MOI GLOBAL

# Mark Walker

Managing Partner, Tollymore Investment Partners

WIDEMOAT Investing Summit

TOLLYMORE
INVESTMENT PARTNERS

# Tollymore Investment Partners

MOI Global – Wide Moat Investing Summit 2021

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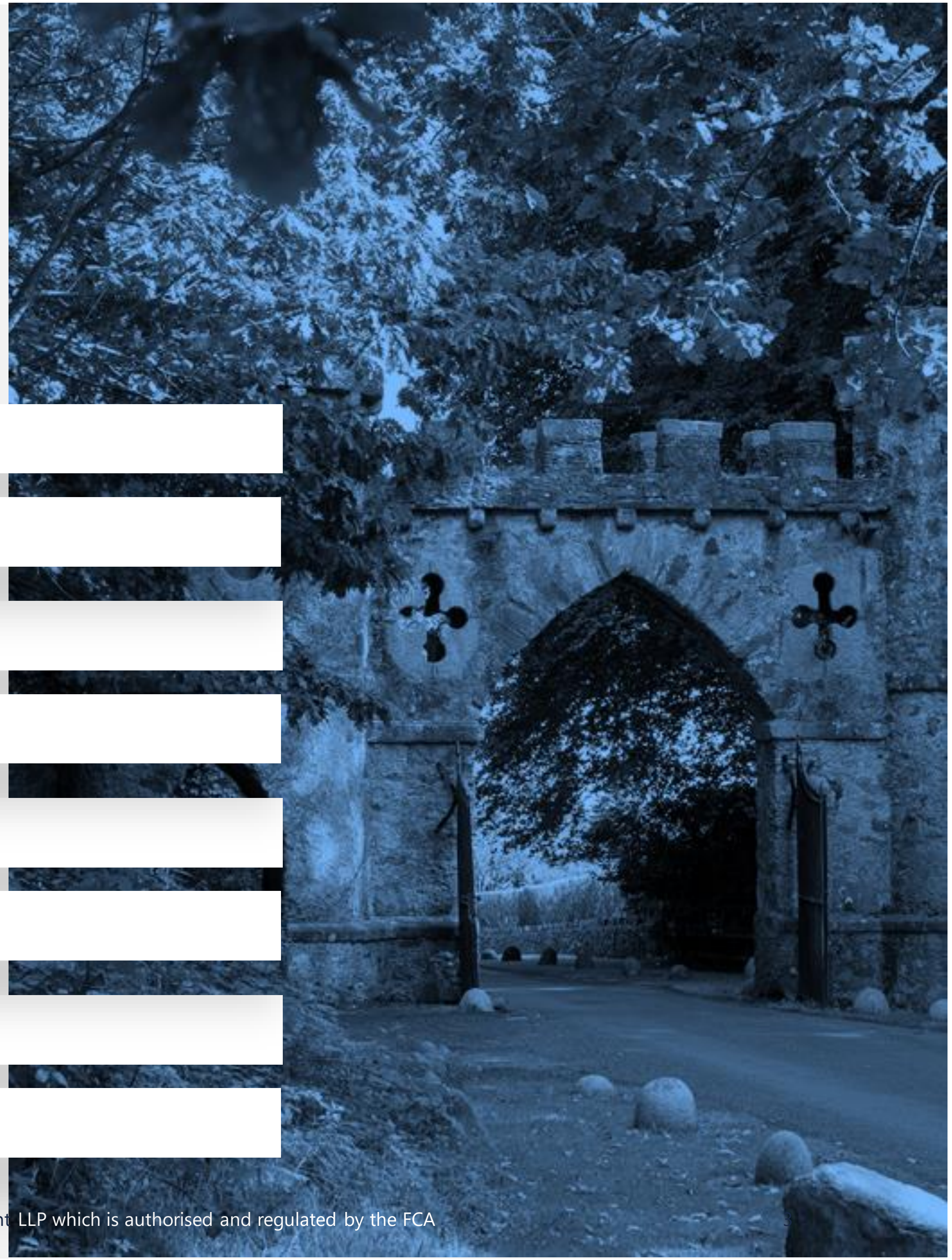
# Next plc: good and cheap



- Simple business
- Soundly financed
- Modest cash flow volatility
- Strongly positioned
- Strong track record
- Profitable growth avenues
- Solid stewardship
- Cheap

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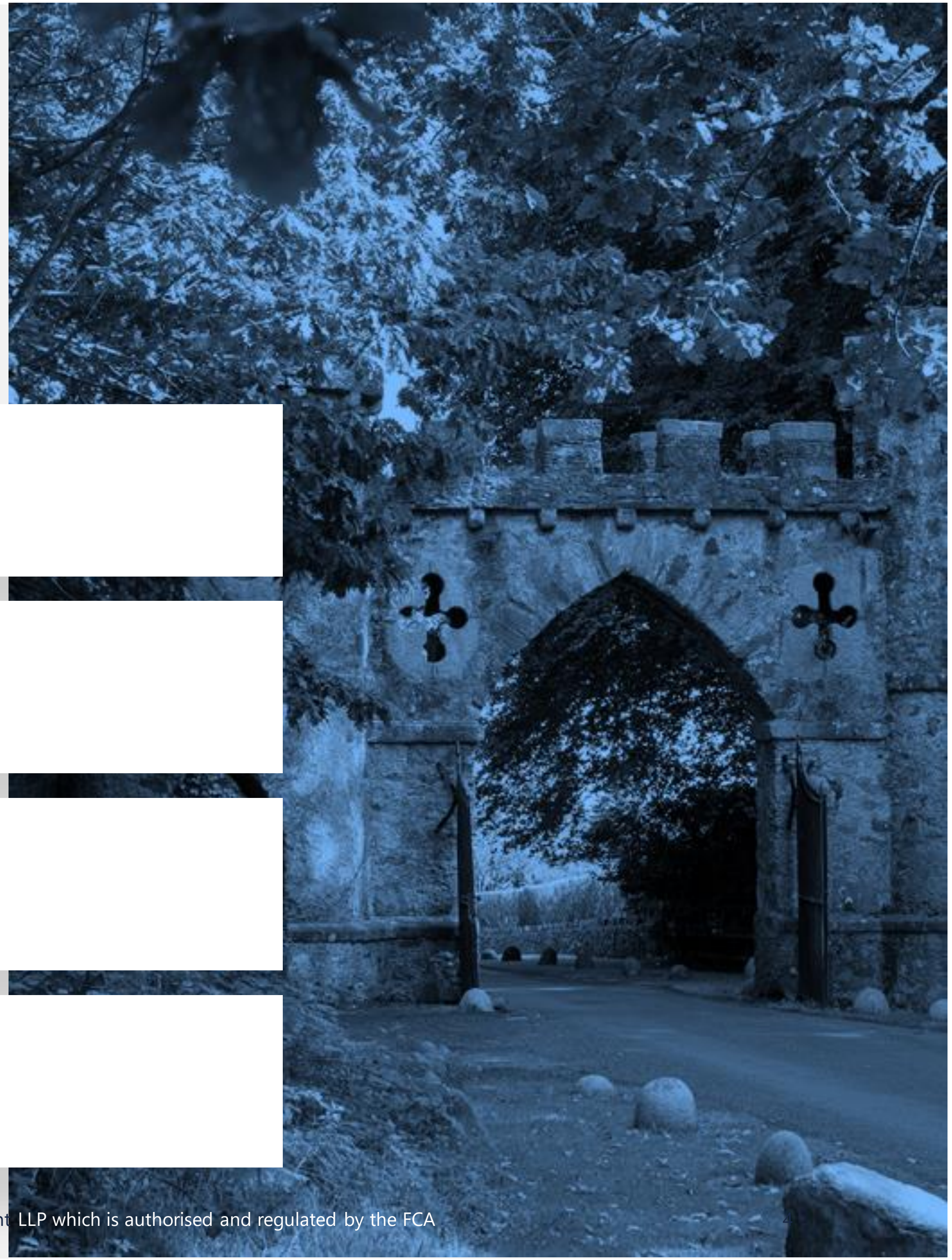
# Business simplicity

