5%	8.8%	5.9%
Group	LFL GP%	-0.3%	0.8%	0.3%	2.3%	5.3%	4.0%	2.1%
2008-2009A		1QA	2QA	H1A	3QA	4QA	2HA	FYA
Next retail	LFL %	-8.9%	-5.3%	-7.3%	-4.4%	-7.3%	-5.8%	-6.5%
	GM (bp)	280	280	280	50	50	50	140
	LFL GP%	-4.0%	-0.2%	-2.3%	-3.5%	-6.4%	-4.9%	-4.0%
Directory	Sales %	-1.0%	5.5%	2.2%	2.1%	1.9%	2.0%	2.1%
	GM (bp)	-70	-70	-70	-160	-160	-160	-120
	LFL GP%	-2.3%	4.1%	0.8%	-1.1%	-1.3%	-1.2%	-0.3%
Group	LFL GP%	-3.6%	0.9%	-1.5%	-2.9%	-5.1%	-4.0%	-3.0%

Source: Company Reports and Citi Research Estimates

Financials

Figure 13. Next – P&L, 2007-17E (Pounds in Millions)

Year end Jan	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Group Sales	3,283.8	3,329.1	3,319.7	3,439.4	3,453.7	3,441.1	3,562.8	3,740.0	3,970.4	4,215.2	4,472.3
Next Retail Sales	2,255.0	2,255.1	2,197.9	2,242.0	2,222.1	2,191.4	2,190.9	2,227.6	2,272.6	2,350.7	2,426.1
Next Directory Sales	774.5	799.8	816.4	856.6	935.5	1,088.7	1,192.6	1,341.0	1,511.0	1,662.1	1,828.3
Other Sales	254.3	274.2	305.4	340.8	296.1	161.0	179.3	171.4	186.9	202.4	217.9
Next Retail Sales	2,255.0	2,255.1	2,197.9	2,242.0	2,222.1	2,191.4	2,190.9	2,227.6	2,272.6	2,350.7	2,426.1
% change	1.7%	0.0%	-2.5%	2.0%	-0.9%	-1.4%	0.0%	1.7%	2.0%	3.4%	3.2%
Retail LFL	-7.2%	-3.8%	-6.5%	-1.2%	-4.0%	-5.7%	-3.2%	-1.4%	-1.0%	0.0%	0.0%
Gross margin %	53.4%	55.2%	56.7%	57.7%	58.3%	59.0%	59.6%	60.9%	60.9%	60.9%	60.9%
Next Retail Gross Profit (est)	1,203.2	1,244.5	1,245.7	1,292.9	1,295.5	1,293.2	1,305.8	1,356.4	1,383.7	1,431.3	1,477.3
Less Operating Costs	(886.6)	(924.6)	(956.9)	(968.9)	(966.7)	(969.5)	(974.7)	(1,008.7)	(1,028.7)	(1,064.3)	(1,098.3)
% Change	8.0%	4.3%	3.5%	1.3%	-0.2%	0.3%	0.5%	3.5%	2.0%	3.5%	3.2%
Next retail EBIT	316.6	319.9	288.8	324.0	328.8	323.7	331.1	347.7	355.0	367.0	379.0
Next retail EBIT margin %	14.0%	14.2%	13.1%	14.5%	14.8%	14.8%	15.1%	15.6%	15.6%	15.6%	15.6%
Next Directory Sales	774.5	799.8	816.4	856.6	935.5	1,088.7	1,192.6	1,341.0	1,511.0	1,662.1	1,828.3
% change	13.1%	3.3%	2.1%	4.9%	9.2%	16.4%	9.5%	12.4%	12.7%	10.0%	10.0%
Next Directory EBIT	143.9	164.4	157.6	183.6	221.9	262.6	302.1	358.5	402.0	442.0	487.0
Next Directory EBIT margin %	18.6%	20.6%	19.3%	21.4%	23.7%	24.1%	25.3%	26.7%	26.6%	26.6%	26.6%
Overseas/Other	42.8	44.9	46.0	41.9	37.5	34.0	44.2	51.2	52.0	56.0	57.0
ESOP/share option charge	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Ventura	20.6	21.5	5.1	6.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0
Share options and other	(11.4)	(8.6)	(14.2)	(20.7)	(16.4)	(16.6)	(22.2)	(29.6)	(22.0)	(22.0)	(22.0)
Group EBIT	507.5	537.1	478.3	529.8	574.8	598.7	650.2	722.8	782.0	838.0	896.0
Net Interest	(29.1)	(39.0)	(49.5)	(24.5)	(23.4)	(28.4)	(28.6)	(27.6)	(30.0)	(28.0)	(26.0)
Group PBT	478.4	498.1	428.8	505.3	551.4	570.3	621.6	695.2	752.0	810.0	870.0
Tax %	30.7%	28.9%	29.5%	28.0%	27.3%	25.1%	23.9%	20.4%	21.0%	21.0%	21.0%
Earnings	331.5	354.1	302.3	364.0	400.9	427.4	473.1	553.2	594.1	639.9	687.3
Shares (m)	229.7	212.5	194.0	196.2	185.3	172.7	163.2	155.6	152.6	152.4	152.4
Clean EPS (p) (fully diluted) *	144.3	166.7	155.8	185.5	216.4	247.5	289.9	355.5	389.3	419.9	451.0
Ord Dividend	49.0	55.0	55.0	66.0	78.0	90.0	105.0	129.0	142.0	156.0	171.5
Sp Dividend								50.0	200.0	200.0	200.0
Total Dividend								179.0	342.0	356.0	371.5
EBITDA (£m)	623.2	654.3	604.0	662.3	705.9	735.2	785.2	853.6	912.0	968.0	1,026.0
Number of stores	480	502	510	517	525	536	540	541	546	551	556
Year-end selling area ('000 sqft)	4,823	5,201	5,506	5,763	6,073	6,475	6,728	7,008	7,368	7,768	8,118
Average selling area ('000 sqft)	4,565	5,012	5,354	5,635	5,918	6,274	6,602	6,868	7,188	7,568	7,943
Average store size (sqft)	10,048	10,361	10,796	11,147	11,568	12,080	12,459	12,954	13,495	14,098	14,601
Sales per sq ft	494	450	411	398	375	349	332	324	316	311	305
EBIT per sq ft	69	64	54	58	56	52	50	51	49	48	48

