

John Menzies plc is a leading distribution services group with a strategy firmly focused on growing shareholder value by creating a top quality business for the future.

**Menzies Group**

Interim Statement 1999/2000

# Highlights

Operating profit: £6.0m up £1.5m

Headline profit before tax: £4.1m up £0.9m

Headline earnings per share: 3.2p up 0.9p

Profit before tax: £7.8m up £4.6m

Earnings per share: 9.8p up 7.5p

Interim dividend: 5.0p up 4%

- John Menzies Wholesale has again performed well
- Early Learning Centre like for like sales up 8%
- Expansion continues at Menzies Transport Services
- Reductions at THE and THE Games offset good results elsewhere
- Exceptional profit on property disposal – £3.7m

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Registered in Scotland No 34970

Registered office: 108 Princes Street, Edinburgh EH2 3AA

Copies of this statement are being sent to all shareholders.

Copies are also available at the registered office of the company.

# Chairman's Statement

We continue to make good progress towards our goal of becoming a focused distribution services group.

John Menzies Wholesale has again performed well, blending innovation with efficiency, and in the process providing strong cash flow for future development within the Group.

Menzies Transport Services continues to expand, both by acquisition within its cargo operations and by developing new activities. Its relationship with Lufthansa remains strong, and is expected to bring further opportunities.

Early Learning Centre is benefiting from the major restructuring undertaken in all aspects of its business, and is also opening up new routes to market. The business remains on track to return to profitability and it remains our intention to demerge the business when we believe that to be in the best interest of the shareholders.

The period has seen further changes to our Board. Martyn Smith who joined the Board as Group Finance Director in July 1999 is already making a significant contribution. In December we also appointed Peter Smith who is Chief Executive of Menzies Transport Services – this in itself demonstrating the importance which the Board attaches to this aspect of our business.

Your Board has declared an interim dividend of 5.0p, an increase of 4%. Whilst the short-term trading environment is challenging, we remain confident that our strategy is sound and will lead to future growth.



Gavin Reed,  
Chairman  
18th January 2000

# Chief Executive's Report

The reshaping and repositioning of the Group continues, supported by the strong platform afforded by John Menzies Wholesale. As expected, trading at THE and THE Games remained difficult in very competitive market conditions. Our airport services business, Menzies Transport Services, achieved further strategic progress, while Early Learning Centre benefited from the significant changes that have been introduced.

## INTERIM RESULTS

### Summary

Headline profit before tax increased from £3.2m to £4.1m, and Headline earnings per share rose from 2.3p to 3.2p. The sale of Hanover Buildings, Edinburgh, generated an exceptional gain of £3.7m, and overall profit before tax therefore increased by £4.6m to £7.8m, and earnings per share from 2.3p to 9.8p.

Sales for the six months to 30th October 1999 fell by 2% to £592.9m as a result of reductions at both THE businesses which more than offset good progress in all other divisions.

Overall operating profit was £1.5m ahead of last year at £6.0m. Distribution profit was down by £1.0m at £12.5m on the lower trading levels at the THE divisions, however Early Learning Centre's seasonal losses were reduced by over 25% to £6.5m.

Interest costs of £1.9m were £0.6m higher, largely due to lower creditor levels at THE Games, on reduced seasonal working capital.

### Cash Flow

There was a cash outflow in the period of £36.6m, a significant improvement on the £50.5m outflow in the comparative period excluding the receipt of the £67.9m proceeds from the disposal of the John Menzies Retail chain.

The largest influence on operating cash flow, given the seasonal effect of Christmas trading on several divisions of the Group, was the movement in working capital which increased by £29.9m. This was an improvement over the £42.5m increase in the comparative period, largely due to lower THE and THE Games activity levels.

Capital expenditure amounted to £11.2m, a level similar to last year. The £7.5m proceeds from the sale of Hanover Buildings significantly reduced the net outflow to £3.5m. A further £6.0m was spent in acquiring the air cargo businesses of BOC plc last summer.

These cash movements resulted in net debt at 30th October of £36.0m compared with £0.6m net cash at 1st May 1999.

## Divisional Highlights

John Menzies Wholesale remains the dominant business within the Group. Sales of £413.2m were 2% up on the comparative period. The division has focused on creating new opportunities for cost savings from a more efficient branch network, building on the successful rationalisation of distribution territories completed last year, and through its IT development programme. We continue to explore further development opportunities.

Some tactical price cutting of newspapers occurred although there are signs that cover prices are beginning to increase. Conversely, trading conditions for magazines tightened with growth slower at 3% and some below-RPI cover price increases.