**Business model**
Multi-brand, multi geography, omnichannel retail business

**Business history**
40-year heritage of innovation and expansion

**The most exciting developments have come in the last two years**
Marketplace model
Operating system for brands

**Next Finance**
Sales enabler and highly profitable in its own right



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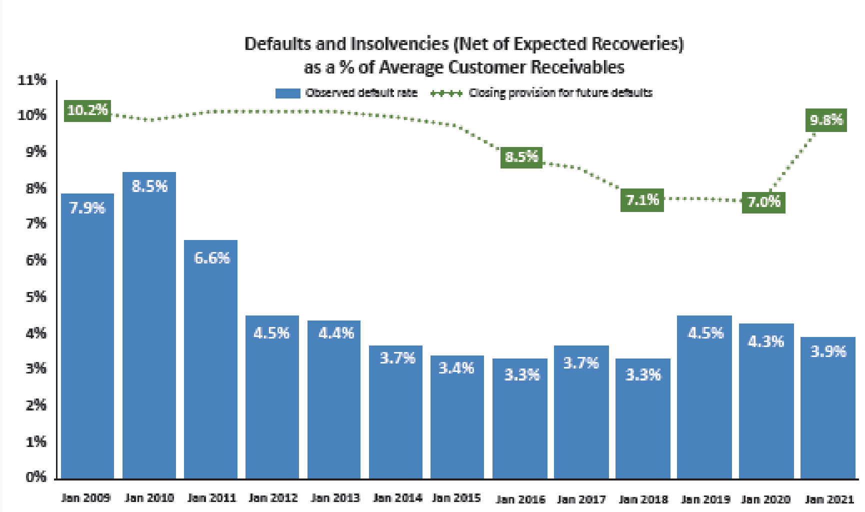
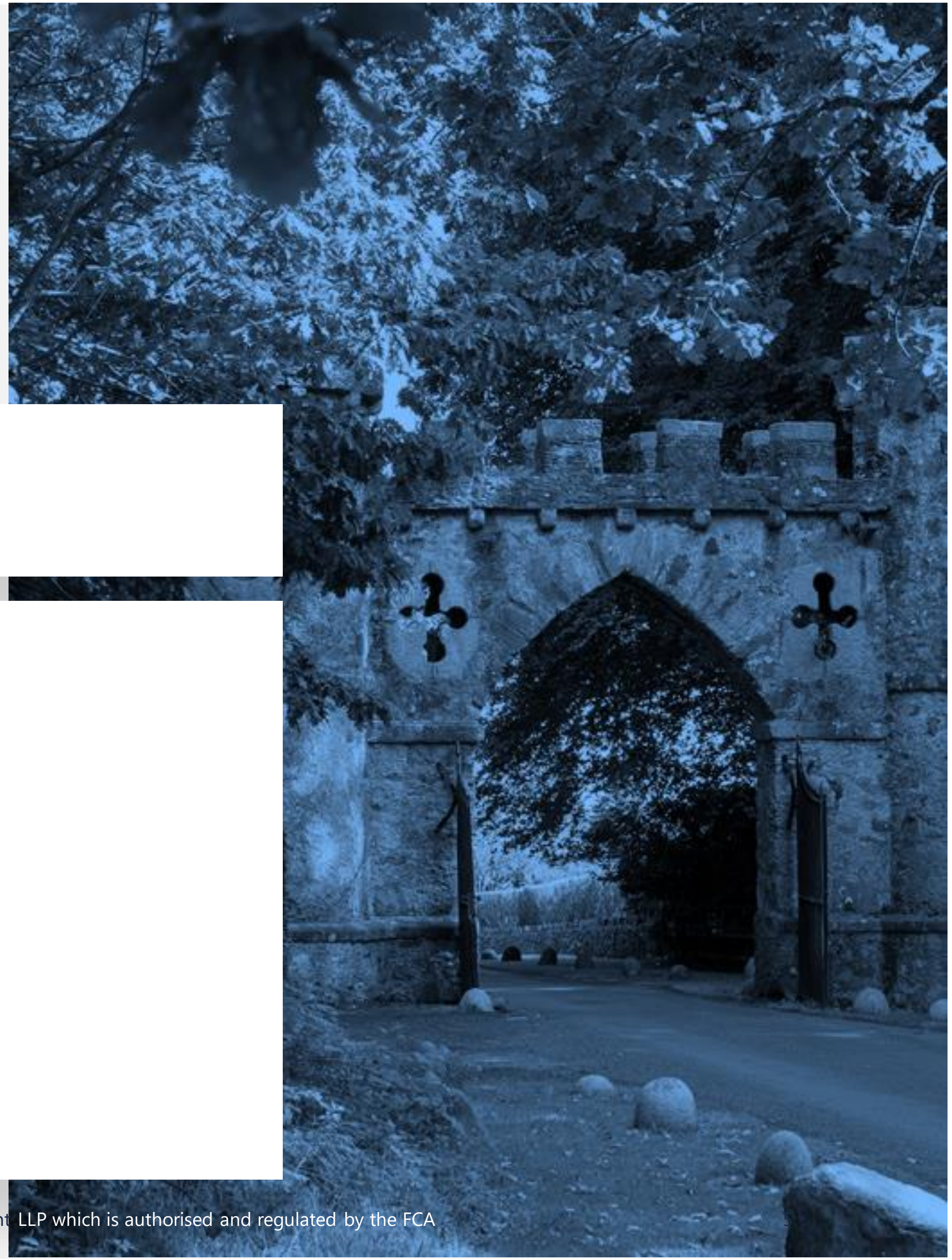
# Finances

