

## PRESS ANNOUNCEMENT



**For immediate release**

**1 August 2000**

### PRELIMINARY RESULTS

Games Workshop Group PLC (“Games Workshop” or the “Group”) announces its preliminary results for the year ended 28 May 2000.

#### **Key points:**

- Turnover at £78.0m (1999: £72.6m) - up 7.5%
- Pre-exceptional operating profit at £10.0m (1999: £12.8m)
- Pre-exceptional earnings per share of 20.2p (1999: 26.0p)
- Dividend per share of 9.9p (1999: 9.7p) - up 2.1%
- Sales in the Americas up 30% - now the largest contributor to profits
- Internet sales double to £0.9m
- Restructuring programme on track to deliver:
  - more effective control of logistics and support functions
  - sales businesses more focused on marketing the Hobby
- Further strengthening of the senior management team
- New Warhammer game system developed for autumn re-launch

Chairman, Tom Kirby, said: “Sales of £78.0 million, up 7.5%, demonstrates further sustainable growth. Our businesses in the Americas, which represent a tremendous commercial opportunity for the Group, performed strongly in terms of both profit and cash generation. Our Group profits have been held back by our decision, previously announced, to address some of our long-term growth issues by restructuring our supply chain and by some local market issues in the UK and Continental Europe. By our own standards this has been a disappointing year, but we are resilient and are taking radical action to address the position.

/More...

“In April 2000, we announced that although the Americas were buoyant, trading conditions remained difficult in both the UK and Continental Europe. In particular, UK like for like growth was negative and the initiatives underway to revitalise sales to independent retailers in the UK and Continental Europe had yet to deliver any improvement. The position in the UK and Continental Europe has not yet changed significantly in the current financial year. However, the Americas and other global markets, continue to show evidence of further sustainable growth. The supply chain improvements will begin to bear fruit as the volumes increase. This will take time, and whilst trading in the opening months is in line with our budget, the first half results are unlikely to match the equivalent period last year. We expect that the recovery will begin to emerge in the second half.”

...Ends...

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**Financial highlights**

	<b>2000</b>	<b>1999</b>
	<b>£m</b>	<b>£m</b>
Turnover	78.0	72.6
Pre-exceptional operating profit	10.0	12.8
Operating profit	6.7	12.8
Pre-tax profit	6.5	12.5
Pre-exceptional earnings per share	20.2p	26.0p
Earnings per share	11.4p	26.0p
Dividend per share	9.9p	9.7p

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## CHAIRMAN'S STATEMENT

### Results

Sales of £78.0 million, up 7.5%, demonstrates further sustainable growth. Our businesses in the Americas, which represent a tremendous commercial opportunity for the Group, performed strongly in terms of both profit and cash generation. Our Group profits have been held back by our decision, previously announced, to address some of our long-term growth issues by restructuring our supply chain and by some local market issues in the UK and Continental Europe. By our own standards this has been a disappointing year, but we are resilient and are taking radical action to address the position.

### Restructuring

At the half year, a programme was announced to restructure the business. This was designed to simplify the supply chain and enable the sales operations to focus on developing the Hobby in their markets. It will take a further 12-18 months to complete. I am able to report that significant progress in actioning this plan has been made. Already, we have reorganised our UK factories, introduced multi-lingual packaging, brought down stocks, improved our order-fill rates and closed peripheral operations. The executive team is driving hard to ensure that the plans and actions behind the programme are delivered and the main elements of the programme are on track both in terms of cost and timing.

### Board and management

In June 1999, the board was restructured and now comprises a majority of non-executive directors. At the same time Michael Sherwin joined the board as finance director from Courtaulds Textiles plc where he was group financial controller. Senior management is now organised into two key groups - an executive team and an operating team. During the year a number of key appointments have been filled by external candidates bringing in particular specialist skills and expertise needed by the Group. This is a vital part of the programme to enable the executive team to provide more effective leadership and control.

