N Brown Group plc

Interim Report 2013

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2013

4 CUSTOMER CENTRIC SEGMENTS

FINANCIAL SUMMARY

(FOR THE 26 WEEKS ENDED 31 AUGUST 2013)

Financial Highlights	2013	2012
Revenue	**£409.6m**	£379.3m
Operating profit	**£48.4m**	£45.7m
Adjusted profit before taxation*	**£45.0m**	£42.0m
Profit before taxation	**£44.1m**	£41.8m
Adjusted earnings per share*	**12.55p**	12.48p
Earnings per share	**12.30p**	12.44p
Dividends per share	**5.67p**	5.45p
Net assets	**£456.1m**	£416.4m
Net asset value per share	**160.9p**	146.9p
Net borrowings	**£197.9m**	£188.1m
Gearing	**43%**	45%

* Excluding fair value adjustments to financial instruments.

INTERIM RESULTS STATEMENT

The business has continued to gather momentum during the first six months of the year and the first five weeks of the second half. Results for the 26 weeks to 31 August 2013 show strong revenue growth, especially online, good profit improvement and progress being made with our key initiatives in brand development, store operations and international. The business is well-positioned to deliver further strong performance for the year as a whole.

Financial Results

Total group revenue has increased by 8.0% to £409.6m. Excluding newly opened stores, like-for-like sales increased by 7.8%. Profit before taxation and fair value adjustments on foreign exchange contracts was £45.0m (2012, £42.0m), up 7.1%.

Product gross margin rose by 40 basis points during the first half. Financial income rose by 6.1%. As expected, continued strong customer recruitment has resulted in an increase in bad debt and a lower financial income yield. Consequently, overall gross margin reduced by 80 basis points to 52.5%. Further planned cost savings and tight control of overheads have compensated for this, enabling operating profit to grow by 5.9% to £48.4m, after absorbing the anticipated £1.0m (2012, £1.1m) of losses from the Simply Be stores and £1.4m (2012, £1.7m) losses in the United States (US) Simply Be business.

Net finance costs were £3.4m (2012, £3.7m) reflecting slightly lower rates payable on borrowings. With the effective rate of corporation tax returning to 22.0% (2012, 17.3%), the adjusted earnings per share has increased by 0.6% to 12.55p (2012, 12.48p).

Net assets grew by 9.5% to £456.1m and gearing fell from 45% to 43% on borrowings of £197.9m (2012, £188.1m).

There was a net cash outflow of £9.2m compared with an inflow of £4.4m in the first half of last year, principally due to increased investment in working capital.

Based on the growth in trading profit and reduced gearing, the interim dividend will be increased by 4.0% to 5.67p, covered 2.2 times.

Trading Highlights

Our revenues have continued to grow well, in total by 8.0% in the first half. This reflects the success of our sustained investment in customer recruitment, which we have maintained at last year's higher level. Customer order numbers grew by 4.3% to over four million and sales per customer have also increased.

Our performance also benefited during the first half from:

1) Continued excellent growth from younger customers, our specialist brands and our homeware and lifestyle categories.
2) Resumption of growth in our core brand JD Williams, as our initial work on modernisation begins to resonate with customers.
3) Further strong growth in internet penetration, driven particularly by mobile optimisation which improves sales conversion on our websites.
4) Continued growth in new customers and strengthening of customer loyalty, reflecting the growing effectiveness and targeting of our contact strategy.
5) Improving customer service levels across a range of key metrics – including reduced delivery time and evening order cut-off time extension for next-day delivery.

During the first half we segmented our commercial activities into a customer centric structure – young female, mature female, male, and speciality. Three of these segments are consumer-facing, and the fourth covers specialist and subsidiary brands. All segments delivered growth in the first half, although the male segment was the best performer, increasing by 16%, driven by Jacamo. Within the younger female segment, Simply Be also delivered excellent growth, helped in part by the benefit of higher brand awareness in the catchment areas around our stores.

The JD Williams brands, which form the core of the mature female segment, are being modernised and, to date, the changes have been well received by customers. At the same time Marisota has continued to perform strongly and as a result the segment has returned to growth in the half.

