

Holland Views – Next plc – Price: £50; MCap: £6.7bn

## Agent of Change

Forget your Harvard case studies, Next plc today offers a masterclass in business innovation on this side of the pond and remains one of the best run retailers that we have encountered in our careers. Now back at c.10x PE thanks to Covid-19, investors are getting a great play on innovation and a future business model pivot priced at a good margin of safety.

Next is seen by some (and sometimes priced) as a dodo, i.e. a high street retailer facing extinction. Next *is* a high street retailer, but that is actually only a quarter of the story (literally! it's 23% of profits). More importantly it one of the most-trusted/respected UK retail brands to both consumers *and* we think, importantly, its retail peers. It is also a preeminent e-commerce logistics business that has perfected hybrid retailing and has begun monetising its considerable know-how by selling for third party retailers. Perhaps the analogies with Amazon's AWS, Ocado's licensing business or ASOS' Marketplace seem tenuous to some but Next's track record of proven commercial creativity warrant recognition on the part of investors. One thing is for sure, Next is a survivor as those around it face extinction.

Fig.1: 10x P/E: as cheap as it gets?



Source: Holland Advisors

In this note, almost 10 years on from our first recognition of Next's business innovation (*Phil Fisher under our noses, Oct 2011*), we suggest that Next's innovation is still firing on all cylinders. Unlike other better known innovators however Next has been innovating into a retail headwind rather than having a tailwind.

Next's shares have suffered a 'Covid derating' to 10x P/E as per Fig.1 so the behind the scenes and constant innovation offers much optionality to investors. We cheekily suggested in late 2018 that Next might even be a candidate for Amazon to acquire in order to gain skills it currently misses in own-label clothing and fashion distribution. The underlying logic of that speculative statement has only increased since then.

### "Gosh, how did we miss that"?

Everyone knows that Covid-19 has accelerated e-commerce adoption but most seem to assume that the winners of this trend are all US businesses. Shopify, a US lossmaking business that offers e-commerce solutions to retailers (with c.\$2bn of revenues), has seen market cap surge from \$40bn to \$120bn since March. March 2020 also saw the launch of Next's 'Total Platform' which, a bit like Ocado, offers a 'white-label' version of Next's entire logistics operation to third party retailers. Its early days but it's a damn interesting move by Wolfson – and he knows it.

*“(Next’s newly launched Total Platform) could be one of those ideas that in five years’ time, people would look back and go, oh my gosh, that was an important moment. Everyone was worrying about Coronavirus and no one noticed the launch of the service. But actually, this is a ground-breaking operation in the UK and could be important to the Group” – Simon Wolfson, March 2020*

### In this note

The central premise of this note could be summed-up as follows:

*“It is not the strongest of the species that survives, nor the most intelligent – It is the one that is most adaptable to change.” – Darwin*

Next’s track record is a testimony to Darwinism. From the development of its mail order catalogue business to its ‘hybrid’ online model and market-leading logistics platform: Next under Simon Wolfson has always had corporate dynamism sewn in its DNA.

The counter-argument is of course that Next is just running to standstill and the demise of the UK high street is too powerful a headwind to overcome. This may of course be true, but today’s low starting PE (10x historic), and ever reducing share of profits from stores (23%) provides much free optionality. Next, we conclude, can evolve to survive or even thrive post-Covid-19.

We offer three areas to consider.

#### **1. Trusted brand**

A ‘trusted brand’ is something of a cliché in the marketing industry but it is still important. Assessments of brand trust are usually between the customer and the retailer but we think such thinking on Next needs to now be broadened to also include the trust it is held in by its peers. Even the best online retailer in the world, loved by consumers for its customer service is still regarded with a fair degree of trepidation by its third-party marketplace and brands sellers; *“Are they promoting my product correctly, or letting it be undercut by others”* they ask themselves. Having a market position where those third party sellers trust you is important.

#### **2. Innovation – it can be all in the detail too**

Over the years we have discussed Next’s numerous innovative business practices. We have talked how Next would have impressed investing and business gurus from Phil Fisher to Jim Collins. Innovation gets highlighted in this note again because it can easily be overlooked in a time of crisis. We are intrigued by Next’s total platform and Wolfson’s throwaway comment that it is a ground breaking development in the UK retail market.

To view the remainder of this in-depth report, please contact Andrew Hollingworth, [Andrew@hollandadvisors.co.uk](mailto:Andrew@hollandadvisors.co.uk) for a complete PDF copy.

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