Source: Company Reports and Citi Research Estimates

Figure 14. Next – Next Retail P&L, 2007-2017E (Pounds in Millions)

Year end Jan	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Next Retail Sales	2,255.0	2,255.1	2,197.9	2,242.0	2,222.1	2,191.4	2,190.9	2,227.6	2,272.6	2,350.7	2,426.1
% change	1.7%	0.0%	-2.5%	2.0%	-0.9%	-1.4%	0.0%	1.7%	2.0%	3.4%	3.2%
Lfi Sales Growth %	-7.2%	-3.8%	-6.5%	-1.2%	-4.0%	-5.7%	-3.2%	-1.4%	-1.0%	0.0%	0.0%
Gross margin %	53.4%	55.2%	56.7%	57.7%	58.3%	59.0%	59.6%	60.9%	60.9%	60.9%	60.9%
Next Retail Gross Profit (est)	1,203.2	1,244.5	1,245.7	1,292.9	1,295.5	1,293.2	1,305.8	1,356.4	1,383.7	1,431.3	1,477.3
Less Operating Costs	(886.6)	(924.6)	(956.9)	(968.9)	(966.7)	(969.5)	(974.7)	(1,008.7)	(1,028.7)	(1,064.3)	(1,098.3)
% Change	8.0%	4.3%	3.5%	1.3%	-0.2%	0.3%	0.5%	3.5%	2.0%	3.5%	3.2%
Next retail EBIT	316.6	319.9	288.8	324.0	328.8	323.7	331.1	347.7	355.0	367.0	379.0
Next retail EBIT margin %	14.0%	14.2%	13.1%	14.5%	14.8%	14.8%	15.1%	15.6%	15.6%	15.6%	15.6%
Number of stores	480	502	510	517	525	536	540	541	546	551	556
Year-end selling area ('000 sqft)	4,823	5,201	5,506	5,763	6,073	6,475	6,728	7,008	7,368	7,768	8,118
Average selling area ('000 sqft)	4,565	5,012	5,354	5,635	5,918	6,274	6,602	6,868	7,188	7,568	7,943
Average store size (sqft)	10,048	10,361	10,796	11,147	11,568	12,080	12,459	12,954	13,495	14,098	14,601
Sales per sq ft	494	450	411	398	375	349	332	324	316	311	305
EBIT per sq ft	69	64	54	58	56	52	50	51	49	48	48

