

## PRESS ANNOUNCEMENT



For immediate release

July 1999

### FULL YEAR PRELIMINARY INTERIM RESULTS

**Games Workshop Group PLC (“Games Workshop” or the “Group”) announces its full year results for the year ended 30 May 1999**

#### **Chairman’s Statement**

##### **Results**

I am pleased to report record profits and sales. Profit before tax for the year to 30 May 1999 rose by 8% from £11.5 million to £12.5 million on sales 12% higher at £72.6 million compared to £64.8 million in 1997/98. These results are impressive in the light of the recent period of restructuring and reorganisation.

Earnings per share of 26.0p were 8% ahead of the previous year and the board is pleased to recommend a final net dividend of 6.14 pence per share, which taken together with a net dividend of 3.56 pence paid at the interim, results in a total net dividend for the year of 9.7 pence, an increase of 8%.

##### **Board and Management**

On 18 June 1999 the board was restructured and as a result the majority of the directors are now non-executive. At the same time Michael Sherwin joined the board as finance director from Courtaulds Textiles PLC where he was group financial controller. Michael has gained extensive experience of treasury management, international tax planning and financial systems in a company with over 23,000 employees in 17 countries. Dick Hosie remains as company secretary and in addition has taken responsibility for intellectual property and licensing management, internal audit and investor relations.

At the same time we formalised our international operating structure and have created an international operating board.

These new structures represent a significant strengthening of both the board’s and management’s control of the Group.

##### **Current trading and prospects**

The new financial year has begun well and total sales to date are ahead of last year. Continuing store opening programmes are in place in all of our operations and 4 new stores have opened since the year end.

In looking back over the achievements of Chris Prentice and his team during the past year I am proud to continue to be associated with Games Workshop. Much has been

achieved in the period although the full benefits of this have not yet been reflected in the results. I have no doubt that they will be.

The Hobby continues to grow strongly. The test is whether Games Workshop can continue to serve it — and it seems to me that the prospects for the business with its strengthened senior management structure and the boundless energy to succeed are as gloriously rich as ever.

**T H F Kirby**  
**Chairman**

## **Chief Executive's Report**

### **A transition period**

In my first year as chief executive we have made good progress towards the three year goals I set out in last year's annual report. Although this is not fully reflected in the operating profit growth this year, I believe that the work done and the changes underway put the Group in a much stronger position to achieve our long term potential.

### **Sales development**

The intention is to build markets for Games Workshop in every one of the world's major economies. The UK is our most developed territory and we use this to judge just how far we have got to go in all the others. Against this measure the US operation is currently operating at one fifth of its potential and the German operation at one quarter.

### **New sales channels**

In addition to starting operations in markets where we do not currently operate we are looking to develop further our Internet sales engine. We will also be exploiting the powerful imagery we have created within other associated areas. This will be primarily through licences, however we have already started publishing and larger scale collectables businesses ourselves which we will be looking to exploit.

### **Product**

We have continued to invest in innovative new products which we believe make the Games Workshop Hobby both more attractive and more accessible. The new plastic regiment sets are good examples of this — making it easier for enthusiasts to build large armies whilst at the same time reducing the cost per soldier. Warhammer 40,000 was successfully re-launched in the year in line with our 8 year product cycles for our core products. Next Christmas will see the launch of an entirely new system — Mordheim (City of the Damned) — which is a skirmish game set in the Warhammer world.

### **An international business**

With 60% of our sales outside the UK, the Group is now truly international. Recognising this, we created an international management structure whereby decisions which are of major strategic importance have real input from our most senior management world-wide. These meetings, which rotate around the world, allow for coordinated plans to be developed and executed.

### **Investing in staff**

Our management and staff are our lifeblood and the key to our future prosperity. Without their energy, enthusiasm, and commitment we would be just another corporation. During the year we appointed a director of training who has been charged with putting into place comprehensive management development programs. These will be used both by our existing staff to enhance their skill base and for the new

"graduate" training program that we will launch with its first intake during this year. For the first time we have completed a staff attitude survey to find out areas where we can improve in the eyes of our staff. We are backing this up with suggestion schemes for the sales and office staff and cell based production for those in manufacturing. We have also improved communications with our staff through the development of our internal web site and monthly team briefings.

### **Operational summary**

We now have direct operations covering nine countries split into four geographic territories — the UK (servicing the UK, Ireland, Northern and Eastern Europe and Japan); the Americas (USA, Canada and South America); Continental Europe (France, Spain, Germany and Italy) and Asia Pacific (Australia, New Zealand, Hong Kong and the "tiger" countries).

In each of our direct operations there is a backbone of revenue formed by sales to independent retailers (48% of total sales) augmented by a gradually developing chain of Games Workshop Hobby centres ("own stores"; 43%) and supported by mail order and the Internet (9%).

