

10th May 2000

Preliminary Results Announcement Year Ended 26th February 2000

N Brown Group plc, the Manchester based direct catalogue home shopping group, today announces its preliminary results for the year to 26th February 2000.

The year under review has seen another strong performance by the group's home shopping, logistics and financial services businesses, and the development and launch of Zendor.com, an end-to-end e-fulfilment venture.

Highlights of the results from continuing operations include:

- Profit before tax:
 - £51.4 million (including £3.8m exceptional profit on sale of shares in Zendor.com) (1999: £43.2 million) **+ 18.8%**
 - £47.6 million (excluding exceptional item) (1999: £43.2 million) **+10.0%**
- Operating profit £51.2 million (1999: £46.7 million) **+9.5%**
- Turnover £354.7 million (1999: £324.3 million) **+9.4%**
- Earnings per share:
 - 25.69p (including £3.8m exceptional profit on sale of shares in Zendor .com) (1999: 20.67p) **+24.3%**
 - 23.06p (excluding exceptional item) (1999: 20.67p) **+11.6%**
- Final dividend per share 6.40p (1999: 5.80p)
Giving a total dividend per share for the year of 9.10p (1999: 8.20p) **+11.0%**
- Zendor.com has reached agreement to provide services to four clients, whose current aggregate turnover in the retail market is over £800m
- One for one bonus issue of shares

1999 figures quoted excluding discontinued operations

Commenting on the results, Sir David Alliance CBE, Chairman, said:

“It has been another highly competitive year for retailing and the home shopping market in particular. I am pleased to be able to report excellent results for the group. These have been achieved through our strategy of extending product ranges, launching new catalogues to specific target markets and offering products at competitive prices across all sales channels, including telemarketing and the internet.

“Turnover from the current Spring/Summer catalogues is 6% ahead of last year for the first 10 weeks of the new financial year. We feel confident about the increasing strengths of our complementary home shopping, e-fulfilment and financial services businesses, which will continue to receive additional investment in order to facilitate further growth.”

For further information please contact:

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CHAIRMAN'S STATEMENT

In another highly competitive year for retailing and the home shopping market in particular, I am pleased to be able to report an excellent result for the group. From continuing operations, adjusted profit before tax is up by 10.0% to a record £47.6m on turnover which has risen 9.4% to £354.7m, and adjusted earnings per share are 11.6% ahead at 23.06p.

A recommended final dividend of 6.4p increases the total dividend for the year by 11.0% to 9.1p. The board has also recommended a one-for-one bonus issue, which will improve the marketability of our shares. A circular providing relevant information will be sent to shareholders together with the annual report and accounts.

Our overall sales growth compares favourably with the home shopping sector and the retail market as a whole, and we are particularly pleased with the 11% rise in sales of ladieswear. The launch of the new "Simply Be" catalogue during the year has helped to produce a 15% increase in turnover to younger customers, and sales to the mid-life group, representing 71% of total group turnover, are up by 8%. This growth is mainly due to our strategy of extending product ranges, launching new catalogues to specific target markets, offering products at competitive prices and increasing the use of telemarketing.

Recent developments in the internet and the growth of e-commerce are among the most significant events in industry for many years. We are well positioned to benefit from these developments and will use them to extend our reach to a far greater number of customers, improve customer service and reduce costs, as well as extending their use to a number of business-to-business applications in areas such as supply chain management.

An increasing number of companies are entering the home shopping market and, while some are using conventional catalogues, there is a small but growing use of the internet, interactive television and several types of intelligent hand-held device in these businesses. Some companies, however, do not have the logistics or administrative systems to be able to deliver products direct to customers' homes or handle the inevitable high level of returned goods.

Our home shopping business, by comparison, has over many years developed automated warehouses, a nationwide distribution system and considerable marketing skills. We also have well established call centres and experienced telemarketing teams, essential for the success of an e-commerce business. To capitalise on these core strengths and the changes in technology, in October we announced the launch of Zendor.com, a new subsidiary established to offer a comprehensive range of fulfilment services to new and existing companies in the sector. This has been extremely well received and has attracted considerable interest since its launch. To date Zendor.com has reached agreement with four retail clients to develop multi-channel distance shopping propositions. These clients currently have an aggregate retail turnover of over £800m. Given the past investments in our logistics infrastructure, Zendor.com will move into profit later this year after trading has commenced.

