

26 September 2023

ASOS plc (the "Company")
Global Online Fashion Destination

Trading statement for the period ended 3 September 2023
Reducing inventory, improving profitability and generating cash

Summary unaudited financial results

	Period to 3 September 2023 (P4)			53 weeks to 3 September 2023 (FY23)		
	CCY change (adjusted & like-for-like) 1,2,3,4	CCY ¹ change	Reported change	CCY change (adjusted & like-for-like) 1,2,3,4	CCY ¹ change	Reported change
£m						
UK total sales	(16%)	(13%)	(13%)	(13%)	(12%)	(12%)
EU total sales	(7%)	(4%)	(4%)	(4%)	(3%)	(1%)
US total sales	(19%)	(16%)	(19%)	(14%)	(13%)	(6%)
ROW total sales	(28%)	(25%)	(26%)	(16%)	(30%)	(29%)
Total group revenue⁵	(15%)	(12%)	(12%)	(11%)	(11%)	(10%)

Strategic update and post close trading update

The Company has continued to execute on its Driving Change agenda. The following progress was made during the period:

- Adjusted H2 EBIT⁶ up more than 100% year-on-year ("YoY") and H2 cashflow improving by c.£140m despite double-digit revenue decline, reflecting material improvements to core profitability and strong inventory management.
- Sales declined 15% YoY in P4, in-line with guidance, with a stronger start to the period followed by weaker performance in July and August amidst a deterioration in the UK clothing market⁷.
- Despite the decline in sales, P4 will be another profitable quarter. c.£300m of profit improvement and cost savings have now been realised, in-line with the FY23 target set under the Driving Change agenda, driving order profitability⁸ up more than 35% YoY.
- Adjusted gross margin⁹ up c.150bps YoY in H2 (vs. guidance up c.200bps), driven primarily by lower freight and duty costs, partially offset by tactical investment in promotional activity to prioritise stock reduction in a challenging trading environment.
- As such, inventory down c.30% YoY, ahead of guidance, supporting the transition to the new commercial model in FY24 and beyond.
- Pivot to faster stock model on track with c.500 Test & React options launched on c.2-week lead times, with c.60% of each product launch selling through in seven days and stock turning c.3x faster than average.
- EBIT is expected around the bottom of the guided £40m to £60m range, with free cash inflow in H2 now expected to be c.£60m excluding refinancing costs¹⁰ (previously £150m), principally as a result of timing effects that will reverse in September and October. All other guidance remains unchanged.
- Cash and undrawn facilities totalling c.£430m at year-end, providing substantial liquidity following the refinancing and equity raise announced in May 2023.

José Antonio Ramos Calamonte, Chief Executive Officer, said:

"ASOS has delivered on the Driving Change agenda and as a consequence is a leaner and more resilient business twelve months after its launch. We have reduced our stock balance by c.30%, significantly improved the core profitability of the business and generated cash against a very challenging market backdrop. We continue to focus on bringing the best fashion and the most engaging proposition to our customers as we make progress on our journey to sustainably profitable and cash generative growth."

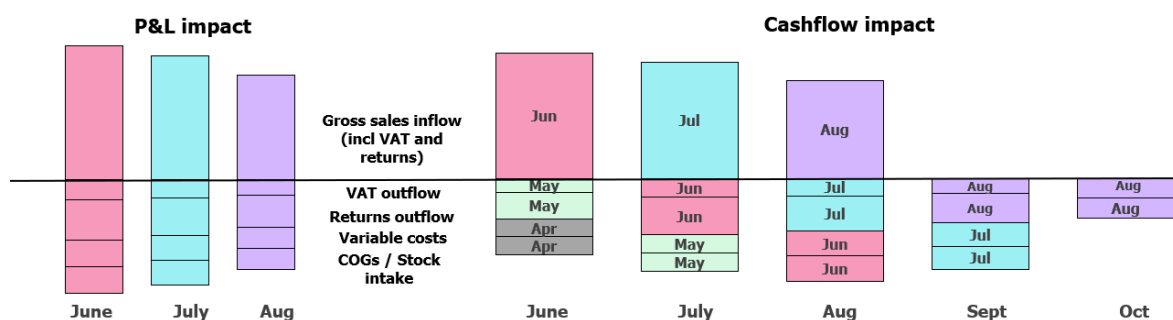
CEO review

In our P3 trading statement I explained the challenging position we were in as we entered FY23: we had more stock than we'd like, our buying processes were too deep and too slow, we lacked profitability and we had tension in our balance sheet with earnings-based covenants on our debt. To address these issues, we refinanced our balance sheet and rebuilt the leadership team. I also explained that we had begun to pivot to a new commercial model that puts speed at the heart of everything we do, bringing the most relevant and exciting fashion to our customers and making our operations more profitable and more cash generative.