All product categories experienced growth and product margin improved despite a movement in mix which favoured lower margin home and leisure categories, which grew by 14%. Footwear sales grew by 16%, ladieswear grew by 3% and menswear grew by 6%.

All channels are performing well and our internet penetration is increasing across all customer segments. Internet sales grew by 13% and accounted for 56% of home shopping sales in the first half, aided by increasing tablet and smartphone use, which combined now represent 36% of web traffic. As a result, we continue to reduce our paper-based marketing activity and have saved £1.5m in costs in the year to date.

Gross Margin and Overheads

The overall reduction in gross margin was 80 basis points as a result of the expected increase in bad debt, and following the strong customer recruitment earlier in the year which is now driving higher levels of profitability. The rate of arrears on customer debt was unchanged from last year, although the higher rate of default arising on new customer recruitment contributed to the 0.8% uplift in the bad debt to sales ratio to 8.8%. The improved gross margin on product referred to above was offset by the slightly lower financial income yield.

Selling and administration costs rose by only 6.3%, due to more efficient marketing spend in the period, highlighting the lower catalogue costs and contact optimisation referred to above. Distribution costs rose by 7.9% in line with sales growth.

Stores and International

We now operate from seven sites, including six dual facia Simply Be/Jacamo stores. Sales performance was strong in the first half – amounting to £3.4m – and losses were £1.0m. Overall, the stores broke even at store contribution level as a result of the much improved trading performance, the introduction of credit, and the "halo" online sales effect of the store portfolio. We have decided to expand our store portfolio and a further two dual facia locations will be opened in Leeds and Derby at the end of October this year. Stores are proving to be an effective multichannel hub for customers and currently we intend to grow the estate to around 25 stores.

In the US, we chose to slow the level of customer recruitment activity during the first half in order to evaluate the customer experience so far and then put in place a number of improvements. Our website has been substantially upgraded, our customers can now track their orders for the first time and we are also offering reduced delivery times. Sales, which increased by 31% to £4.5m, were consequently a little below our original expectations in the half but having implemented the service improvements we have now resumed the customer recruitment programme and are already seeing an encouraging acceleration in growth. For the immediate future we are focusing our international strategy on the US market.

Current trading and outlook

Overall trading in the five weeks to 5 October 2013 has continued to be strong with sales performing well across all consumer segments. Total sales are up 8.2% and by 8.0% on a like-for-like basis.

Taking advantage of our market position in the plus size and mature fashion retail arena we expect the second half performance to remain in line with our previous expectations.

I would like to thank our committed staff for their hard work in delivering these results and on the on-going projects which will continue to drive our future growth.

Angela Spindler, Chief Executive
9 October 2013

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**26 weeks to 31 Aug 13 £m**	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Revenue	4	**409.6**	379.3	784.7
Operating profit	4	**48.4**	45.7	102.2
Investment income		**–**	0.1	0.1
Finance costs		**(3.4)**	(3.8)	(7.2)
Profit before taxation and fair value adjustments to financial instruments		**45.0**	42.0	95.1
Fair value adjustments to financial instruments	5	**(0.9)**	(0.2)	1.3
Profit before taxation		**44.1**	41.8	96.4
Taxation	6	**(9.7)**	(7.2)	(17.0)
Profit attributable to equity holders of the parent		**34.4**	34.6	79.4
Adjusted earnings per share	7			
Basic		**12.55p**	12.48p	28.15p
Diluted		**12.50p**	12.46p	28.09p
Earnings per share	7			
Basic		**12.30p**	12.44p	28.51p
Diluted		**12.25p**	12.42p	28.45p

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 weeks to 31 Aug 13 £m	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Profit for the period	**34.4**	34.6	79.4
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(2.1)**	0.4	(4.0)
Tax relating to items not reclassified	**0.5**	(0.1)	1.0
	(1.6)	0.3	(3.0)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(0.4)**	(0.7)	0.4
Total comprehensive income for the period attributable to equity holders of the parent	**32.4**	34.2	76.8