A total e-fulfilment business requires the availability of sophisticated credit facilities. Knowledge of the wider characteristics of consumers in product and socio-demographic sectors other than those in which our home shopping business operates is needed to complete the proposition. Therefore, in February this year a subsidiary of GE, one of the largest companies in the world, became a 25% partner in Zendor.com and agreed to provide credit card facilities for clients of Zendor.com. In addition, as well as supporting Zendor.com's marketing to prospective clients, this strategic partnership will also provide us with access to GE's credit management and other systems, a key factor in our strategy of continuing to reduce costs in a deflationary environment.

The progress of First Financial, our financial services division, is encouraging and we believe there is good potential for further growth beyond this year's profit of £1.3m, particularly by increasing the volume of unsecured loans to customers on our core home shopping database.

The Turnbull report on internal control was published during the year and we have already enhanced our internal control systems. We welcome this initiative as we believe it will add shareholder value by promoting risk management as an integral part of the organisation.

Turnover from the current Spring/Summer catalogues is 6% ahead of last year for the first 10 weeks of the new financial year. We feel confident about the increasing strengths of our complementary home shopping, Zendor.com and First Financial businesses, which will continue to receive additional investment in order to facilitate further growth.

On behalf of the board I would like to thank all our management and staff who have contributed so much to our results. They have exercised both flexibility and innovation to increase market share and worked hard to reduce costs which is crucial in a deflationary climate.

Sir David Alliance CBE
10 May 2000

CHIEF EXECUTIVE'S REVIEW

The priority this year has been to expand our business by taking initiatives which are aimed at increasing customer spending, as well as recruiting and retaining more customers to build up the database for the future. We have had some success in both of these areas, which has contributed to increases from continuing operations of 9.4% in group turnover to £354.7m and 10.0% in adjusted group profit before tax to £47.6m.

The Changing Market Place

The rate of change in retail has accelerated over the year and in some respects we have seen more change over this short period than has taken place in the past decade. A major contributor to change has been the behaviour of consumers who are better informed about the price of products and services as a result of increased media coverage of this subject and the emerging use of the internet which makes comparisons much easier. There has also been a growth in the influence of value retailers who offer competitive prices for commodity products.

The group's activities are now focused on home shopping, logistics, e-fulfilment, financial services and an emerging interest in information. All of these areas leverage off core skills which have contributed business growth over many years.

Home Shopping – Sales and Gross Margins Have Improved

Turnover rose by 9.4% to £355m and operating profit increased by 9.5% to £51m.

The number of established customers who were on the database before March 1999 and ordered this year reached 2 million, an increase of 5% against the equivalent population last year. Their average spending was up by 3% as a result of more publications, wider ranges and more frequent contact. The remaining 1% of the overall growth in turnover arose from the increased number of customers recruited during the year.

We have actively targeted the younger sector of the market in the age range 30-45 years and turnover from our catalogues in this sector increased by 15% to £67m. The more established younger catalogues of Fashion World and Classic Combination were complemented by Simply Be, launched during the year and offering an affordable range of ladieswear in larger sizes. We were also pleased with the mid-life catalogues where turnover reached a record £250m, up 8% on last year. Catalogues in this group are targeted at women in their forties to early sixties and principally comprise J D Williams, Oxendales, Ambrose Wilson and Fifty Plus, all providing merchandise in a wide range of fittings and sizes. Catalogues for older customers (aged 60 years or over) achieved a turnover of £24m, up by 4%. Sales from House of Stirling, our field-based direct sales operation, fell slightly to £10m during a year of consolidation in which new systems were introduced to create a solid platform for the future expansion of this business.

Strong growth in younger fashion, lingerie and nightwear helped ladieswear turnover reach £201m, a very satisfying increase of 11% over last year. Footwear sales rose by 6% to £34m, which is ahead of the market rate of growth. Menswear, which nationally has been the worst affected retail category, fell by 3% to £33m. Household and electrical product sales increased by 9% to £83m, a category which is so important to our strategy of adding incremental customer spending.