Since then, we have continued to make progress: inventory is now down ahead of guidance, by c.30% YoY, order profitability is up over 35% as a result of targeted action to manage our least profitable customers. Most pleasingly, new product operating under our refreshed commercial model is performing well and our Test & React pilot has produced extremely positive results that we will scale up over the coming months.

At our H1 results in May, we reiterated our priorities for H2, focused around reducing inventory and improving our core profitability, and provided guidance for revenue growth, gross margin, EBIT, inventory and cash for the balance of the year. We have successfully reduced inventory more than planned while delivering sales and profit broadly in-line, but cash generation in the period has lagged, predominantly as a result of timing.

Across many of our markets (but most notably the UK), the hot weather drove a strong June and a wet July and August produced a weaker sales result. While the stronger than expected June and weaker than expected July and August broadly netted out to deliver sales and EBIT in-line with guidance, the phasing of sales impacted year-end cashflow. This is due to the immediate reduction in the cash inflow from our sales and the delayed reduction in the cash outflow on our costs, best illustrated by the simplified chart below. We typically receive cash from our sales gross of returns and sales tax immediately. However, the cash outflow from sales tax, returns and variable costs associated with those sales predominantly impact the following two months. As a result, cashflow was negatively impacted by c.£60m as weaker July and August gross sales coincided with higher sales costs from strong June trading. This impact will reverse during September and October.



*For illustrative purposes only. Sales and their associated variable costs impact the P&L concurrently. In contrast, the impact of lost gross sales on cashflow is immediate while the resulting lower variable costs lag.

Progress towards our new commercial model

There are two key stages to our new commercial model – converting our current stock into cash and then turning our stock faster on an ongoing basis to make our business model more cash generative. Over the last year (starting with our £130m stock write-down) we focused the business on selling excess stock and improving the way we buy stock – buying less on faster lead times with more flexibility. To achieve this, we have rewritten our commercial model to focus on speed – this means a better customer proposition, less inventory risk, higher margins and greater cash generation.

Despite the difficult trading environment, we have reduced inventory by c.30% during FY23 which has required higher levels of discounting in the short-term as well as reducing our intake, which as I previously shared, has resulted in reduced width and newness, negatively impacting revenue. This elevated level of discounting is likely to persist through FY24, and notably through P1, as we seek to clear last year's Autumn/Winter stock, which is now among our oldest inventory. We remain on track to return stock to pre-COVID levels by the end of FY24 (reducing stock below £600m), which will importantly continue to drive down our net debt.

Our newest, high fashion product is selling very well, with a 50% increase in 4-week sell-through since the start of the year. However, due to our reduced stock intake and seasonally low newness in July and August, new stock is a low proportion of sales and the strong performance on new product has therefore not been enough to offset the challenging discount season for clearance product. In September, the proportion of our stock which is less than a month old will have almost doubled from the levels seen in July, which improves the proposition for our customers.

Over the course of the last year, we have made substantial progress on initiatives to improve our stock efficiency on an ongoing basis, and in FY24 we will see these measures ramp up. On the own-brand side, our Test & React pilot has been a resounding success. As a reminder, we define Test & React to be product that moves from initial design to available on site in less than three weeks. This enables us to react to fashion trends and produce product we know our customers want. We have now launched c.500 Test & React options, reducing lead times to around two weeks and with close to two-thirds of each product run selling through in the first seven days. When it comes to partner brands, the technology and team are now in place to enable us to scale up the number of brands operating on the Partner Fulfils model in the next twelve months, providing additional width and depth to our assortment while simultaneously reducing inventory risk and enabling us to better curate our local product offering in international markets.

These initiatives will be transformative for our customer proposition and for our ability to generate profit and cash. There is still a lot for us to learn, but we have an experienced and dedicated team. To support this transformation, I have appointed Elena Martínez Ortiz as Senior Product Director. Elena joined ASOS as Womenswear Director in August 2022, following nearly 18 years at Inditex, where she most recently held the role of Product Director. Elena has been instrumental in the launch of Test & React and is the driving force behind our speed to market initiatives. In her new role, Elena becomes the single leader of our product organisation, with responsibility for all ASOS-owned brands and partner brands sold through ASOS. This will simplify our decision-making and hence accelerate our speed to market, a pivotal driver of the relevance of our product.

Improving profitability

Our new commercial model improves our profitability, requiring lower investment into discounting as well as potentially increasing basket value and customer lifetime value once fully operational. We have already seen these benefits on a small scale through our Test & React trials with no promotional investment needed to sell through c.60% of each product launch in seven days across c.500 options produced to date, more than offsetting the higher cost of goods for product created under this model. On our partner brands, our rollout of DTC ("Direct-to-Consumer") solutions including Partner Fulfils will also reduce the risk of inventory overhang typical of branded product sold through our Retail model that is often ordered around 9 months ahead of the point of purchase.