## £0.6bn of net debt is well supported

-50% yoy; 75% of operating cash

## Credit provisioning is reasonable and bad debt expense modest



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# Cash flow volatility

**Business performance resilient through lockdowns**

Total sales fell 17%, profits after tax fell 50%

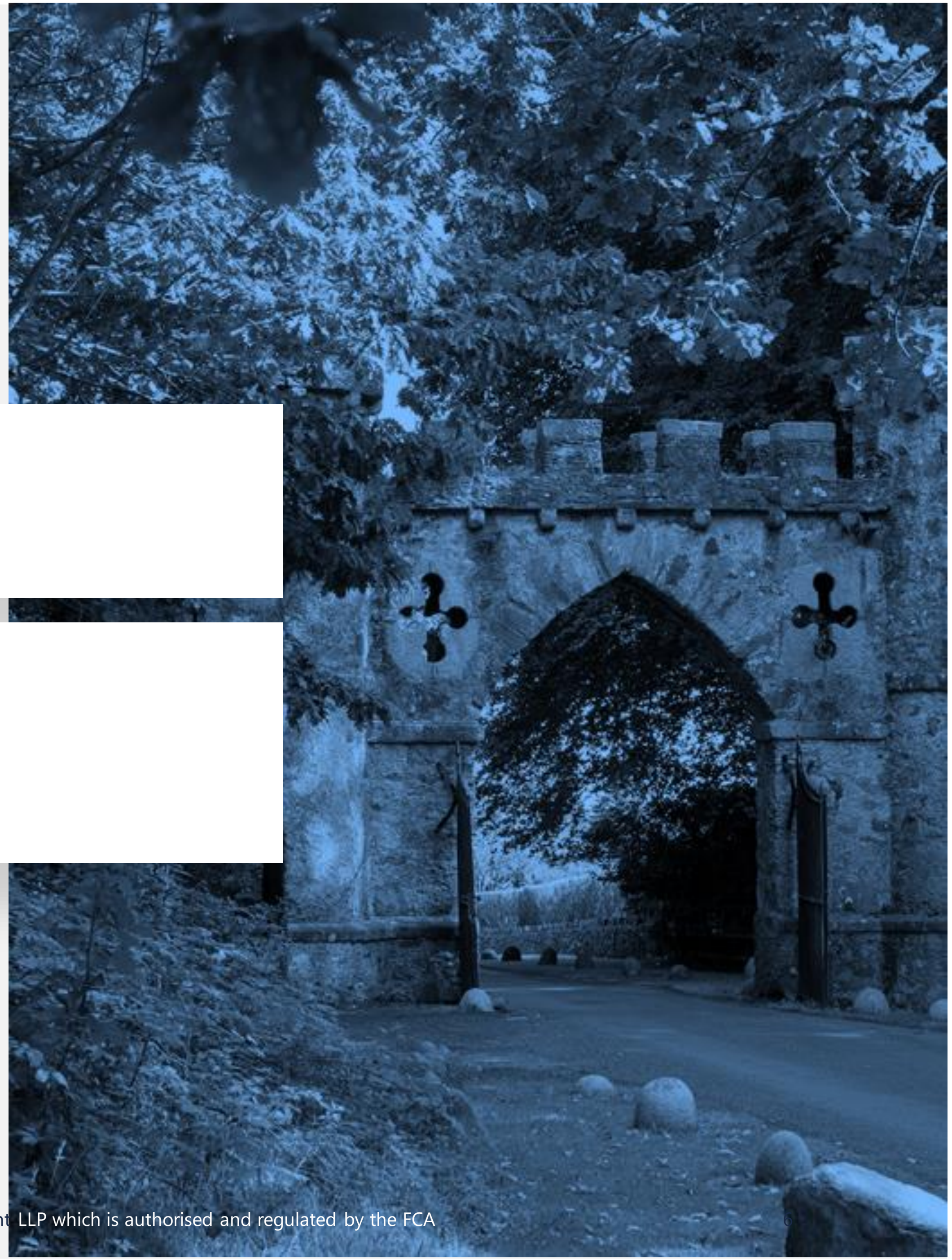
Cash increased by almost £0.5bn

**Cash flows and net debt positioned improved through COVID**

Suspension of shareholder returns

Unwinding of customer receivables

SKU range



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# Competitive positioning

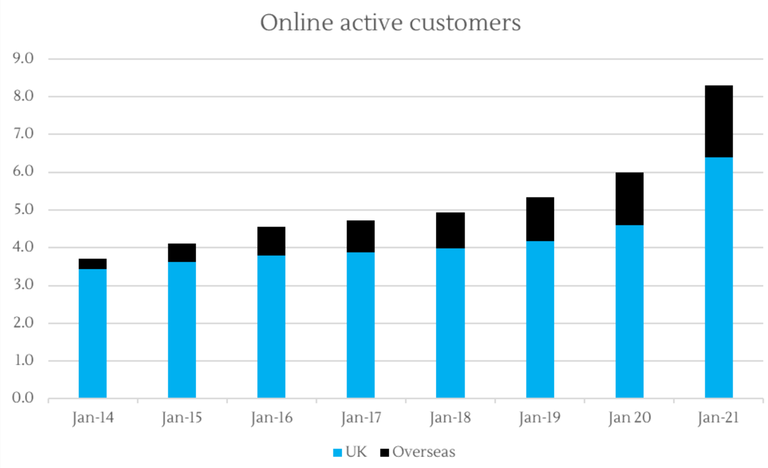
## Value chain symbiosis

Consumer proposition: Product choice and convenience

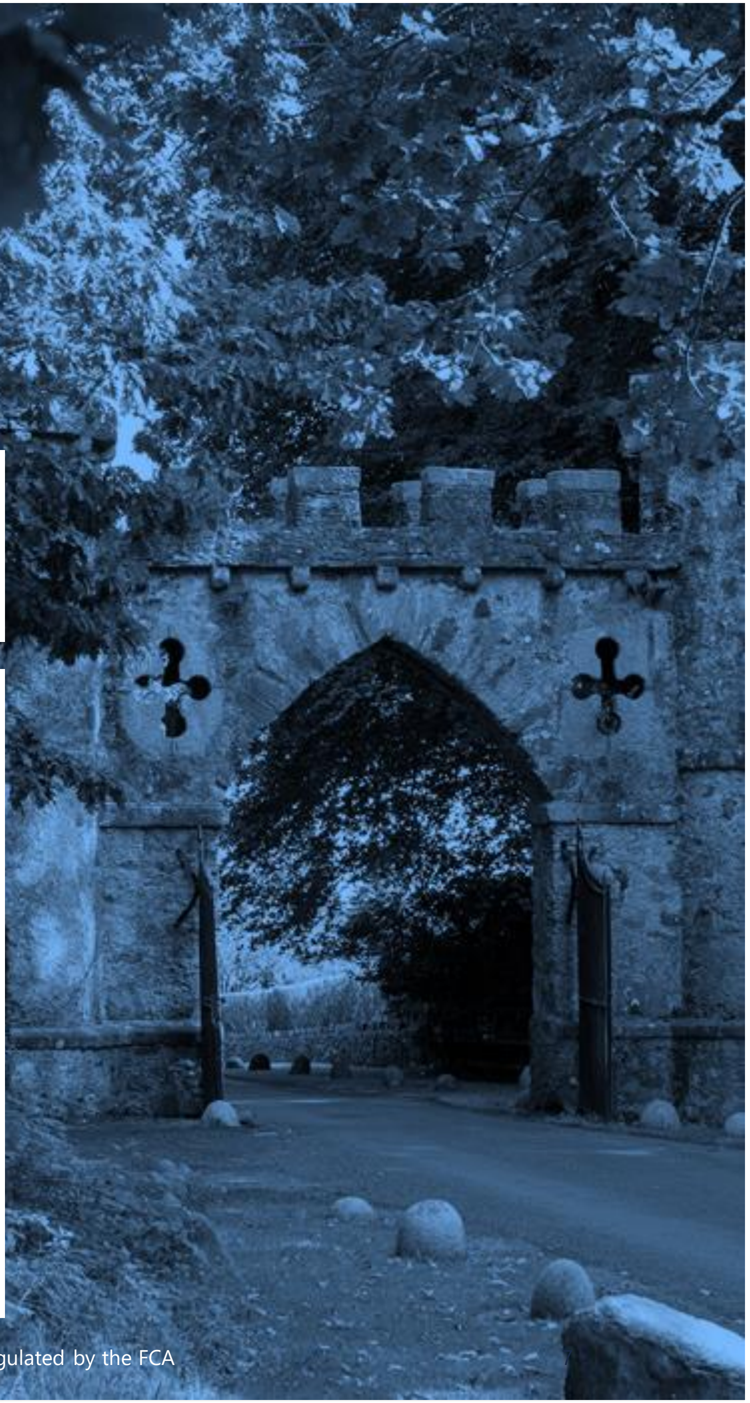