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	31 Aug 13 £m	01 Sep 12 £m	02 Mar 13 £m
Non-current assets			
Intangible assets	**70.5**	65.0	69.6
Property, plant & equipment	**63.6**	67.8	66.4
Retirement benefit surplus	**–**	1.6	–
Deferred tax assets	**3.3**	1.6	3.4
	137.4	136.0	139.4
Current assets			
Inventories	**89.3**	81.5	86.5
Trade and other receivables	**571.5**	535.6	548.7
Derivative financial instruments	**0.3**	–	1.2
Cash and cash equivalents	**52.1**	61.9	61.3
	713.2	679.0	697.7
Total assets	**850.6**	815.0	837.1
Current liabilities			
Trade and other payables	**(114.5)**	(119.7)	(109.7)
Derivative financial instruments	**–**	(0.3)	–
Current tax liability	**(18.5)**	(18.0)	(19.0)
	(133.0)	(138.0)	(128.7)
Net current assets	**580.2**	541.0	569.0
Non-current liabilities			
Bank loans	**(250.0)**	(250.0)	(250.0)
Retirement benefit obligation	**(3.2)**	–	(3.3)
Deferred tax liabilities	**(8.3)**	(10.6)	(9.1)
	(261.5)	(260.6)	(262.4)
Total liabilities	**(394.5)**	(398.6)	(391.1)
Net assets	**456.1**	416.4	446.0
Equity			
Share capital	**31.3**	31.3	31.3
Share premium account	**11.0**	11.0	11.0
Own shares	**(0.6)**	(1.0)	(0.9)
Foreign currency translation reserve	**1.9**	1.2	2.3
Retained earnings	**412.5**	373.9	402.3
Total equity	**456.1**	416.4	446.0

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 31 Aug 13 £m	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Net cash from operating activities	**26.1**	41.2	72.4
Investing activities			
Purchases of property, plant and equipment	**(1.2)**	(4.5)	(7.1)
Purchases of intangible assets	**(7.3)**	(7.5)	(17.9)
Interest received	**–**	0.1	0.1
Net cash used in investing activities	**(8.5)**	(11.9)	(24.9)
Financing activities			
Interest paid	**(3.4)**	(3.7)	(6.9)
Dividends paid	**(23.0)**	(21.5)	(36.8)
Purchase of shares by ESOT	**(0.9)**	–	(0.5)
Proceeds on issue of shares held by ESOT	**0.5**	0.3	0.5
Net cash used in financing activities	**(26.8)**	(24.9)	(43.7)
Net (decrease)/increase in cash and cash equivalents	**(9.2)**	4.4	3.8
Opening cash and cash equivalents	**61.3**	57.5	57.5
Closing cash and cash equivalents	**52.1**	61.9	61.3

RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	26 weeks to 31 Aug 13 £m	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Operating profit	**48.4**	45.7	102.2
Adjustments for:			
Depreciation of property, plant and equipment	**4.0**	3.9	7.9
Amortisation of intangible assets	**6.4**	5.3	11.1
Share option charge	**1.1**	1.1	2.1
Operating cash flows before movements in working capital	**59.9**	56.0	123.3
(Increase)/decrease in inventories	**(2.8)**	1.1	(3.9)
Increase in trade and other receivables	**(23.1)**	(14.3)	(26.4)
Increase in trade and other payables	**4.7**	13.1	3.1
Pension obligation adjustment	**(2.2)**	(2.3)	(1.9)
Cash generated by operations	**36.5**	53.6	94.2
Taxation paid	**(10.4)**	(12.4)	(21.8)
Net cash from operating activities	**26.1**	41.2	72.4