Gross margins were up by 1% to 56% due to a favourable mix of sales and a reduction in mark downs. Intake margins were very similar to last year with any reductions in cost prices being passed on to customers. These results have been helped by the continued development of stock forecasting systems which have enabled us to control stocks effectively in a volatile market.

Customers regard the availability of credit as an essential part of our offer. The choice of interest-bearing and interest-free credit terms has been widened and there is now available a rental option for television and other consumer electronic goods through Teleview Direct. At the end of the year there were 1.4m debtors owing an average of £128 each, with aggregate debtors of £185m, up by 12%.

We have created a range of new internet sites, which in the near future will be progressively offered to all customers wishing to buy from one of our brands. These sites are fully integrated into our order processing systems and include information on stock availability and transactions on each customer's personal credit account. This is a most important channel of selling to existing customers as well as creating opportunities for us to widen the reach of our offer.

Our Competitive Advantage

The fiercely competitive retail climate is being addressed in a number of ways. The pricing of products is constantly reviewed to provide value for money after reflecting the benefit of extra services, such as free delivery to the home and the free collection of returns. Almost half of our sales are from smaller brochures sent to customers every month, which mostly feature merchandise available in the larger bi-annual catalogues but presented closer to the natural selling time in the season. There is also the opportunity to adjust prices quickly if they are found to be out of step with other retailers.

Our catalogues have unique selling propositions relating to size, fittings or products which are difficult for customers to find elsewhere. Customers have the choice of buying from one of many sales channels, including catalogues, newspaper and television advertisements, internet, telephone contact or at the doorstep.

Logistics

We have several routes to market as well as operating through many different catalogue brands. Our logistics operation by contrast is a single unified system.

Logistics consists mainly of call centres, warehousing and distribution, all fully integrated by bespoke computing systems. Around 75% of sales are handled by telephone, through fully networked call centres in the North West and the North East of England. We have an expanding telemarketing function which has created a wide range of sales programmes directed at carefully selected customers from the database, using predictive telephone dialling equipment to improve efficiency.

The main distribution centre is located in Shaw, near Oldham, and is used for picking and collating two or three items ordered by each customer from a seasonal range of around 40,000 stock options, as well as receiving and refurbishing large volumes of returned products. Storage facilities were increased last year when an automated, high bay carton store became operational. Additional investments are being made which include enhancements to the main sorting system to handle extra volumes, as well as equipping a new section of the high bay to give capacity next year for a further 3 million items of stock. A 60,000 square feet, single storey warehouse, suitable for larger products, was recently acquired in nearby Rochdale. These investments will support core home shopping business growth as well as the expected volumes from Zendor.com's clients.

The people who run this part of our business are vital to its success and over the last year we have invested in extra management, including the appointment of Andy Lee as Director – Logistics. Andy was previously Managing Director of Logistics at Unipart and has wide experience over the past fourteen years handling logistics on behalf of a variety of third party clients.

Zendor.com

A new venture was announced last October to provide end-to-end fulfilment services for companies entering the distance shopping market using either traditional catalogues or the internet. Zendor.com is a marketing services company and will mainly use home shopping logistics capabilities.

The provision of credit facilities for clients is an essential part of a complete fulfilment service. The strategic partnership between Zendor.com and GE, the world's foremost provider of credit, creates a one stop fulfilment service which GE is now promoting to its UK retail clients. Shares in Zendor.com are 75% held by N Brown and 25% by a subsidiary of GE, to reflect the relative contribution of the two groups to this new venture. In addition, a marketing alliance was created with AHL Services, a large US based logistics company, who will promote Zendor.com to those of their US retail clients wishing to enter the European market.

Zendor.com has a dedicated team engaged in marketing, account management, customer relations and finance, under the leadership of its Managing Director, Keith Basnett.

Continued Focus On Efficiency and Cost Control

In this harsh deflationary climate, it is necessary to be particularly innovative with measures to reduce costs and improve efficiency. Initiatives we are taking include a continuous review to simplify business processes and the partnership with GE is helping us to identify new opportunities, including volume aggregation, which will reduce costs. There are also downstream gains from the improved efficiency and benefits of scale in the logistics operation from organic growth and extra volumes from clients of Zendor.com.