### Current trading and prospects

In April 2000, we announced that although the Americas were buoyant, trading conditions remained difficult in both the UK and Continental Europe. In particular, UK like for like growth was negative and the initiatives underway to revitalise sales to independent retailers in the UK and Continental Europe had yet to deliver any improvement. The position in the UK and Continental Europe has not yet changed significantly in the current financial year. However, the Americas and other global markets, continue to show evidence of further sustainable growth. The supply chain improvements will begin to bear fruit as the volumes increase. This will take time, and whilst trading in the opening months is in line with our budget, the first half results are unlikely to match the equivalent period last year. We expect that the recovery will begin to emerge in the second half.

There has been some loose talk recently questioning the health of the Games Workshop Hobby. The Hobby is in rude health and is continuing to spread profitably around the world.

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

## **CHIEF EXECUTIVE'S REPORT**

### **A transition period**

The year under review has been a challenging one.

At the same time as we have been reorganising the business and strengthening our senior management, our UK sales fell substantially. Considerable effort is being made to turn this around. I am convinced that the strategic positioning of the Group is excellent, that we have a stronger senior team in place and that we are working towards the structures which will enable us to fully exploit the many opportunities that we have created.

### **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. Historically we have been developing these markets by replicating the structures we have in place in the UK. During the current year we intend to explore alternative business development models which might allow us to accelerate the rate of profitable growth.

### **New media**

We have been exploring the ways in which we can extend the appeal of our imagery and generate revenue and profits in areas outside model soldiers. We intend to do this by finding suitable experienced partners to complement our excellent intellectual property (content) and game design. During the year we announced two small deals - a multi-user dungeon (or MUD - an Internet only game with a monthly user charge) that will go live before Christmas 2000 and an option for an animated for TV movie. Signs are positive that there is further substantial value to be added in these areas through equity arrangements and we expect to announce further deals as the current year progresses. In exploring these possibilities, we are finding that there is no shortage of high calibre potential partners who recognise the power and depth of our intellectual property. We are progressing carefully to ensure that we choose the right relationships which will maximise our shareholder value.

### **Investing in people**

Reflecting the fact that our management and staff are the key to our success, we have been investing in people in a number of ways. In January 2000, we appointed an experienced human resources director, which has enabled us to improve our recruitment procedures across the Group and will help us to have a consistent approach to succession planning and senior management development. Our first intake of six management trainees began in November 1999 and the various modules designed for their use are also being used to improve our existing management teams. We have also developed a procedures manual for our sales to independent retailers which is supported by training modules.

## **Operational summary**

We now have direct operations split in 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 April 2000 we closed the Hong Kong head office and consolidated the profitable core sales business into the Australian operations.

## **Marketing the Games Workshop Hobby - an integrated approach**

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 direct sales (9%).

### **Independent retailers**

Overall our sales through independent retailers showed growth of 7% - up from 2% last year. The Americas continue to expand rapidly with sales growth of 23% in the year. We also experienced great success in both the Danish and Swedish markets through our “elite” store programme. This takes many of the aspects which make Games Workshop stores effective and applies them to selected independent stores resulting in comparable sales performance and much improved profitability. We are in the process of transferring these techniques to our other markets and both the rest of Continental Europe and the UK have yet to see the full benefits of these new initiatives.

### **Direct sales**

Total sales increased by 7% to £6.8 million. The sales are primarily through two channels - telesales and the Web. We can now accept electronic orders in the UK, France, Australia and Germany adding to the US sales site that was the only one in operation at the start of the year. Our telesales teams also provide customer service helplines for rules enquiries.

### **Own stores**

Total sales increased by 8% with a small overall like for like decline of 1%. The North American chain however showed strong like for like growth and we continued our opening programme with 11 further stores in the period. 17 other stores were opened with the majority of these in Continental Europe (8). During the year we have been working on our stores to become the activity centres for local gaming communities. Following a drop in UK sales levels, we have bolstered our management through external recruitment and removed a management tier to enable us to enact these changes more quickly.

