



Boohoo.com

Sales surge as coronavirus lockdowns forces more shoppers online

MarketLine Analyst Insight

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1. Overview

1.1. Catalyst

The coronavirus pandemic has thrown much of the world into chaos and affected a number of markets and industries. The apparel market is no exception. The fashion industry was forced to shift its focus to a 'locked-down' market as soon as the crisis began, switching all sales from in-store to online.

Like many others, Boohoo's share price dipped along with the rest of the stock market post-lockdown, but it is one of the only FTSE companies to have done well since. The company has seen an exponential rise in its online sales whilst fast fashion competitor Primark has suffered as it does not have an online presence.

1.2. Summary

The Boohoo group – which also owns brands including PrettyLittleThing and Nasty Gal; has continued to see its profit and sales surge during the coronavirus pandemic. The online retailer started to push leisurewear and pajamas at the front of its websites during lockdown.

The company's share price dipped along with the rest of the stock market post-lockdown, but it's one of the only FTSE companies to have recovered well since. In fact the company is now in a better position than it was throughout the previous fiscal year. The full year results for the group showed sales up 44%.

The results are a marked contrast to retail rival Primark, which recently announced it would furlough 68,000 workers across Europe as sales plummeted. Retailer Laura Ashley also announced at the end of March 2020 that the company would cut 268 jobs after initially announcing it would make up to 721 redundancies when the retailer slid into administration.

Fast fashion retailer Boohoo routinely launches hundreds of new styles on its website. Whilst the company was able to report strong growth in demand for its £6 (\$8) dresses and £10 (\$13) jeans, it is however questionable how long the retailer can continue growing with such heavy discounting. According to Boohoo selling dresses for as low as £5 (\$6) is a loss leader. Whilst the company reportedly makes no profit on these items, it is a marketing tool designed to drive visitors to the website.

Recently, the retailer has also come under fire for launching fashion face masks which are not fit for protection during the pandemic. The Union of Shop, Distributive and Allied Workers (Usdaw) said they were 'scandalous' and the company has also received public backlash.

Moreover, in 2019 Boohoo was named as one of the least sustainable fashion brands in the UK in a report published by the Environmental Audit Committee (EAC).

Societal awareness has shifted to more eco-friendly, sustainable brands. This shift in public opinion is putting those that refuse to adapt in danger of going out of business altogether. This is an area Boohoo needs to assess in a bid to maintain its position and consumer base.

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2. Boohoo sees demand grow during pandemic but future of brand could be under threat

Many high street retailers such as BHS, New Look, and Marks & Spencer have struggled due to structural shift and a change in consumers shopping habits with more people buying online. This has given rise to online retailers like Boohoo; the retailer routinely launches hundreds of new styles on its website and has seen its sales increase. Its business model has allowed the company to continue growing during the pandemic. In contrast, its rival Primark has suffered.

However, recent times has seen traditional fashion retailers come under fire as societal awareness has shifted to more eco-friendly, sustainable brands. This shift in public opinion is putting those that refuse to adapt in danger of going out of business altogether.

Boohoo was named as one of the least sustainable fashion brands in the UK; it is questionable whether this online retailer will be able to retain its position and consumer base in the future unless it improves its ethical standards.

2.1. Full year results for the group showed sales up 44%

The full year results for the group showed sales up 44% to £1.23bn (\$1.55bn) and pre-tax profits up 54% to £92.2m (\$1115m). Sales for the main Boohoo label grew by 38% to £600m (\$754m) last year, while PrettyLittleThing also grew sales by 38% to £516.3m (\$648m). Its Nasty Gal brand had a record year, doubling sales from last year to £98m (\$123m).

The results are a marked contrast to retail rival Primark, during the coronavirus crisis the company made the decision to furlough 68,000 workers across Europe as sales plummeted. The chain was forced to temporarily close 376 stores across Europe, including 189 branches in the UK. Primark has no online store, as a result its monthly sales dropped from £650m (\$817) to zero in March 2020.

The coronavirus pandemic has had a detrimental impact on consumer confidence; British consumer confidence in early May dipped back down to its joint-lowest level since the global financial crisis in 2009, despite moves by the government to start loosening its coronavirus lockdown.

According to the latest consumer confidence index from polling firm Gfk; this slipped to -34 in the May 1-14 period from -33 during the second half of April. The firm also highlights that 'with unemployment claims rising by the highest rate on record and warnings of a severe recession and possible tax hikes; the damage done by the coronavirus pandemic to the UK economic landscape has been laid bare'.

According to GlobalData, fears surrounding the impact of Covid-19 hit the world's top economies, with key markets losing 20–70% of their value in the year-to-date. Many economists have cut their GDP forecasts; Consensus GDP growth for 2020 is currently 1% and many predict a recession.

Boohoo's business model is based around cheap clothing, its £5 dresses (\$6) attract thousands of consumers and demand for its affordable clothing has surged especially with consumers who are mindful of their spending since the pandemic.

Products and prices like these have driven Boohoos profits, bucking the trend of struggling high street retailers across the country. For example, Debenhams has voluntarily entered into administration for the second time in a year to fend off a collapse into liquidation following the coronavirus outbreak.

However, it is questionable how long the retailer can continue growing with such heavy discounting. According to Boohoo selling dresses for as low as £5 (\$6) is a loss leader. Whilst the company reportedly makes no profit on these items, it is a marketing tool designed to drive visitors to the website.