Supplier proposition: the most favourable route to market

## Self-disruption is a form of time arbitrage

Embracing third party brands is not without sacrifice; they cannibalise own brand sales







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# Competitive positioning

### Monetisation model transition

Wholesale → commission

LABEL has low penetration, but proposition is compelling

### Vertically integrated omnichannel retail is complex

Units picked has increased while picking times have fallen

### Anti-fragility

Right model right time

Competitive disarray with high cross-shop

### Multichannel virtuous circle

Store network distribution is a cost advantage

Online data improves in store experience

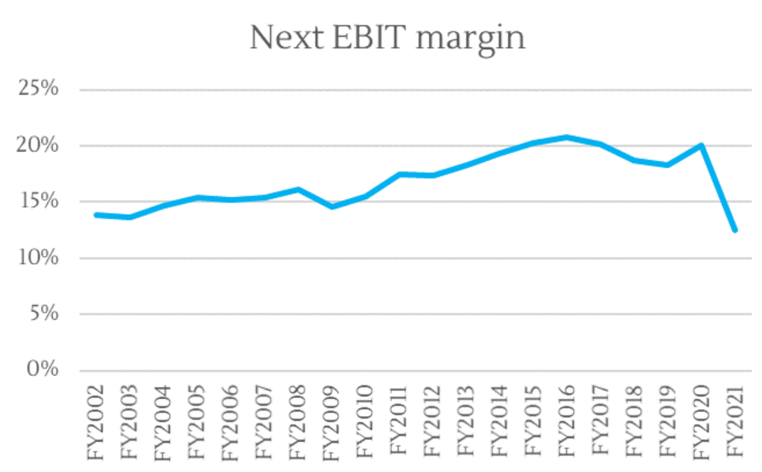
In store collection and returns drives footfall and lowers CAC