## **The Internet**

During the year our internet sales grew by 95% and are currently running at an annual rate of £1.2 million. However, the Internet is far more than simply a sales channel for us. Our sites are tailored to each of the markets in which we operate with customer information on the latest news, the stores activity programmes (both Games Workshop and selected independent stores), clubs and tournaments. This allows us to direct customers to the stores for events that are likely to appeal to them. Increasingly we will be seeking ways to better integrate these channels using our web sites as the glue - turning the "bricks and clicks" philosophy into a reality. From our strong base of over 300,000 unique monthly visitors, we intend to invest further in this area. In particular we plan to place more emphasis on the "community" aspects of our site, to extend the reach of our site to better control the use of our imagery on the Web, to develop pay areas and to create links to internet gaming.

## **Supply chain management**

As a result of the rapid growth seen over the past 10 years we identified structural weaknesses in our supply chain. This was exhibiting itself in increasing stock levels and low order-fill rates. Recognising this weakness, a programme of reorganisation was launched in January 2000. Senior external recruitment into our supply chain management has enabled rapid progress to be made. In June 2000 all our packaging became multi-lingual - a key step towards consolidation of our 9 distribution centres into regional hubs. In the Americas we have taken this one step further and have negotiated to outsource our West Coast distribution - this took effect in July 2000 and improves our service whilst reducing costs. By the year end, order-fill rates had risen to above 95% with core stocks marginally lower than the same time last year. We remain confident that the programmes underway will improve both these key indicators and lower our operating costs significantly.

In addition we will be re-launching our best-selling Warhammer game system with a completely revised range of products in autumn 2000. This revision will improve the quality of the whole range whilst simplifying manufacturing processes, increasing supply flexibility and reducing our stockholding commitments.

## **The Americas (+26% in constant currency, +30% in sterling)**

This is both the market with the most potential and also the one which, I am pleased to report, grew most rapidly in the year. Sales in all channels were strong with the double digit like for like growth in the retail chain demonstrating that we still have some way to go before they are trading to their full potential. The web sales continue to underpin their direct sales and increasingly to support their own stores by allowing them to sell the full range of miniatures without the need to carry full inventories. The Americas are leading the way in exploring new ways of enhancing our marketing formula. We are committed to allocating the resources necessary to allow this exciting business to grow to its full potential, which we see as a multiple of the current size of the operation.

**UK (-1%)**

The first half of the year saw good like for like growth in the retail chain with only a small decline in our sales to the independent retailers. For some time now we believe that an element of our UK like for like growth has been achieved by increasing the appeal of our stores at the lower end of the customer age range. We do not believe that many of these youngsters are capable of truly participating in all aspects of a complex hobby, which involves reading, painting and strategic thinking. Consequently, we had allowed our customer base to become vulnerable to toy fads. Last year we saw a sharp decline in sales to this age group. Since January we have been re-focusing our stores as activity centres for our traditional core audience, with the aim of increasing the average age of our UK consumers.

We have launched a national clubs programme which now boasts over 200 active registered clubs. We have also re-launched a number of our stores as flagship stores throughout the country which are piloting new approaches including extended product ranges, preview nights and more expert staff. We will be following this up with more direct marketing approaches to increase awareness of our offer to our target audience. This more targeted marketing approach will also include the development of new introductory games, which are more appropriate for the younger customers, who are the hobbyists of tomorrow.

**Continental Europe (+2% in constant currency, -5% in sterling)**

During the year we moved the German sales operations from the UK into Germany, where under the newly appointed German general manager we now expect to be able to recruit and retain a higher calibre work force. The disruptions of the move and management changes resulted in sales being 6% lower in the year. Elsewhere we saw sales increases in our other major European markets with France up 8% and Spain 11%. Italy declined by 4%. 8 new stores were opened in the period taking the total in Continental Europe to 51.

**Asia Pacific (+15% in constant currency, +19% in sterling)**

The Hong Kong operation was consolidated into the Australian operation in April 2000. Our sales within Australia and New Zealand were 18% higher in the year with the sales to the “tiger” economies down 8%. 3 stores were opened in Asia Pacific, all of which were in Australia.