We have refined our successful space and range planning programmes to help drive sales volume for the major chains, and have also developed specialised value-added services particularly for the major independent newspapers.

In conjunction with WH Smith, Surridge Dawson and certain independent wholesalers, we set up FMD Limited, a joint venture which recently acquired Worldwide Magazine Distribution Limited, providing the opportunity to supply non-traditional outlets such as specialist sports and music retailers on a national basis. This acquisition will operate separately from the existing businesses of the investors.

New management at THE has significantly improved efficiencies, and these changes provided a platform for it to secure Internet fulfilment business, adding 2% to total revenues. However, disappointing high street trading, due to a poor release schedule and retailer overstocking going into the key Christmas period, together with insufficient new business to replace the loss of certain key customers over the past year, restricted sales for the period to £49.9m, down from £74.0m last year.

THE Games witnessed mixed trading fortunes with sales of £30.3m, some 33% lower than the comparative period, which had benefited from the peak demand for the Nintendo N64. This console is experiencing a relatively short life cycle. Anticipated lower volumes, together with reduced hardware and software prices, have been exacerbated by the introduction of next generation product by one competitor and the early announcement of development plans by another. On the other hand, Gameboy continued to dominate the hand-held market, with demand for the new Pokemon product launched in October exceeding available supply.

Turnover at MTS increased by 64% to £37.6m. The division has firmly established itself as the leading independent air cargo handler in the UK following the acquisition of BOC's cargo handling business, which is currently loss making but which is expected to be profitable next year. Some 155,000 tonnes of cargo was handled at Heathrow by MTS during the six months, a significant increase on the 52,000 tonnes in the comparative period. BOC accounted for 67,000 tonnes of the increase, with the balance reflecting the inclusion of London Cargo Centre for the full period plus good organic growth.

In January we acquired the Aer Lingus cargo terminal for £6.0m. This will increase our capacity at Heathrow by a further 10%.

The Heathrow passenger and baggage transfer business, Connect, commenced operations on 1st May 1999 and has produced a first class performance. Other development activity in the period included the commencement of airport security services, and of ground handling activities at Stansted, both initially incurring start up costs.

Early Learning Centre continued to make good progress with sales 12% higher at £65.5m. The financial results reflect the benefit of the fundamental changes made in this business over the past two years. Like-for-like sales growth of 8% was an excellent performance in a deflationary market which many retailers found challenging.

The total sales growth also reflected an increase in sales through other channels. These included the successful launch of the ELC website in October, expansion of the business with Sainsbury, opening of concessions within Debenhams and a limited trial within Granada service stations.

#### Year 2000

The Group's comprehensive programme proved successful, with the Year 2000 producing no disruption to our operating systems.

#### OUTLOOK

Despite the disposal of John Menzies Retail, full year results are still affected by Christmas trading, where November and December produced mixed results.

In particular, THE did not benefit from any major video or music releases, and trading at THE Games suffered more than anticipated from competitive market conditions and the maturing N64 product cycle. However, Gameboy and Pokemon were highly successful and exceeded expectations.

Early Learning Centre continued to win market share. November was disappointing, but in December like for like sales growth of almost 4% was an encouraging achievement especially on top of its 15% sales increase in the previous December.

The key businesses of John Menzies Wholesale and MTS are not materially seasonal and are performing well, and I have full confidence in the long-term growth prospects for the Group.