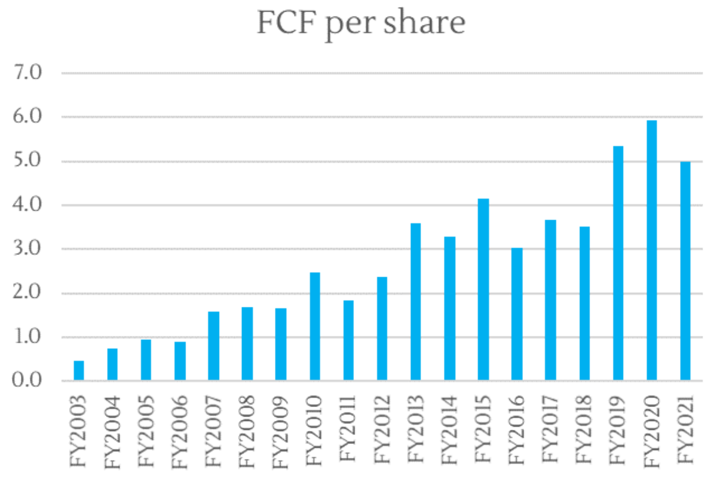
# Track record

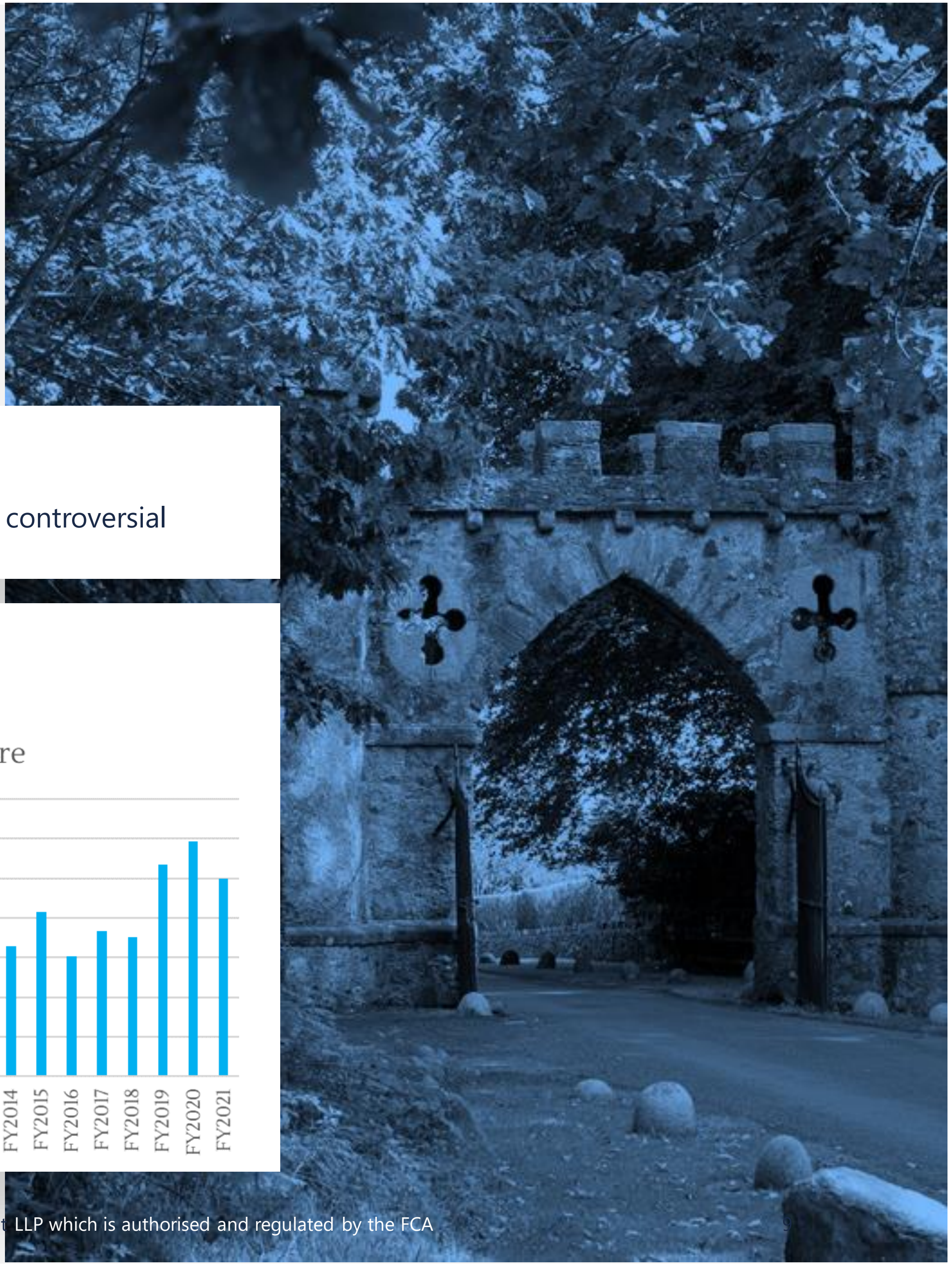
**40-year business history of successful pivoting**

Out of town stores, apparel expansion, multi-brand, operating system for brands – often controversial

**Demonstrable history of value creation against structural challenges**



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# Growth opportunity

**Online is lowering variable and fixed capital intensity**

Impressive online capacity asset turns

Aggregation business has negative working capital

Expanding the lending book to new customer surface area is valuable

**Multi-brand offering leverages distribution and marketing investments**

Using existing assets to access adjacent revenue opportunities

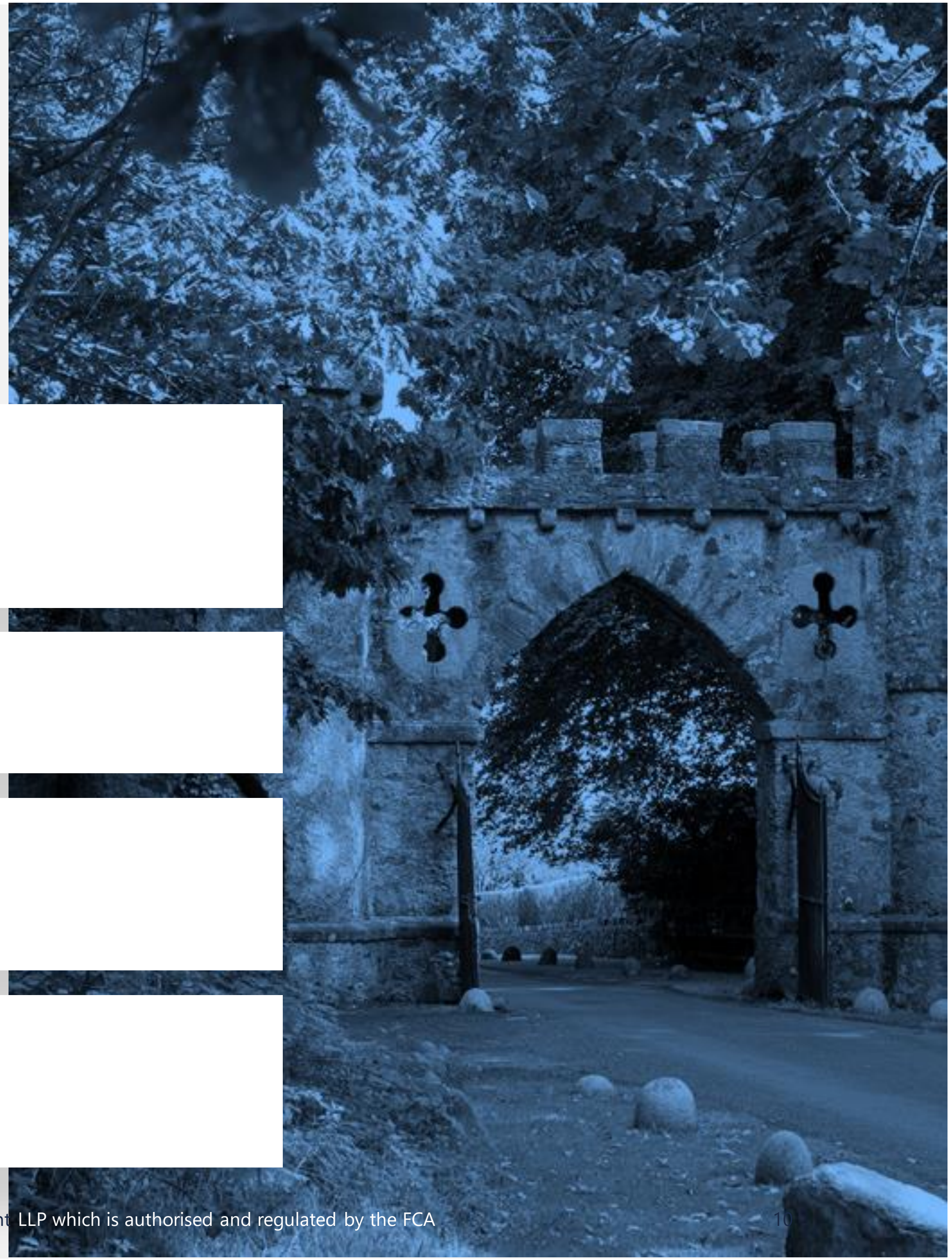
**LABEL opportunity is vast; proposition is compelling**

