THE UK SHAREHOLDERS' ASSOCIATION INVESTIGATES AIM COMPANIES' ANNUAL REPORTS

ASOS plc – Number 1 in Investors Chronicle 'AIM 100' April 2015

Annual Report & Accounts for year ended 31 August 2015

Despite being asked to provide a printed copy of its annual report, ASOS either could not or would not do so, preferring instead to print out some (not all) of the pages and send these instead, individually printed onto plain paper and stapled together. This is not the way to develop good investor relations. We found it necessary to review the online report instead, which of course has its disadvantages.

The P &L report doesn't appear till page 63 of 98. We do get a lot of useful information in those first 62 pages but in this instance investors should be able to see a report half this size (ie 50 pages) providing essential financial information. The PR people can then be let loose on a separate 50-page report, or a part B, to provide all the touchy/feely stuff that may be important for some, particularly a customer facing company like ASOS. Mixing the two can inhibit proper analysis of a company's performance, position and prospects.

However, we are pleased to observe that the ASOS chairman's report is clear and concise. It outlines the business in one line: *"We remain fixed on being the world's No.1 fashion destination for 20-somethings".* We like that. It is a specific and measurable goal. It tells us plainly what business this company is in and how it intends to make money. We did not like the chairman's use of the phrase, *"nailing the basics",* which seems more suitable for the customer base than the company's owners.

Next, the chief executive's and finance chief's reports. Here, we think it is a mistake to mix in all the case studies and PR guff, which should be in a separate part B. The actual meat of what these two executives had to say is good but it is lost in the verbiage.

The risk report covers all of the risks comprehensively, including IT. This is a significant risk for a web-only retailer. In a previous year's report, the chairman tried to assert that problems with IT were an external factor beyond the company's control, but that is disingenuous at best, we suggest. The risk section does now acknowledge mitigating factors to be the internal controls within the company.

The corporate responsibility section appears comprehensive and would presumably be useful for those with an ethical approach to investing.

The board section treats us to a second photograph of the CEO and Finance Chief. Very nice, but unnecessary. Overall a useful set of biographical details and the ratio of 4 to 4 male to female is impressive. The board committees are all fully explained. All good stuff.

The numbers are laid out very well, but two issues came to our attention.

- **Intangible Assets** We like assets to be tangible. We have to live with 'goodwill' in these asset light times, but do have difficulty with the size of ASOS's capitalised intangible assets at £75m (2014 £62.5m). Admittedly, in this case it is software systems, bought-in and developed in-house with amortisation over 3 to 5 years – mainly 5 to judge by the figures. In the year under review, amortisation was £14.8m with £4.6m net written off. The general dilemma of valuing and amortising software is noted in the Risk Analysis but we cannot find any reference to the specific write off except as a footnote to Note 11. Everyone has software problems and this £4.6m is material enough to deserve more investigation/explanation.

- **Returns** This makes us a bit suspicious. We had to go to the retail web site to find that their returns period is 28 days. Nowhere in the text or notes could we find any specific reference to a warranty provision, so we must assume that it is the major element in accruals of £108.3m (2014 £79.5m), Note 11. Two points about this. First, the number has gone up by 36% against an 18% rise in sales. Second, if we assume that 80% of the total accrual is warranty and then take out VAT, the remaining figure represents 22 days' sales, suggesting a very high rate of returns. There must be something wrong with our cursory breakdown of the numbers but that's what happens if there isn't an explanation for a highly significant figure.

Overall we like the amount of information provided and importantly the layout of all of the report is very good, being predominantly black type on white paper so no obfuscating fonts or colour combinations. A good report in its presentation and worthy of a main market company, not just an AIM listed company. It will be hard to beat for presentation, content and length.

MG/HB December 2015