**Conclusion**

Whilst the year has been challenging, the underlying business and the Hobby which supports it remains strong, and we remain confident that the issues we face are ones of management and structure and are eminently solvable. During the year we have made great strides towards getting the business into a better shape, better equipped to handle the long-term growth which we see in all of our major markets. Our growth in the Americas, the progress on managing the supply chain, our web sales development, and the introduction of several new senior managers are all significant achievements to guarantee the future success of the Group.

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

**GROUP PROFIT AND LOSS ACCOUNT**

	Year to 28 May 2000 £000	Year to 30 May 1999 £000
<b>Turnover</b>	77,993	72,565
Cost of sales	(27,261)	(23,624)
	-----	-----
<b>Gross profit</b>	50,732	48,941
Net operating expenses	(44,069)	(36,141)
	-----	-----
<b>Operating profit</b>	6,663	12,800
Continuing operations - pre-exceptional	10,037	12,800
Continuing operations - exceptional items	(3,374)	-
Interest receivable	390	117
Interest payable and similar charges	(508)	(453)
	-----	-----
<b>Profit on ordinary activities before taxation</b>	6,545	12,464
Taxation on profit on ordinary activities	(2,983)	(4,378)
	-----	-----
<b>Profit for the financial year</b>	3,562	8,086
	-----	-----
Dividend	(3,100)	(3,022)
	-----	-----
<b>Profit retained for the financial year</b>	462	5,064
	=====	=====
Pre-exceptional earnings per ordinary share	20.2p	26.0p
Basic earnings per ordinary share	11.4p	26.0p
Diluted earnings per ordinary share	11.2p	25.4p
Net dividend per ordinary share	9.9p	9.7p

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	Year to 28 May 2000 £000	Year to 30 May 1999 £000
Profit for the financial year	3,562	8,086
Currency translation differences on foreign currency net investments	448	39
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<b>Total recognised gains and losses relating to the year</b>	4,010	8,125
	=====	=====

## GROUP BALANCE SHEET

	As at 28 May 2000 £000	As at 30 May 1999 £000
<b>Fixed assets</b>		
Goodwill	1,891	1,996
Tangible assets	15,365	14,755
Investments	122	-
	-----	-----
	<b>17,378</b>	16,751
	-----	-----
<b>Current assets</b>		
Stocks	9,022	9,261
Debtors	6,538	6,501
Cash at bank and in hand	5,865	5,172
	-----	-----
	<b>21,425</b>	20,934
	-----	-----
<b>Creditors: amounts falling due within one year</b>	<b>(12,491)</b>	(13,143)
	-----	-----
<b>Net current assets</b>	<b>8,934</b>	7,791
	-----	-----
<b>Total assets less current liabilities</b>	<b>26,312</b>	24,542
	-----	-----
<b>Creditors: amounts falling due after more than one year</b>	<b>(3,145)</b>	(3,239)
	-----	-----
<b>Provisions for liabilities and charges</b>	<b>(500)</b>	-
	-----	-----
<b>Net assets</b>	<b>22,667</b>	21,303
	=====	=====
<b>Capital and reserves</b>		
Called up share capital	1,565	1,558
Other reserve	(495)	(942)
Profit and loss account	21,597	20,687
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<b>Equity shareholders' funds</b>	<b>22,667</b>	21,303
	=====	=====