### **Sales to independent retailers**

Overall our sales through independent retailers showed growth of only 2% in the year. There were a number of reasons for this including management being stretched as a result of our rapid growth and a lack of achievable marketing plans. During the year we have recruited more experienced professional sales managers and have developed new sales initiatives for these customers ready for a re-launch during 1999-2000.

### **Own stores**

Total sales increased by 22%. One of the major achievements of the year was the restoration of strong like for like growth (+11%) in our retail chains around the world. This shows the resilience of the Hobby and gives a great deal of confidence that the basic formula remains sound. In addition we opened a further 25 stores, seven of these in the USA — more than we opened in any other territory including the UK.

### **Mail order**

Overall mail order sales grew by 27% to £6.4 million. Our web sales have grown rapidly and were \$730,000 (£445,000) for the year. Although these sales were primarily in the USA we intend to extend this to the rest of the world allowing us to supply a component level service in every country in which we operate.

### **Promotional activity**

Every year we run a major gaming and miniatures painting day at the National Indoor Arena Birmingham attracting 9,000 people. We have also run smaller versions of this in France and the USA and this year we added events in Germany, Australia and Hong Kong. Including the more regular Games Workshop run tournaments more than 18,000 people attended our events last year. Sales of our monthly magazine White Dwarf also continue to rise with our circulation reaching 152,000 by the end of the year.

### **UK (sales growth +6%)**

Strong like for like growth in our 120-store retail chain of 12% was offset by a fall in our sales through the UK independent sector and our export markets handled by the UK. As we have grown geographically we have used many of our best UK managers in overseas positions and as a result the UK management structure had been weakened. During the year we recruited new managers for both sales (UK and export) and to head up our retail chain.

During the year we translated Warhammer and a range of supporting products into Japanese - making our first sales in December 1998. Going forward we are seeking experienced Japanese distributors to help us to promote the product more widely.

**The Americas (+18%)**

Sales through independent retailers remain the largest sector and these grew by 9% in the period. In addition, we have strengthened our retail team and have started to accelerate our store opening program now that we are more confident that we have a formula that works for the USA and Canada. We will continue to find sites for our own stores that do not conflict with the better independent retailers, so that we are genuinely building the market rather than cannibalising our own sales. The web sales have underpinned strong mail order growth.

**Continental Europe (+20%)**

All of our retail chains (France 20 stores, Spain 10, Germany 10, Italy 3) showed good like for like growth. We opened a total of 7 stores in the period — an increase of 19% on the 37 we had at the start of the year. In both Germany and Italy sales to independent retailers suffered through not having experienced sales managers in place early enough. However sales were significantly stronger in both France and Spain. The senior management across Continental Europe meet regularly and have been acting together to solve common problems and develop new ideas.

**Asia Pacific (-3%)**

We have made progress with sales into the Philippines, Taiwan and Korea out of our base in Hong Kong. Sales in these areas were up 184% although the above gains were offset by a slight downturn in sales within Australia and New Zealand.

**Manufacturing**

We started the year with our manufacturing operation slightly out of step with sales resulting in an inability to meet the full demand. During the year, we have taken out complexity from the product ranges, developed improved production planning (including MRP) and clarified responsibilities within the manufacturing operation. This has resulted in improved profitability and efficiency. Although we did not see the full benefits during the year, I am confident that these will flow from the work that has been completed to date and from the initiatives now underway.

**C J Prentice**  
**Chief Executive**

---

**Preliminary announcement of audited Group results**

**for the year ended 30 May 1999**

**Group Profit and Loss Account**

	<b>Year to</b>	<b>Year to</b>
	<b>30 May 1999</b>	<b>31 May 1998</b>
	<b>£000</b>	<b>£000</b>
<b>Turnover</b>	<b>72,565</b>	<b>64,845</b>
Cost of sales	<b>(23,624)</b>	<b>(20,937)</b>

---

<b>Gross profit</b>	<b>48,941</b>	43,908
Net operating expenses	(36,390)	(32,715)
<hr/>		
<b>Operating profit before royalty income</b>	<b>12,551</b>	11,193
Royalty income	<b>249</b>	490
<hr/>		
<b>Operating profit</b>	<b>12,800</b>	11,683
Interest payable and similar charges	<b>(453)</b>	(289)
Interest receivable	<b>117</b>	115
<hr/>		
<b>Profit on ordinary activities before taxation</b>	<b>12,464</b>	11,509
Taxation on profit on ordinary activities	<b>(4,378)</b>	(4,023)
<hr/>		
<b>Profit for the financial year</b>	<b>8,086</b>	7,486
Dividends	<b>(3,022)</b>	(2,800)
<hr/>		
<b>Profit retained for the financial year</b>	<b>5,064</b>	4,686
<hr/>		
Basic earnings per ordinary share	<b>26.0p</b>	24.1p
Fully diluted earnings per ordinary share	<b>25.4p</b>	23.4p
Net dividend per ordinary share	<b>9.7p</b>	9.0p