2.2. Boohoo criticized for selling fashion face mask amid coronavirus pandemic

Boohoo has been criticized for selling fashion face masks during the coronavirus pandemic. The £5 masks came with messages such as "Eat, sleep, isolate, repeat" or "If you can read this, you are too close" and the company has been blasted for showing lack of sensitivity during a global pandemic. The Union of Shop, Distributive and Allied Workers (Usdaw) said the fashion masks were "scandalous".

This move will undoubtedly have a negative impact on the company's brand name. Maintaining a positive brand reputation increases customer loyalty, builds confidence in the market, and helps position the company as a market leader. Brand such as Boohoo have a social responsibility to their consumers; the face mask was also publically criticized by an NHS worker who felt the company was exploiting the current crisis.

The company has however since apologized and removed the masks from sale, insisting the masks were not designed for protection.

Figure 1: Boohoo fashion face mask



Source: Boohoo.com

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2.3. Societal awareness has shifted to more eco-friendly, sustainable brands

Behind Boohoo's cheap price tag there is an environmental and social cost not contained on the label; this is an area the fast fashion retailer has been scrutinized for. In recent times there has been a surge in apparel retailers offering sustainable clothing ranges to increase their consumer base, as societal awareness has shifted to more eco-friendly, sustainable brands.

A report by MPS into the fashion industry outlined concerns about the effects of the fashion industry on the environment. In terms of environmental degradation, the textile industry creates 1.2bn tonnes of CO2 a year, more than international

aviation and shipping combined, consumes lake-sized volumes of water, and creates chemical and plastic pollution. As much as 35% of microplastics found in the ocean come from synthetic clothing.

Boohoo and Misguided have been named as two of the least sustainable fashion brands in the UK in a report published by the Environmental Audit Committee (EAC).

As a result Boohoo has been at the forefront of a number of campaigns highlighting the damage 'throwaway fast fashion culture' is having on the environment and has also been linked to the exploitation of low-paid workers in UK factories.

2.3.1. Boohoo launches its first dedicated recycled fashion range in response

In response to this, in June 2019, Boohoo launched its first dedicated recycled fashion range. Made using 95% recycled polyester and 5% elastin, the fabrics in the range are created from plastic directed away from landfill and repurposed to produce new yarn.

However, according to the BBC the range was unveiled on the same day the Environmental Audit Committee (EAC) issued a critical report on the fast fashion industry that mentioned Boohoo. This raises questions about whether the online retailer used this line as a marketing tool to detract from the findings of the report.

Many are skeptical that Boohoo will make ethical fashion a focal point for its many collections, unless it becomes a viable and profitable business. Fast fashion retailers are companies with a high product turnover, manufacturing vast amounts of clothing and retailing them at cheap prices. The real problem is that these clothes are not meant to last and this is what Boohoo's business model is centered around.

It is clear that Boohoo will have to do a lot more than just introduce a recycled fashion line if the company wants to demonstrate its commitment to sustainability. Many online retailers such as Zalando, have gone above and beyond to demonstrate their commitment to the cause. On May, 28, 2020, the company announced that sustainability will be a requirement for all brands on the platform from 2023. The move is part of Zalando's ongoing commitment to offering its consumers sustainable fashion options. Currently, the online retailer offers 20,000 items flagged with sustainability from over 240 different brands. Brands that sell their products on Zalando will have to submit supply chain information. If they do not meet requirements set out by the company, they will have to commit to improvements or stop selling on the site altogether.

Similarly, traditional retailers have also been proactive in their approach; Spanish label Mango has declared its commitment towards eco-friendly fashion through its Take Action program, its goal is for 50% of the cotton used in its collections to be sourced sustainably by 2022.

In 2019, the G7 Fashion Pact was launched, a global initiative aimed at implementing more sustainable practices in the fashion industry. While still in its early stages, the Fashion Pact is aiming to be adopted by 20% of the global fashion industry. So far, 56 fashion and textile companies have signed the pact, including Adidas, Burberry, Nordstrom, and Inditex.

If Boohoo does not adapt to the change in trend then it runs the danger of losing its consumer base in the future which in turn will adversely affect its revenues.

Figure 2: Boohoo's recycled fashion range



Source: Boohoo.com

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2.4. Boohoo attacked for its deal to buy out PrettyLittleThing

Boohoo has also recently faced conflict of interest criticisms as it bought 100% of its PrettyLittleThing subsidiary in a deal potentially worth £329m (\$414m). Boohoo initially purchased two thirds of its smaller rival in 2017 for just £3.3m (\$4.1m) and in May 2020 it was announced that it had bought out a minority stake of it its PrettyLittleThing brand for more than £260m (\$322m).

According to the company, the deal is for an initial consideration of £269.8m (\$337m), with a further £54m (\$65m) of consideration "contingent on Boohoo's share price averaging 491p per share over a six month period between completion and a longstop date of 14 March 2024."

The deal will see PrettyLittleThing founder Umar Kamani – who is the son of Boohoo chairman and co-founder Mahmud Kamani – and his fellow shareholders receive £161.9m (\$202m) in cash, with the rest of the payment coming in Boohoo shares.

Short-seller, Shadowfall had criticized the amount of money the retailer was likely to have spent on buying out PrettyLittleThing's shareholders. Shadowfall published a 53-page report in May 2020, alleging Boohoo had provided a "misleading impression" of its free cash flow position.

Boohoo has denied all allegations, however the conflict of interest criticisms will adversely affect the company's reputation.

3. Appendix

3.1. Further reading

UK- Apparel Retail - MarketLine Industry Profile

Global- Apparel Retail- MarketLine Industry Profile

Global- Online Retail- MarketLine Industry Profile

3.2. Sources

Boohoo

www.boohoo.com

Primark

www.primark.com

4. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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