## GROUP CASH FLOW STATEMENT

	Year to 28 May 2000 £000	Year to 30 May 1999 £000
<b>Net cash inflow from operating activities</b>	<b>12,606</b>	16,261
	-----	-----
<b>Returns on investments and servicing of finance</b>		
Interest received	411	117
Interest paid	(493)	(451)
Interest paid on hire purchase contracts	(17)	(13)
	-----	-----
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(99)</b>	(347)
	-----	-----
<b>Taxation</b>		
UK corporation tax paid	(3,388)	(2,855)
Overseas taxation paid	(1,233)	(1,423)
	-----	-----
<b>Net cash outflow from taxation</b>	<b>(4,621)</b>	(4,278)
	-----	-----
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(4,822)	(4,108)
Sale of tangible fixed assets	54	258
Purchase of own shares	(122)	-
	-----	-----
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(4,890)</b>	(3,850)
	-----	-----
<b>Acquisitions</b>		
Purchase of subsidiary undertakings	-	(3,058)
Net cash acquired with subsidiary undertakings	-	89
	-----	-----
<b>Net cash outflow from acquisitions</b>	<b>-</b>	(2,969)
	-----	-----
<b>Equity dividends paid</b>	<b>(3,094)</b>	(2,881)
	-----	-----
<b>Net cash (outflow)/inflow before financing</b>	<b>(98)</b>	1,936
	-----	-----
<b>Financing</b>		
Issue of ordinary share capital	454	67
Repayment of principal under hire purchase contracts	(73)	(111)
Cash inflow from medium term revolving credit facility	-	5,000
Repayment of medium term revolving credit facility	-	(2,000)
Loan repayments	-	(235)
	-----	-----
<b>Net cash inflow from financing</b>	<b>381</b>	2,721
	-----	-----
<b>Increase in cash in the year</b>	<b>283</b>	4,657
	=====	=====

## NOTES TO THE GROUP CASH FLOW STATEMENT

**Reconciliation of operating profit to operating cash flow**

	<b>2000</b>	1999
	<b>£000</b>	£000
Operating profit	<b>6,663</b>	12,800
Loss on disposal of tangible fixed assets	<b>42</b>	7
Depreciation of tangible fixed assets	<b>4,041</b>	3,408
Amortisation of goodwill	<b>105</b>	107
Exchange movements	<b>363</b>	77
Decrease/(increase) in stocks	<b>239</b>	(927)
(Increase)/decrease in debtors	<b>(17)</b>	650
Increase in creditors	<b>670</b>	139
Increase in provisions	<b>500</b>	-
Net cash inflow from operating activities	<b>12,606</b>	16,261
	=====	=====

**Analysis of net funds**

	As at 31 May 1999	Cashflow	As at 28 May 2000
	£000	£000	£000
Cash at bank and in hand	5,172	693	<b>5,865</b>
Bank overdrafts	(36)	(410)	<b>(446)</b>
Debt due after one year	(3,000)	-	<b>(3,000)</b>
Hire purchase agreements	(291)	73	<b>(218)</b>
<b>Net funds</b>	<b>1,845</b>	<b>356</b>	<b>2,201</b>
	=====	=====	=====

**Reconciliation of net cash flow to movement in net funds**

	Year to 28 May 2000	Year to 30 May 1999
	£000	£000
Increase in cash in the year	<b>283</b>	4,657
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	<b>73</b>	(2,654)
Change in net funds resulting from cashflows	<b>356</b>	2,003
New hire purchase agreements	-	(376)
Increase in net funds in the year	<b>356</b>	1,627
Net funds at 31 May 1999	<b>1,845</b>	218
<b>Net funds at 28 May 2000</b>	<b>2,201</b>	1,845
	=====	=====

**NOTES TO THE ACCOUNTS**

1. The calculation of pre-exceptional earnings per ordinary share has been based on profit for the year before the effect of exceptional restructuring costs. The basic earnings per ordinary share has been based on profit for the year. Both calculations are based on 31,177,439 (1999: 31,113,927) ordinary shares being the weighted average number of shares in issue throughout the year.

The calculation of diluted earnings per ordinary share has been based on the profit for the year and 31,725,215 (1999: 31,861,781) ordinary shares being the weighted average number of shares in issues 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 28 May 2000 and 30 May 1999 have been reported on without qualification by Arthur Andersen and PricewaterhouseCoopers respectively, the Company's auditors in each year. Statutory accounts for the year ended 30 May 1999 have been delivered to the Registrar of Companies and the statutory accounts for the year ended 28 May 2000 will be delivered to the Registrar of Companies in due course.
3. The Annual Report will be mailed to shareholders on 4 August 2000. Copies of the Annual Report will also be available from Michael Sherwin, Games Workshop Group PLC, Willow Road, Lenton, Nottingham NG7 2WS.
4. The proposed final dividend of 6.14p will be paid on 3 November 2000 to shareholders on the register at the close of business on 13 October 2000.