#### Statement of Total Recognised Gains

	Year to 30 May 1999	Year to 31 May 1998
	£000	£000
Profit for the financial year	<b>8,086</b>	7,486
Currency translation differences on foreign currency net investments	<b>39</b>	(434)
<hr/>		
<b>Total recognised gains relating to the year</b>	<b>8,125</b>	7,052

#### Group Balance Sheet

	As at 30 May 1999	As at 31 May 1998
--	----------------------	----------------------

	£000	£000
<b>Fixed assets</b>		
Goodwill	1,996	–
Tangible assets	14,755	13,581
	<b>16,751</b>	13,581
<b>Current assets</b>		
Stocks	9,261	8,059
Debtors	6,501	7,400
Cash at bank and in hand	5,172	2,754
	<b>20,934</b>	18,213
<b>Creditors:</b> amounts falling due within one year	<b>13,143</b>	15,452
<b>Net current assets</b>	<b>7,791</b>	2,761
<b>Total assets less current liabilities</b>	<b>24,542</b>	16,342
<b>Creditors:</b> amounts falling due after more than one year	<b>3,239</b>	209
<b>Net assets</b>	<b>21,303</b>	16,133
<b>Capital and reserves</b>		
Called up share capital	1,558	1,555
Other reserve	(942)	(1,006)
Profit and loss account	20,687	15,584
<b>Equity shareholders' funds</b>	<b>21,303</b>	16,133

### Group Cash Flow Statement

**Year to**                      **Year to**  
**30 May 1999**      **31 May 1998**

	<b>£000</b>	£000
Net cash inflow from operating activities	<b>16,261</b>	9,895
<hr/>		
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>117</b>	114
Interest paid	<b>(451)</b>	(257)
Interest paid on hire purchase contracts	<b>(13)</b>	(3)
<hr/>		
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(347)</b>	(146)
<hr/>		
<b>Taxation paid</b>	<b>(4,278)</b>	(4,320)
<hr/>		
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(4,108)</b>	(8,252)
Sale of tangible fixed assets	<b>258</b>	204
<hr/>		
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(3,850)</b>	(8,048)
<hr/>		
<b>Acquisitions</b>		
Purchase of subsidiaries	<b>(3,058)</b>	–
Net cash acquired with subsidiaries	<b>89</b>	–
<hr/>		
<b>Net cash outflow from acquisitions</b>	<b>(2,969)</b>	–
<hr/>		
<b>Equity dividends paid</b>	<b>(2,881)</b>	(2,829)
<hr/>		
<b>Net cash inflow/(outflow) before financing</b>	<b>1,936</b>	(5,448)
<hr/>		
<b>Financing</b>		
Issue of ordinary share capital	<b>67</b>	45
Repayment of principal under hire purchase contracts	<b>(111)</b>	(11)
Inflow from medium term revolving credit facility	<b>5,000</b>	–
Repayment of medium term revolving credit facility	<b>(2,000)</b>	–

Loan repayments	(235)	(114)
<b>Net cash inflow/(outflow) from financing</b>	<b>2,721</b>	<b>(80)</b>
<b>Increase/(decrease) in cash in the year</b>	<b>4,657</b>	<b>(5,528)</b>

#### Reconciliation of net cash flow to movement in net cash

	Year to 30 May 1999
	£000
Increase in cash in the year	4,657
Cash inflow from increase in debt and lease financing	(2,654)
<b>Change in net cash resulting from cash flows</b>	<b>2,003</b>
New hire purchase agreements	(376)
<b>Increase in net cash in the year</b>	<b>1,627</b>
Net cash at 31 May 1998	218
<b>Net cash at 30 May 1999</b>	<b>1,845</b>

#### Notes to the accounts

1. The calculation of basic earnings per ordinary share has been based on the profit for the year and 31,113,927 (1998: 31,080,934) ordinary shares being the weighted average number of shares in issues throughout the year. The calculation of fully diluted earnings per ordinary share has been based on the profit for the year and 31,861,781 (1998: 32,059,434) ordinary shares being the weighted average number of shares in issue throughout the year, adjusted for the effect of share options outstanding at the year end.
2. The financial information given above does not constitute the Group's statutory accounts. Statutory accounts for the years ended 30 May 1999 and 31 May 1998 have been reported on without qualification by PricewaterhouseCoopers, the Company's auditors. Statutory accounts for the year ended 31 May 1998 have been delivered to the Registrar of Companies and the statutory accounts for the year ended 30 May 1999 will be delivered to the Registrar of Companies in due course.
3. The Annual Report will be mailed to shareholders on 6 August 1999. Copies of the Annual Report will also be available from Dick Hosie, Games Workshop Group PLC, Willow Road, Lenton, Nottingham, NG7 2WS.

4. The proposed final dividend of 6.14p will be paid on 29 October 1999 to shareholders on the register at the close of business on 8 October 1999.