Financial Services

The financial services division, First Financial, was formed in 1998 and has grown organically to an operating profit last year of £1.3m (1999: £0.7m). It is currently a commission-based intermediary which takes no risks on any business it undertakes with core home shopping customers. It partners with respected companies in the insurance and retail banking sectors using their expertise and administrative systems.

Last year First Financial created a new tailor-made financial services database, populated with almost 3 million names and details of dates of birth and insurance renewal dates. Information from lifestyle surveys and telemarketing campaigns has also been added to improve our effectiveness when promoting sales of financial products.

Information

We have a large database with around five year's transactional data on several million customers, together with a growing volume of behavioural and demographic information. This has been used to create scoring systems which have improved the focus of our marketing campaigns. There are a number of other information-related opportunities which will give extra strength to our home shopping business as well as creating a new profit centre, and we have made a number of small but strategic investments in this area. At this stage it is difficult to predict the scale of this, but details will emerge progressively over the medium term.

Prospects

We have an outstanding team of people who are committed to our strategic direction of further developing the core home shopping business as well as the emerging activities in logistics, fulfilment and financial services. I would like to thank them for their contribution in a changing retail climate which has required them to be innovative and flexible.

I believe we have robust strategies in place and look forward to the future with confidence.

Jim Martin
10 May 2000

GROUP PROFIT AND LOSS ACCOUNT for the 52 weeks ended 26th February 2000

	Note	Continuing Operations 2000 £'000	Discontinued Operations 2000 £'000	Total 2000 £'000	Continuing Operations 1999 £'000	Discontinued Operations 1999 £'000	Total 1999 £'000
Turnover	1	354,733	-	354,733	324,302	3,538	327,840
<i>% increase</i>		9.4%					
Operating profit	2	51,208	-	51,208	46,745	(598)	46,147
<i>% increase</i>		9.5%					
Loss on disposal of discontinued operations		-	-	-	-	(14,702)	(14,702)
Profit on partial sale of subsidiary undertaking		3,802	-	3,802	-	-	-
Share of loss of associated undertakings		(132)	-	(132)	(72)	-	(72)
Income from listed investments		53	-	53	37	-	37
Interest payable		(3,564)	-	(3,564)	(3,488)	38	(3,450)
Profit on ordinary activities before taxation		51,367	-	51,367	43,222	(15,262)	27,960
<i>% increase</i>		18.8%					
Taxation on profit on ordinary activities		(14,366)	-	(14,366)	(13,514)	350	(13,164)
Profit on ordinary activities after taxation		37,001	-	37,001	29,708	(14,912)	14,796
<i>% increase</i>		24.5%					
Equity minority interests		115	-	115	-	-	-
Profit for the financial year		37,116	-	37,116	29,708	(14,912)	14,796
<i>% increase</i>		24.9%					
Dividends	4	(13,187)	-	(13,187)	(11,805)	-	(11,805)
Retained profit		23,929	-	23,929	17,903	(14,912)	2,991
<i>% increase</i>		33.7%					
Earnings per share	3	25.69p		25.69p	20.67p		10.29p
<i>% increase</i>		24.3%					
Diluted earnings per share	3	25.44p		25.44p	20.53p		10.23p
<i>% increase</i>		23.9%					
Adjusted earnings per share	3	23.06p		23.06p	20.67p		10.29p
<i>% increase</i>		11.6%					
Adjusted diluted earnings per share	3	22.83p		22.83p	20.53p		10.23p
<i>% increase</i>		11.2%					

GROUP BALANCE SHEET as at 26th February 2000

	2000	1999
	£'000	£'000
Fixed assets		
Intangible assets	2,885	181
Tangible assets	62,758	54,575
Investments	3,199	4,401
	-----	-----
	68,842	59,157
	=====	=====
Current assets		
Stocks	35,467	33,328
Debtors	202,806	186,849
Investments	-	150
Cash at bank and in hand	5,083	4,472
	-----	-----
	243,356	224,799
Creditors:		
Amounts falling due within one year	(88,471)	(96,318)
	-----	-----
Net current assets	154,885	128,481
	-----	-----
Total assets less current liabilities	223,727	187,638
Creditors:		
Amounts falling due after more than one year	(47,941)	(36,866)
Provisions for liabilities and charges	(3,253)	(2,270)
	-----	-----
Net assets	172,533	148,502
	=====	=====
Capital and reserves		
Called up share capital	14,634	14,609
Share premium account	18,714	17,699
Revaluation reserve	1,511	1,548
Profit and loss account	138,103	114,646
	-----	-----
Equity shareholders' funds	172,962	148,502
Equity minority interests	(429)	-
	-----	-----
Capital employed	172,533	148,502
	-----	-----
Gearing	26%	29%