Source: Company Reports and Citi Research Estimates

Figure 15. Next – Next Directory, P&L, 2007-2017E (Pounds in Millions)

Year end Jan	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Next Directory Sales	774.5	799.8	816.4	856.6	935.5	1,088.7	1,192.6	1,341.0	1,511.0	1,662.1	1,828.3
% change	13.1%	3.3%	2.1%	4.9%	9.2%	16.4%	9.5%	12.4%	12.7%	10.0%	10.0%
Gross profit	397.7	411.7	410.6	435.0	487.4	575.9	640.1	749.5	844.3	928.7	1,021.6
Gross margin %	51.4%	51.5%	50.3%	50.8%	52.1%	52.9%	53.7%	55.9%	55.9%	55.9%	55.9%
Costs	253.8	247.3	253.0	251.4	265.5	313.3	338.0	391.0	442.3	486.7	534.6
% change	-0.7%	-2.6%	2.3%	-0.7%	5.6%	18.0%	7.9%	15.7%	13.1%	10.0%	9.8%
Next Directory EBIT	143.9	164.4	157.6	183.6	221.9	262.6	302.1	358.5	402.0	442.0	487.0
% change	48.5%	14.2%	-4.1%	16.5%	20.9%	18.3%	15.0%	18.7%	12.1%	10.0%	10.2%
Next Directory EBIT margin %	18.6%	20.6%	19.3%	21.4%	23.7%	24.1%	25.3%	26.7%	26.6%	26.6%	26.6%

Source: Company Reports and Citi Research Estimates

Figure 16. Next – Cashflow, 2007-2017E (Pounds in Millions)

Year end Jan	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Trading Profit	507.5	537.1	478.3	529.8	574.8	598.7	650.2	722.8	782.0	838.0	896.0
Depreciation	102.3	108.4	116.8	123.1	119.3	119.7	117.2	117.4	115.0	115.0	115.0
Working Capital	27.9	(19.4)	(25.9)	46.8	(76.6)	(69.2)	25.8	(94.0)	(20.0)	(25.0)	(30.0)
Other	(22.7)	11.2	5.5	(13.0)	19.9	20.6	13.5	20.6	15.0	15.0	15.0
Net Cash From Operations	615.0	637.3	574.7	686.7	637.4	669.8	806.7	766.8	892.0	943.0	996.0
Net Interest	(24.8)	(36.2)	(48.7)	(31.2)	(20.7)	(18.9)	(21.8)	(21.0)	(30.0)	(28.0)	(26.0)
Dividends Paid	(103.9)	(109.4)	(106.5)	(108.5)	(129.6)	(135.1)	(147.7)	(164.8)	(511.8)	(527.7)	(549.2)
Taxation	(114.2)	(119.3)	(125.9)	(115.2)	(141.9)	(143.9)	(147.7)	(152.0)	(157.9)	(170.1)	(182.7)
Tax and Servicing of Investment	(242.9)	(264.9)	(281.1)	(254.9)	(292.2)	(297.9)	(317.2)	(337.8)	(699.8)	(725.8)	(757.9)
Capital Spend	(136.5)	(178.9)	(120.3)	(98.2)	(138.1)	(126.1)	(92.4)	(102.9)	(115.0)	(115.0)	(115.0)
Disposals	0.0	23.8	0.0	0.0	0.0	64.9	6.7	0.0	0.0	0.0	0.0
Investing Activities	(136.5)	(155.1)	(120.3)	(98.2)	(138.1)	(61.2)	(85.7)	(102.9)	(115.0)	(115.0)	(115.0)
Other (Principally ESOP/Buy in)	(319.1)	(513.8)	(61.4)	(105.0)	(337.5)	(355.3)	(321.4)	(350.9)	(75.0)	0.0	0.0
Increase/(Decrease) in Net Cash	(83.5)	(296.5)	111.9	228.6	(130.4)	(44.6)	82.4	(24.8)	2.2	102.2	123.1
Y/E Net Cash/(Debt)	(444.0)	(740.5)	(628.6)	(400.0)	(530.4)	(575.0)	(492.6)	(517.4)	(515.2)	(413.0)	(289.9)
Shareholders Funds	189.3	(95.3)	140.6	133.6	232.3	222.7	285.6	286.2	368.4	480.6	618.7
Gearing/(Net Cash) %	234.5%	-777.0%	447.1%	299.4%	228.3%	258.2%	172.5%	180.8%	139.8%	85.9%	46.9%