These benefits will accelerate as we scale up our flexible stock models. However, the core improvements we have implemented over FY23 to drive the more than 35% YoY improvement in order profitability and 100% improvement in H2 EBIT include:

- Targeted action to improve the behaviour of our least profitable customers including reduced marketing contact and restrictions on Buy Now, Pay Later solutions at checkout, with a positive impact on our return rate since these changes were introduced. We have also recently launched personalised marketing to improve the profitability of our entire customer base.
- Charging for returns in a number of non-core markets or introducing charges for returns made after fourteen days but within the twenty-eight day returns window (and hence maximising our opportunity to resell returned product at full price).
- Optimisation of the distribution network resulting in a c.20% reduction in our UK fixed warehouse cost per unit despite inflation headwinds.

While some of these profitability measures have led to higher levels of churn (23.3m active customers at FY23, down c.9% YoY¹¹ and c.3% from P3) we have exited our least profitable orders and customers as evidenced by the c.35% increase in profit per order over the period and lower than expected returns rate. We are laying the right foundations for sustainably profitable and cash generative growth. We will provide a more detailed update on our FY24 strategy alongside our FY23 results.

FY23 results announcement

Our FY23 results announcement and analyst presentation will take place on 25 October 2023.

Notes

¹ Constant currency is calculated to take account of hedged rate movements on hedged sales and spot rate movements on unhedged sales.

² Adjusted revenue excludes non-underlying jobber income associated with the transition to the new Commercial Model across FY23.

³ Like-for-like sales are adjusted to remove the benefit of the additional three days of trading in P4 FY23 (1 June to 3 September 2023) vs. P4 FY22 (1 June to 31 August 2022) and the additional three days of trading in FY23 (1 September 2022 to 3 September 2023) vs. FY22 (1 September 2021 to 31 August 2023). The impact of the additional days is c.3% at group level in P4 FY23 and c.1% in FY23.

⁴ All numbers subject to rounding throughout this document. Revenue is stated at constant currency, adjusted for non-underlying items, based on like-for-like sales (as defined in note 3 above) and excludes Russia from the FY22 comparative base period following the decision to suspend trade in Russia on 2 March 2022, unless otherwise stated. Any other adjusted measures exclude non-underlying items.

⁵ Includes retail sales, wholesale and income from other services comprising delivery receipt payments, marketing services and commission on partner-fulfilled sales.

⁶ Adjusted EBIT is Earnings before Interest and Tax excluding non-underlying items.

⁷ BRC-KPMG Retail Sales Monitor, July / August 2023 showing decline in UK online non-food sales in 4 weeks to 26 August 2023. Kantar data total online market |16-35 year old (total) | 12 weeks ending 25 June 2023, 23 July 2023 and 20 August 2023 showing online adultwear spend among 16-35 year old cohort in decline and continuing to underperform the wider market.

⁸ Profit per order based on variable contribution. YTD profit per order based off September 2022 – July 2023 data vs September 2021- July 2022.

⁹ H2 FY23 adjusted gross margin excludes the gross profit impact of the stock write-off announced at FY22.

¹⁰ Free cashflow guidance is excluding all incremental refinancing costs (interest, arrangement and advisor fees).

¹¹ Active customers are defined as having shopped in the last 12 months as at 3 September 2023, and are quoted to exclude Russian active customers. Including Russian customers, active customers have declined c.12% YoY and c.3% from P3 2023.

Investor and Analyst conference call:

ASOS will be hosting a conference call for analysts and investors at 8.30am (UK time) on 26th September 2023. To access live please dial +44 20 4587 0498 / +44 800 358 1035, and use passcode: 763128.

A recording of this webcast will be available on the ASOS Plc website later today:
<https://www.asosplc.com/investor-relations/>

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Background note

ASOS is a destination for fashion-loving 20-somethings around the world, with a purpose to give its customers the confidence to be whoever they want to be. Through its app and mobile/desktop web experience, available in nine languages and in over 200 markets, ASOS customers can shop a curated edit of nearly 50,000 products, sourced from nearly 900 global and local third-party brands alongside a mix of fashion-led own-brand labels – ASOS Design, ASOS Edition, ASOS 4505, Collusion, Reclaimed Vintage, Topshop, Topman, Miss Selfridge and HIIT. ASOS aims to give all of its customers a truly frictionless experience, with an ever-greater number of different payment methods and hundreds of local deliveries and return options, including Next-Day Delivery and Same-Day Delivery, dispatched from state-of-the-art fulfilment centres in the UK, US and Germany.

Forward looking statements:

This announcement may include statements that are, or may be deemed to be, “forward-looking statements” (including words such as “believe”, “expect”, “estimate”, “intend”, “anticipate” and words of similar meaning). By their nature, forward-looking statements involve risk and uncertainty since they relate to future events and circumstances, and actual results may, and often do, differ materially from any forward-looking statements. Any forward-looking statements in this announcement reflect management’s view with respect to future events as at the date of this announcement. Save as required by applicable law, the Company undertakes no obligation to publicly revise any forward-looking statements in this announcement, whether following any change in its expectations or to reflect events or circumstances after the date of this announcement.