LABEL is 1% of the UK apparel market, still mostly apparel

**Online business models enable geographic expansion**

Physical store investments require customer density; LABEL underrepresented overseas

Overseas growth is valuable growth



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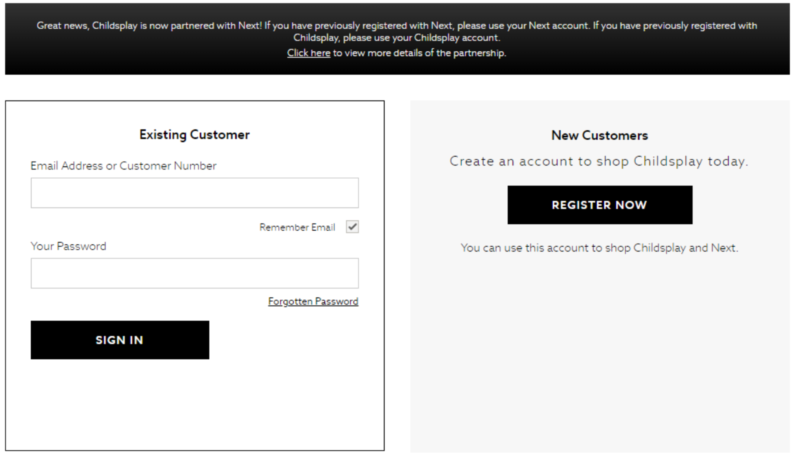
# Growth opportunity

New business adjacencies

Licensing

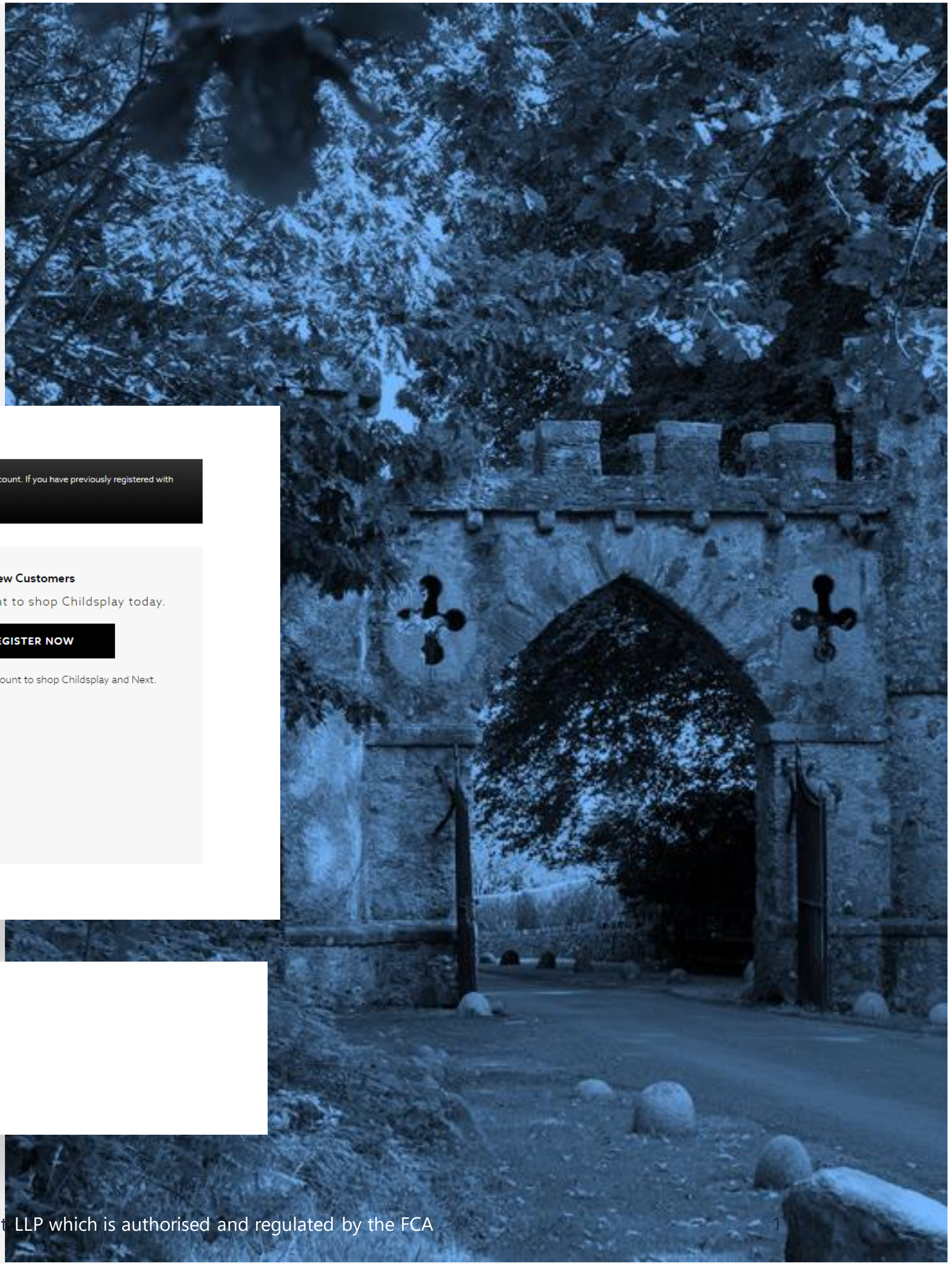
Beauty and homewares

Total Platform




Future scale of internal reinvestment larger and more valuable

Capital allocation: time for change?