Source: Company Reports and Citi Research Estimates

Figure 17. Next – Balance Sheet, 2007-2016E (Pounds in Millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash and marketable securities	121.7	56.0	47.8	107.0	49.3	56.4	136.3	273.3	288.2	390.4	513.5
Accounts receivable	577.7	575.9	622.7	616.6	645.6	699.1	718.1	808.0	824.3	852.7	880.0
Inventory	281.8	319.1	318.7	309.0	368.3	371.9	331.8	385.6	405.6	430.6	460.6
Total other current assets	1.2	12.6	84.4	8.6	4.1	12.5	21.6	1.2	1.2	1.2	1.2
Current assets	982.4	963.6	1,073.6	1,041.2	1,067.3	1,139.9	1,207.8	1,468.1	1,519.4	1,674.9	1,855.3
Net tangible fixed assets	544.4	610.6	612.8	577.2	592.4	581.9	537.3	509.2	509.2	509.2	509.2
Investments	1.0	1.0	1.0	1.0	1.0	1.0	1.0	7.9	7.9	7.9	7.9
Other financial assets	7.0	3.4	17.6	26.7	85.1	85.8	102.7	115.0	115.0	115.0	115.0
Total financial assets	552.4	615.0	631.4	604.9	678.5	668.7	641.0	632.1	632.1	632.1	632.1
Net goodwill	36.2	36.2	55.4	47.4	46.5	45.6	44.8	44.4	44.4	44.4	44.4
Total assets	1,571.0	1,614.8	1,760.4	1,693.5	1,792.3	1,854.2	1,893.6	2,144.6	2,195.9	2,351.4	2,531.8
Accounts payable	621.1	473.3	490.5	550.3	544.6	545.0	537.2	594.0	606.0	626.8	646.9
Short-term debt	12.6	242.7	121.3	4.7	125.2	7.6	93.0	2.6	2.6	2.6	2.6
Total other current liabilities	104.8	147.4	101.7	203.1	163.1	189.8	185.8	237.9	237.9	237.9	237.9
Current liabilities	738.5	863.4	713.5	758.1	832.9	742.4	816.0	834.5	846.5	867.3	887.4
Long-term debt	531.2	539.7	567.8	520.9	471.2	652.1	566.8	800.8	800.8	800.8	800.8
Net deferred tax liability	0.0	16.4	28.0	3.7	23.4	15.4	4.0	0.0	0.0	0.0	0.0
Other non-current liabilities	102.5	281.1	297.5	264.0	219.2	209.6	210.0	214.5	171.6	193.1	215.4
Total other non-current liabilities	633.7	837.2	893.3	788.6	713.8	877.1	780.8	1,015.3	972.4	993.9	1,016.2
Total provisions	9.5	9.4	13.1	13.4	13.3	12.0	11.2	8.5	8.5	8.5	8.5
Total liabilities	1,381.7	1,710.0	1,619.9	1,560.1	1,560.0	1,631.5	1,608.0	1,858.3	1,827.4	1,869.7	1,912.1
Minority interest - accumulated	0.0	0.1	(0.1)	(0.2)	0.0	0.0	0.0	0.1	0.0	1.0	1.0
Common equity	189.3	(95.3)	140.6	133.6	232.3	222.7	285.6	0.0	0.0	1.0	1.0
Shareholders' equity	189.3	(95.3)	140.6	133.6	232.3	222.7	285.6	286.2	368.4	480.6	618.7