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Own shares £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
Changes in equity for the 26 weeks to 31 August 2013						
Balance at 2 March 2013	31.3	11.0	(0.9)	2.3	402.3	446.0
Profit for the period	–	–	–	–	34.4	34.4
Other items of comprehensive income for the period	–	–	–	(0.4)	(1.6)	(2.0)
Total comprehensive income for the period	–	–	–	(0.4)	32.8	32.4
Equity dividends	–	–	–	–	(23.0)	(23.0)
Purchase of own shares by ESOT	–	–	(0.9)	–	–	(0.9)
Issue of own shares by ESOT	–	–	1.2	–	–	1.2
Adjustment to equity for share payments	–	–	–	–	(0.7)	(0.7)
Share option charge	–	–	–	–	1.1	1.1
Balance at 31 August 2013	**31.3**	**11.0**	**(0.6)**	**1.9**	**412.5**	**456.1**
Changes in equity for the 26 weeks to 1 September 2012						
Balance at 3 March 2012	31.3	11.0	(1.5)	1.9	359.6	402.3
Profit for the period	–	–	–	–	34.6	34.6
Other items of comprehensive income for the period	–	–	–	(0.7)	0.3	(0.4)
Total comprehensive income for the period	–	–	–	(0.7)	34.9	34.2
Equity dividends	–	–	–	–	(21.5)	(21.5)
Issue of own shares by ESOT	–	–	0.5	–	-	0.5
Adjustment to equity for share payments	–	–	–	–	(0.2)	(0.2)
Share option charge	–	–	–	–	1.1	1.1
Balance at 1 September 2012	**31.3**	**11.0**	**(1.0)**	**1.2**	**373.9**	**416.4**
Changes in equity for the 52 weeks to 2 March 2013						
Balance at 3 March 2012	31.3	11.0	(1.5)	1.9	359.6	402.3
Profit for the period	–	–	–	–	79.4	79.4
Other items of comprehensive income for the period	–	–	–	0.4	(3.0)	(2.6)
Total comprehensive income for the period	–	–	–	0.4	76.4	76.8
Equity dividends	–	–	–	–	(36.8)	(36.8)
Purchase of own shares by ESOT	–	–	(0.5)	–	-	(0.5)
Issue of own shares by ESOT	–	–	1.1	–	-	1.1
Adjustment to equity for share payments	–	–	–	–	(0.6)	(0.6)
Share option charge	–	–	–	–	2.1	2.1
Tax on items recognised directly in equity	–	–	–	–	1.6	1.6
Balance at 2 March 2013	**31.3**	**11.0**	**(0.9)**	**2.3**	**402.3**	**446.0**

1. Basis of preparation

The group's interim results for the 26 weeks ended 31 August 2013 were approved by the board of directors on 9 October 2013, and have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those disclosed in the annual report & accounts for the 52 weeks ended 2 March 2013 other than that as set out below.

IAS 19 (revised) Employee Benefits. An amendment to IAS 19 has impacted the various components representing movements in the defined benefit pension obligation, but not the group's total obligation. Expected returns on plan assets has been replaced with a net finance cost in the income statement. The prior year figures have not been restated as the impact is not material.

The condensed consolidated financial statements have not been audited or reviewed by the auditors pursuant to the International Standard on Review Engagements (UK & Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the UK Auditing Practices Board.

The financial information for the 52 weeks ended 2 March 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of those accounts have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

2. Risks and uncertainties

There are a number of risks and uncertainties which could have an impact on the group's long-term performance. These include consideration of the general economic climate, the impact it has on the provision of credit to our customers and their ability to maintain payment terms; the potential threat from our competitors; our relationship with key suppliers; the loss of key personnel; potential disruption to our key information systems, warehousing or call centre facilities arising from events beyond our control, such as fire or other issues which could have a detrimental impact on sales and profit; and changes to the regulatory environment in which the business operates, primarily regulated by the Financial Conduct Authority and the Office of Fair Trading. These risks are consistent with those disclosed in the 2013 Annual Report & Accounts and remain relevant for the rest of the financial year.

The directors routinely monitor all these risks and uncertainties taking appropriate actions to mitigate where necessary. Business continuity procedures are in place, together with a dedicated team assessing regulatory developments, ensuring we treat our customers fairly and hosting regular reviews with all of our strategic partners. The board are also committed to the investment in systems and infrastructure to keep pace with new technology.

3. Going concern

In determining whether the group's accounts can be prepared on a going concern basis, the directors considered the group's business activities together with factors likely to affect its future development, performance and financial position, including cash flows, liquidity position, borrowing facilities and the principal risks and uncertainties relating to its business activities.

The group has considered carefully its cash flows and banking covenants for the next twelve months from the date of approval of the group's interim results. These have been appraised in light of the uncertainty in the current economic climate. Conservative assumptions for working capital performance have been used to determine the level of financial resources available to the company and to assess liquidity risk. The key trading risk identified by the directors for these assumptions is the impact that a further deterioration in the economic climate might have on the performance of the group's sales and debtor book.