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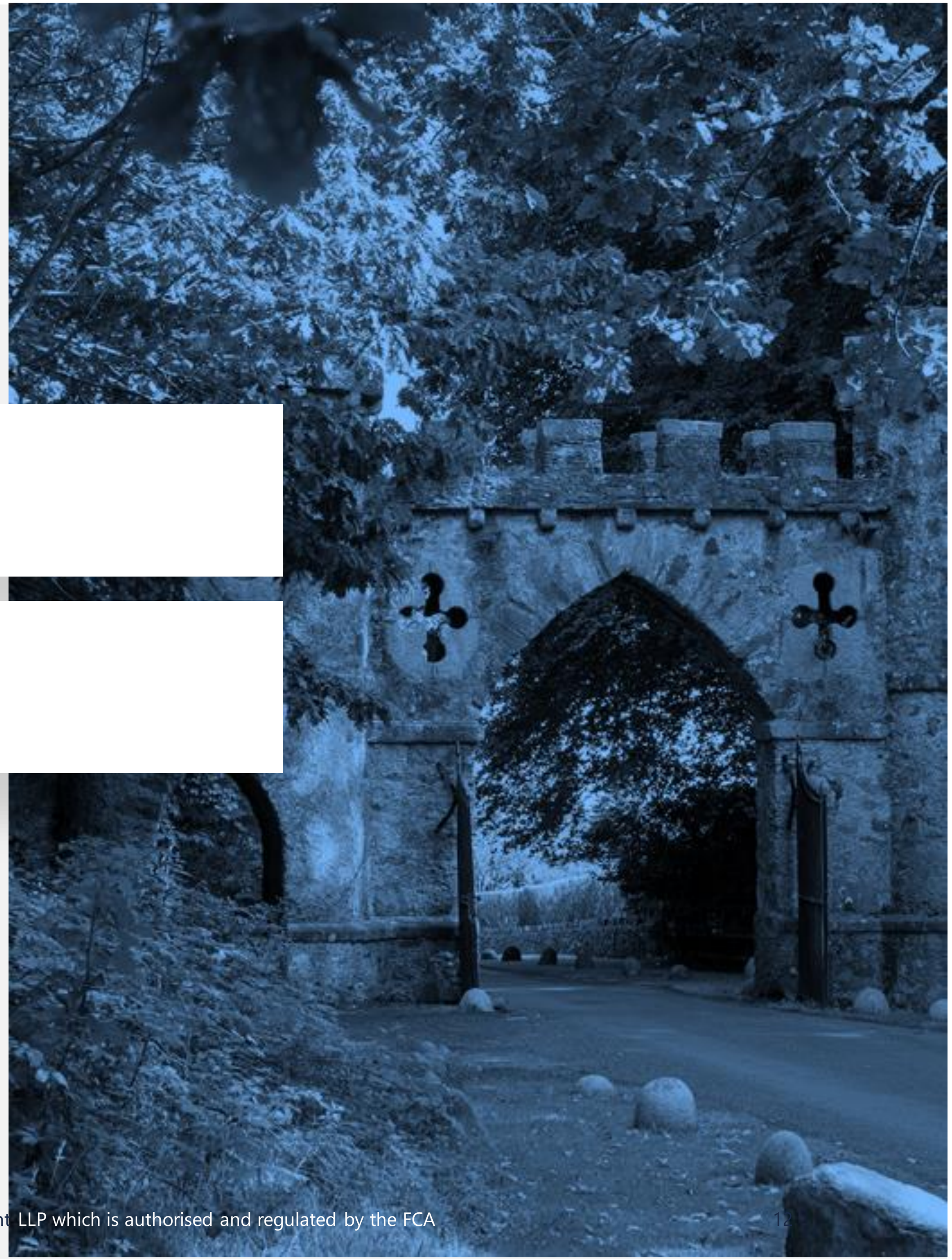
# Stewardship