Shareholders' funds	189.3	(95.2)	140.5	133.4	232.3	222.7	285.6	286.2	368.4	480.6	618.7
Liabilities and shareholders' funds	1,571.0	1,614.8	1,760.4	1,693.5	1,792.3	1,854.2	1,893.6	286.3	368.4	481.6	619.7
Retail sales	2,255.0	2,255.1	2,197.9	2,242.0	2,222.1	2,191.4	2,217.4	2,227.6	2,272.6	2,350.7	2,426.1
Gp EBITDAR	765.7	817.1	785.2	858.2	915.8	957.9	1,128.3	1,119.5	1,198.7	1,278.8	1,362.9
Gp Depreciation	102.3	108.4	116.8	123.1	119.3	119.7	125	117.4	115	115	115
Gp Rent	155.9	171.6	190.1	205.3	221.7	239.5	279.3	279.3	301.7	325.8	351.9
Gp EBIT	507.5	537.1	478.3	529.8	574.8	598.7	724.0	722.8	782.0	838.0	896.0
Adjustments:											
Capitalised lease	1,200.4	1,321.3	1,463.8	1,580.9	1,707.3	1,843.9	2,150.8	2,150.8	2,322.8	2,508.6	2,709.3
Additional depreciation	96.0	105.7	117.1	126.5	136.6	147.5	172.1	172.1	185.8	200.7	216.7
Adj EBIT	567.4	603.0	551.3	608.6	659.9	690.7	831.3	830.1	897.8	963.1	1,031.1
Capital Employed	620.9	640.5	795.0	565.6	792.7	838.0	789.4	824.8	892.1	902.1	917.1
Adj Cap Emp	1,725.3	1,856.1	2,141.7	2,020.0	2,363.5	2,534.4	2,768.1	2,803.5	3,029.1	3,210.1	3,409.7
Avg Cap Emp	623.6	630.7	717.8	680.3	679.2	815.4	804.9	822.6	858.5	897.1	909.6
Avg Adj Cap Emp	1,651.1	1,790.7	1,998.9	2,080.8	2,191.7	2,448.9	2,710.3	2,728.0	2,916.3	3,119.6	3,309.9
ROCE	81.4%	85.2%	66.6%	77.9%	84.6%	73.4%	90.0%	87.9%	91.1%	93.4%	98.5%
Adj ROCE	34.4%	23.6%	27.6%	29.2%	30.1%	28.2%	30.7%	30.4%	30.8%	30.9%	31.2%
ROCE ex goodwill	86.4%	90.3%	71.2%	84.2%	90.9%	77.8%	95.3%	92.9%	96.1%	98.3%	103.6%
Adj ROCE ex goodwill	35.1%	34.4%	28.2%	30.0%	30.8%	28.7%	31.2%	30.9%	31.3%	31.3%	31.6%
Fixed charge cover	4.1	3.9	3.3	3.7	3.7	3.6	3.7	3.6	3.6	3.9	3.9

Source: Company Reports and Citi Research Estimates

Next Group PLC

Company description

Next is the UK's number two retail clothing brand. The chain has around a 6% share of the market and trades from c.3m sq ft in around 375 outlets. The high street operation is fully integrated with a catalogue/internet proposition called Next Directory, which accounts for just under a quarter of brand sales. The chain is almost entirely UK-based, and has a small but rapidly growing home business.