The group's forecasts and projections, after sensitivity to take account of all reasonably foreseeable changes in trading performance, show that the group will have sufficient headroom within its current loan facilities of £370m which are committed until March 2016.

After making appropriate enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

4. Business segments	**26 weeks to 31 Aug 13 £m**	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Analysis of revenue – Home shopping			
Sale of goods	**291.3**	267.8	557.8
Rendering of services	**118.3**	111.5	226.9
	409.6	379.3	784.7
Analysis of result			
Segment result & operating profit – Home shopping	**48.4**	45.7	102.2
Investment income	**–**	0.1	0.1
Finance costs	**(3.4)**	(3.8)	(7.2)
Fair value adjustments to financial instruments	**(0.9)**	(0.2)	1.3
Profit before taxation	**44.1**	41.8	96.4

The group has one business segment and one significant geographical segment that operates in, and derives revenue from, the United Kingdom. Revenue derived from international markets which, management now analyse as including Ireland, amounted to £15.3m (2012, £14.8m) and incurred operating losses of £1.0m (2012, £1.1m). All segment assets are located in the UK and Ireland.

5. Derivative financial instruments

At the balance sheet date, details of outstanding forward foreign exchange contracts that the group has committed to are as follows:

	26 weeks to 31 Aug 13 £m	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Notional Amount – Sterling contract value	**22.9**	30.6	22.1
Fair value of asset/(liability) recognised	**0.3**	(0.3)	1.2

Changes in the fair value of assets/liabilities recognised, being non-hedging currency derivatives, amounted to a charge of £0.9m (2012, charge of £0.2m) to income in the period.

The fair value of foreign currency derivatives contracts is their quoted market value at the balance sheet date. Market values are based on the duration of the derivative instrument, together with the market data, including interest rates, foreign exchange rates and market volatility at the balance sheet date.

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (2012, same). Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (ie as prices) or indirectly (ie derived from prices). There were no transfers between Level 1 and Level 2 during the period (2012, same).

6. Taxation

The taxation charge for the 26 weeks ended 31 August 2013 is based on the estimated effective tax rate for the full year of 22.0% (2012, 17.3%). Last year's effective rate was significantly lower than the statutory rate due to the favourable settlement of certain prior year initiatives.

7. Earnings per share

Earnings	**26 weeks to 31 Aug 13 £m**	26 weeks to 01 Sep 12 £m	52 weeks to 02 Mar 13 £m
Net profit attributable to equity holders of the parent for the purpose of basic and diluted earnings per share	**34.4**	34.6	79.4
Fair value adjustment to financial instruments (net of tax)	**0.7**	0.1	(1.0)
Net profit attributable to equity holders of the parent for the purpose of basic and diluted adjusted earnings per share	**35.1**	34.7	78.4

Number of shares	**26 weeks to 31 Aug 13 No. ('000s)**	26 weeks to 01 Sep 12 No. ('000s)	52 weeks to 02 Mar 13 No. ('000s)
Weighted average number of shares in issue for the purpose of basic earnings per share	**279,593**	278,032	278,536
Effect of dilutive potential ordinary shares: Share options	**1,171**	519	529
Weighted average number of shares in issue for the purpose of diluted earnings per share	**280,764**	278,551	279,065
Earnings per share			
Basic	**12.30p**	12.44p	28.51p
Diluted	**12.25p**	12.42p	28.45p
Adjusted earnings per share			
Basic	**12.55p**	12.48p	28.15p
Diluted	**12.50p**	12.46p	28.09p

8. Dividends

The directors have declared and approved an interim dividend of 5.67p per share (2012, 5.45p). This will be paid on 3 January 2014 to shareholders on the register at the close of business on 6 December 2013.

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first 26 weeks and description of principal risks and uncertainties for the remaining 26 weeks of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Angela Spindler
Chief Executive

Dean Moore
Finance Director

9 October 2013

Griffin House
40 Lever Street
Manchester, M60 6ES

www.nbrown.co.uk