Boohoo might not return to profit until 2026, analysts warn

A warning has been issued over when fashion giant Boohoo will return to profit as it battles a sharp drop in sales.

Shares in the Manchester-headquartered group fell this week after revealing its sales are expected to be cut by 12% during its current financial year.

Boohoo, whose brands include PrettyLittleThing, Nasty Gal and Debenhams, said extended delivery times and the cost of living crisis had impacted its results.

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However, the group said it would still hit expectations during its financial year.

So far, in the 10 months to the end of December, revenue dipped from a little under £1.7bn to just over £1.5bn, a 10% fall.

Now analysists at Panmure Gordon have warned that Boohoo will not breakeven until its 2024/25 financial year.

It said: “Boohoo’s P3 trading update has resulted in further profit forecast downgrades, in our case more significantly to FY2/24 where we now expect a more difficult 1H to result in an unchanged level of loss against previously a move back towards breakeven.

“The breakeven is now achieved in FY2/25 in our forecasting.

Boohoo is headquartered in Manchester
(Image: Boohoo)

“Post-Covid disruption impacts have de-stabilised most virtual retailers to a significant degree.

“In Boohoo’s case they have also highlighted the vulnerability of its distribution mis-match with its geographic sales aspirations.

“We have sympathy with a company encouraged to grow fast being impacted by unprecedented conditions albeit mistakes have clearly been made here as well.

“We are conscious that forecasting (our own included) has proved highly inaccurate here and that in theory virtual retailers should be capable of a more flexible response to changing conditions than those with more fixed cost bases.

“So we may prove to have been overly cautious in our expectation.

“Our target price revision (-50%) reflects the difficulties in gauging medium-longer term cash flows given the current volatility.

“Hopefully the confluence of post-Covid demand/channel normalisation and the various negative disruptions to the ability and cost to fulfil will bottom-out in calendar 2023.”

In a statement issued on Thursday, Boohoo’s chief executive John Lyttle said: “Performance in the period is in line with expectations and reflects the normalisation of the channel shift online over the last 12 months, but demonstrates the significant market share gains the group has made over the last three years.

“Looking ahead, whilst the demand outlook is uncertain due to macro-economic factors, cost inflation is expected to begin to moderate in the second half of the year.

“We have reduced inventory by 27% year on year and with this focus on careful inventory management, strong cost control and cash management, we will continue to drive operational and cost efficiency across the business,” he said.

Hollywood actress Megan Fox has a range of clothes with Boohoo

"The group has continued to invest in key strategic priorities that will enable future growth, and the progress made gives us confidence that as macro-economic headwinds ease it will be well-positioned to rebound strongly."

The figures come after BusinessLive reported that Boohoo was preparing to cut around 100 jobs from its London office connected with the former Arcadia brands Burton, Dorothy Perkins and Wallis which it rescued from administration.

At the end of 2022 it was also revealed how the former Arcadia brands and Debenhams had performed over their most recent financial years.

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