Investment strategy

We rate Next Buy. We forecast Next to deliver modest (low-single digit) growth and c.16% EBIT margin in its store-based clothing business (c.60% group sales), and high growth (double digit, driven equally by International and UK revenues) with a c.26% EBIT margin in its Directory/online operation (c.40% group sales). In combination this should allow Next to maintain approaching +10% p.a. EBIT progress, assisted in cal 2014E-15E by the improving UK consumer demand outlook. Taken together with a c.5% dividend yield (including special dividends), this should drive a mid-teen total return for investors (assuming valuation metrics are held over time).

Valuation

In deriving our 7,400p target price, we apply a c.5% FY17E dividend yield target, on the assumption that the recent move to paying a special dividend (from a buyback) is sustained. This target equates to a 12.5x EV/EBIT multiple and c.16.5x PE for the same forecast year.

Risks

The following risks may impede the achievement of our target price:

Next has been a long-run market share winner. If market share growth stalls, Next's growth profile could be well below that consistent with our forecasts.

Consumer spending growth has slowed recently, raising risks to estimates.

The buyback programme has increased gearing and hence made Next a more risky proposition.

The group is currently undertaking a phase of warehouse investment, which could generate implementation risks.

However, if the company continues to win share and/or is subject to a bid, the share price could rise above our target price. Additionally, if UK interest rates fall sharply in the near future, the Next share price could rise above our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Next Group PLC (NXT.L)

Ratings and Target Price History Fundamental Research

Analyst: Richard Edwards



	Date	Rating	Target Price	Closing Price
1	4-May-11	1M	*26.00	23.00
2	14-Sep-11	1M	*28.00	24.63
3	29-Sep-11	1M	*30.00	25.90
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	30.00	24.82
6	23-Mar-12	1	*33.00	29.63
7	20-Jul-12	1	*37.00	31.99

* Indicates change

	Date	Rating	Target Price	Closing Price
8	2-Aug-12	1	*38.50	34.13
9	30-Aug-12	1	*40.50	35.89
10	13-Sep-12	1	*40.00	32.93
11	6-Dec-12	1	*41.00	36.82
12	4-Jan-13	1	*43.50	38.74
13	22-Mar-13	1	*48.00	43.26
14	17-May-13	1	*52.00	46.55

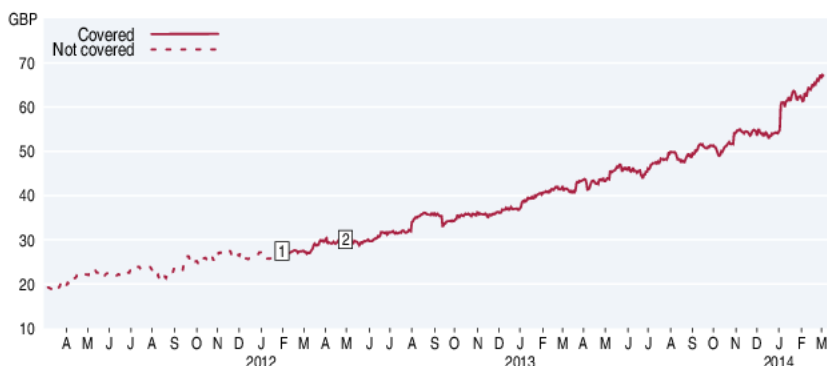
	Date	Rating	Target Price	Closing Price
15	4-Sep-13	1	*56.50	49.48
16	12-Sep-13	1	*58.50	51.63
17	31-Oct-13	1	*61.00	54.01
18	6-Jan-14	1	*70.00	61.20
19	15-Jan-14	1	*69.44	62.25
20	4-Mar-14	1	*70.00	67.25

Rating/target price changes above reflect Eastern Standard Time

Next Group PLC (NXT.L)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Richard Edwards



	Date	Rating	Target Price	Closing Price
1	31-Jan-12	*ADD MP	-	25.98

* Indicates change

	Date	Rating	Target Price	Closing Price
2	30-Apr-12	*REM MP	-	29.05

Rating/target price changes above reflect Eastern Standard Time

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<i>Data current as of 31 Dec 2013</i>	12 Month Rating			Relative Rating		
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% of companies in each rating category that are investment banking clients	55%	52%	44%	62%	52%	49%

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