GROUP CASH FLOW STATEMENT for the 52 weeks ended 26th February 2000

	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Net cash inflow from operating activities		37,465		43,271
Returns on investments and servicing of finance				
Interest paid	(3,219)		(2,907)	
Interest element of finance lease rental payments	(246)		(299)	
Dividends received from investments	53		37	
	-----		-----	
Net cash outflow from returns on investments and servicing of finance		(3,412)		(3,169)
Taxation				
Corporation tax paid (including ACT)		(14,080)		(11,800)
Capital expenditure and financing activities				
Purchase of tangible fixed assets	(14,174)		(11,679)	
Purchase on intangible fixed assets	-		(181)	
Sale of tangible fixed assets	175		198	
Decrease in own shares held in trust	757		405	
	-----		-----	
Net cash outflow from capital expenditure and financing activities		(13,242)		(11,257)
Acquisitions and disposals				
Purchase of subsidiary undertakings	(866)		-	
Cash at bank and in hand acquired with subsidiary undertakings	71		-	
Sale of subsidiary undertaking	-		4,250	
Bank overdraft disposed with subsidiary undertaking	-		385	
Partial sale of subsidiary undertaking	3,802		-	
Purchase of investment in associated undertaking	(9)		(515)	
	-----		-----	
Net cash inflow from acquisitions and disposals		2,998		4,120
Equity dividends paid		(12,270)		(10,990)
		-----		-----
Cash (outflow)/inflow before management of liquid resources and financing		(2,541)		10,175
Management of liquid resources				
Purchase of current investments	(513)		(250)	
Sale of current investments	1,021		-	
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Net cash inflow/(outflow) from management of liquid resources		508		(250)
Financing				
Issue of ordinary shares		535		87
Increase in/(repayment of) bank loans		3,000		(13,000)
Capital element of finance lease rental payments		(858)		(750)
		-----		-----
Cash inflow/(outflow) from financing		2,677		(13,663)
		-----		-----
Increase/(decrease) in cash in the year		644		(3,738)
		=====		=====

NOTES TO THE ACCOUNTS

1. Analysis of turnover

	2000 £'000	1999 £'000	% Increase
Home shopping	354,733	324,302	9.4
Property and financial services – Discontinued operations	-	3,538	-
	354,733	327,840	8.2
	=====	=====	=====

2. Analysis of operating profit

	2000 £'000	1999 £'000	% Increase
Home shopping	51,957	47,345	9.7
Property and financial services – Discontinued operations	-	(598)	-
Central administration costs	(749)	(600)	24.8
	51,208	46,147	11.0
	=====	=====	=====

- The calculation of earnings per share is based on the profit for the financial year and the weighted average number of shares in issue during the year of 144,462,000 (1999: 143,725,000). For diluted earnings per share, the weighted average number of shares of 145,916,000 (1999: 144,680,000) has been calculated after adjusting for the potential dilution of outstanding share options.
An adjusted earnings per share figure has also been calculated and is based on the profit for the financial year excluding the effect of the exceptional profit on the partial sale of the subsidiary undertaking Zendor.com Limited of £3,802,000. It has been calculated to help provide a clearer understanding of the underlying profitability of the group.
- An interim dividend of 2.7p per ordinary share was paid on 21st December 1999 to shareholders on the register at the close of business on 19th November 1999. A final dividend of 6.4p per ordinary share is proposed to be paid on 21st July 2000 to shareholders on the register at the close of business on 23rd June 2000.
- The summary of results for the two years ended 26th February 2000 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. Full group accounts for the 52 weeks ended 27th February 1999 have been delivered to the Registrar of Companies in England and Wales with an unqualified auditors' report. Full group accounts for the 52 weeks ended 26th February 2000 will be delivered to the Registrar of Companies.
- It is expected that the full report and accounts for the 52 weeks ended 26th February 2000 will be posted to shareholders on 31st May 2000.