**Candid and able leadership**
Brutal honesty, inflection in tone

**A CEO incentivised to make choices in the interest of long-term results**
Shares 100x comp

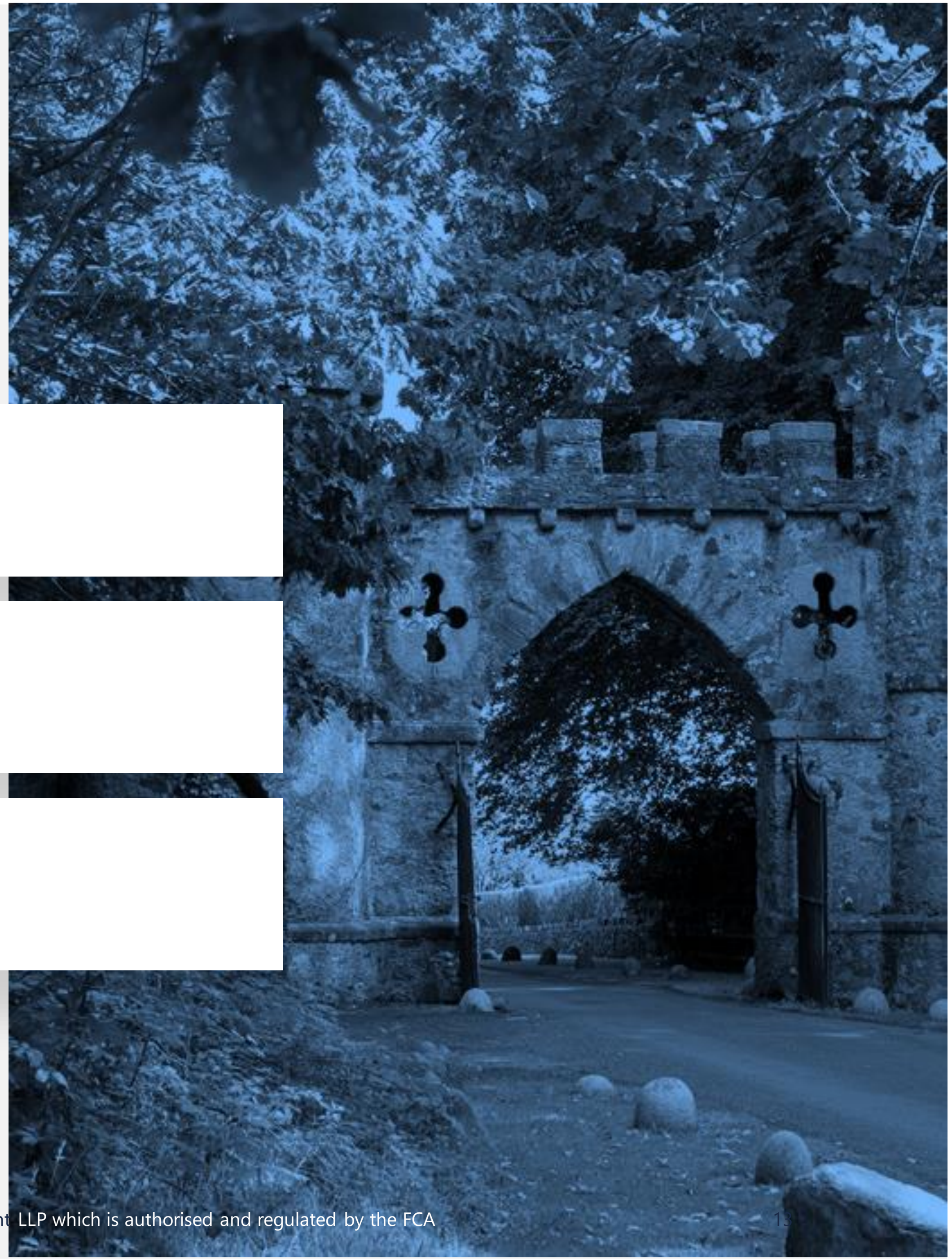


# Risks

Capital allocation fails to evolve with changing modes of optimal value creation

The future is not multibrand

The future is not omnichannel



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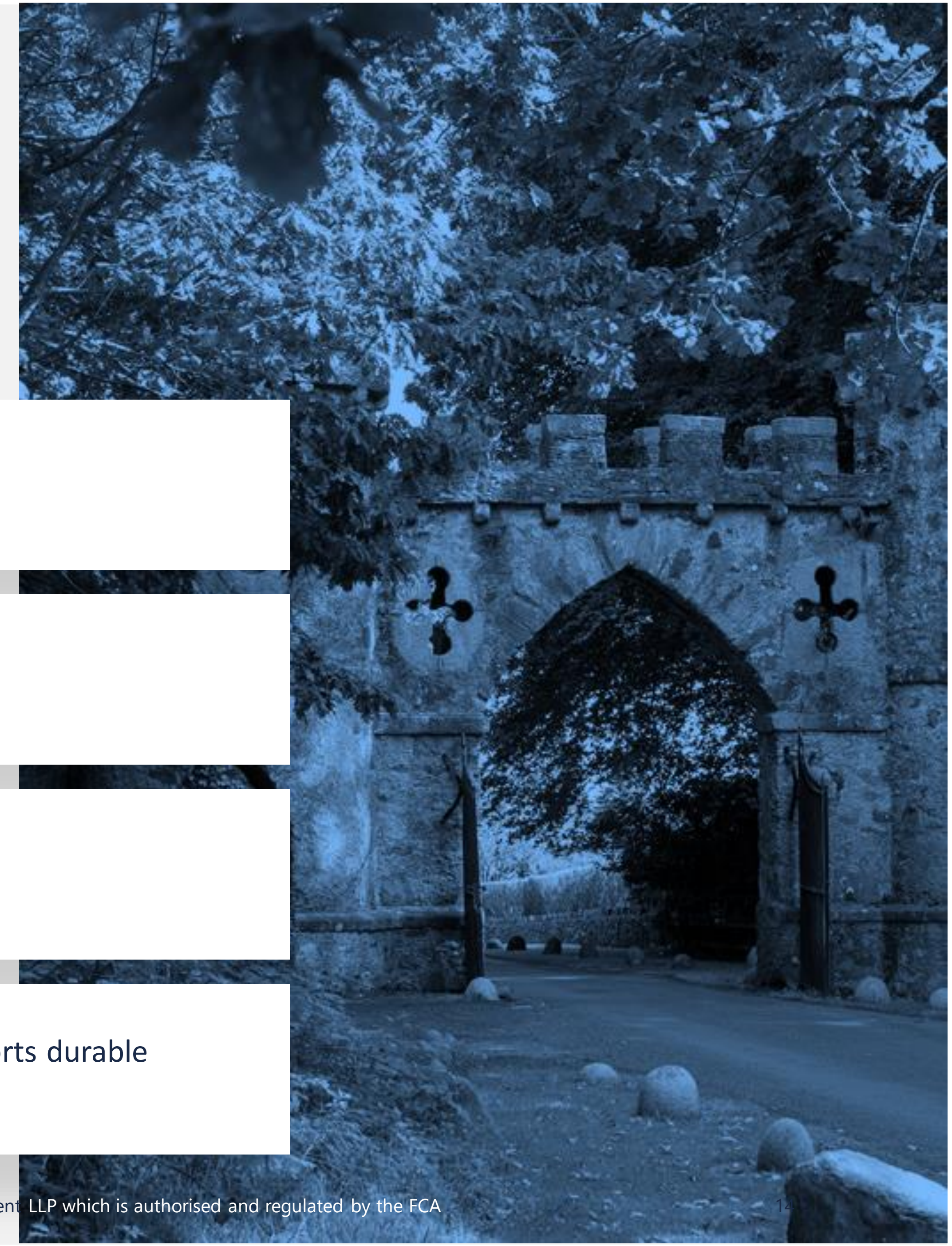
# Valuation



- Market cap £10.5bn, EV £11.5bn
- EBITDA £1bn, FCF £800mn, £1bn owner earnings
- Opportunity cost return on the equity assumes cost of capital reinvestment
- Yet current incremental returns are extremely high and evidence and logic supports durable barriers to entry

# Mark Walker ACA

Tollymore Investment Partners LLP

20 Birchin Lane | London | EC3V 9DU
www.tollymorepartners.com

mark@tollymorepartners.com