David Mackay,  
Chief Executive  
18th January 2000

# Group Profit and Loss Account

|   | Notes | Interim                                |  | Full year                        |
|---|-------|--|--|----------------------------------|
|   |       | Half year<br>to 30th Oct<br>1999<br>£m | Half year<br>to 31st Oct<br>1998<br>£m | Year to<br>1st May<br>1999<br>£m |
|   |       |  |  |                                  |
| <b>TURNOVER</b>                             |       |  |  |                                  |
| Group                                       | 2     | <b>596.5</b>                           | 607.6                                  | 1,284.5                          |
| Less: share of Joint Venture                |       | <b>(3.6)</b>                           | (2.0)                                  | (5.2)                            |
|   |       | <b>592.9</b>                           | 605.6                                  | 1,279.3                          |
| <b>Group operating profit</b>               |       |  |  |                                  |
| Exceptional item                            | 3(a)  | <b>3.1</b>                             | 2.7                                    | 25.5                             |
|   |       | <b>–</b>                               | –                                      | (14.9)                           |
|   |       | <b>3.1</b>                             | 2.7                                    | 10.6                             |
| <b>SHARE OF OPERATING PROFIT/(LOSS) IN:</b> |       |  |  |                                  |
| Joint Venture                               |       | <b>0.5</b>                             | (0.2)                                  | 0.2                              |
| Associate                                   |       | <b>2.4</b>                             | 2.0                                    | 5.1                              |
| <b>Operating profit</b>                     | 2     | <b>6.0</b>                             | 4.5                                    | 15.9                             |
| Exceptional items                           | 3(b)  | <b>3.7</b>                             | –                                      | 0.4                              |
| <b>Profit before interest</b>               |       | <b>9.7</b>                             | 4.5                                    | 16.3                             |
| Net interest payable                        |       | <b>(1.9)</b>                           | (1.3)                                  | (2.9)                            |
| <b>Profit before taxation</b>               |       | <b>7.8</b>                             | 3.2                                    | 13.4                             |
| Taxation                                    | 4     | <b>(1.4)</b>                           | (1.0)                                  | (3.9)                            |
| <b>Profit for the financial period</b>      |       | <b>6.4</b>                             | 2.2                                    | 9.5                              |
| <b>PER ORDINARY SHARE</b>                   |       |  |  |                                  |
| Headline earnings                           | 5     | <b>3.2p</b>                            | 2.3p                                   | 31.8p                            |
| Earnings                                    | 5     | <b>9.8p</b>                            | 2.3p                                   | 13.7p                            |
| Diluted earnings                            | 5     | <b>9.7p</b>                            | 2.3p                                   | 13.6p                            |
| Dividend                                    |       | <b>5.0p</b>                            | 4.8p                                   | 15.8p                            |



# Group Cash Flow Statement

|   | Interim                                |  | Full year                        |
|---|--|--|----------------------------------|
|   | Half year<br>to 30th Oct<br>1999<br>£m | Half year<br>to 31st Oct<br>1998<br>£m | Year to<br>1st May<br>1999<br>£m |
| Net cash (outflow)/inflow from            |  |  |                                  |
| operating activities                      | <b>(20.9)</b>                          | (32.7)                                 | 18.1                             |
| Dividend received from associate          | <b>3.0</b>                             | 2.2                                    | 2.2                              |
| Net cash outflow from returns on          |  |  |                                  |
| investments and servicing of finance      | <b>(3.3)</b>                           | (2.2)                                  | (3.7)                            |
| Taxation paid                             | <b>-</b>                               | (0.6)                                  | (7.9)                            |
| Net cash outflow from capital expenditure |  |  |                                  |
| and financial investment                  | <b>(3.5)</b>                           | (11.8)                                 | (22.3)                           |
| Net cash (outflow)/inflow from            |  |  |                                  |
| acquisitions and disposals:               |  |  |                                  |
| Acquisitions                              | <b>(6.0)</b>                           | -                                      | (2.5)                            |
| Disposals                                 | <b>-</b>                               | 67.9                                   | 70.6                             |
| Equity dividends paid                     | <b>(6.2)</b>                           | (5.8)                                  | (8.5)                            |
| Net cash outflow from financing           | <b>(0.7)</b>                           | (17.4)                                 | (30.2)                           |
| <b>(Decrease)/increase in cash</b>        | <b>(37.6)</b>                          | (0.4)                                  | 15.8                             |

## RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

|  |               |        |        |
|--|---------------|--------|--------|
| Operating profit                       | <b>6.0</b>    | 4.5    | 15.9   |
| Depreciation                           | <b>7.0</b>    | 7.0    | 13.5   |
| Amortisation of goodwill               | <b>0.2</b>    | -      | -      |
| Increase in working capital:           |               |        |        |
| Stock                                  | <b>(11.0)</b> | (44.7) | 1.1    |
| Debtors                                | <b>(13.6)</b> | (29.5) | 6.3    |
| Creditors                              | <b>(5.3)</b>  | 31.7   | (14.6) |
| Other items not involving the movement |               |        |        |
| of cash                                | <b>(4.2)</b>  | (1.7)  | (4.1)  |
|  | <b>(20.9)</b> | (32.7) | 18.1   |

# Notes

## 1. PREPARATION OF THE INTERIM RESULTS

This interim statement in respect of the 26 weeks to 30th October 1999 has been prepared on the basis of accounting policies consistent with those set out in the Group Accounts for the year ended 1st May 1999.

The interim results are unaudited and were approved by the Board on 17th January 2000. The results for the 52 weeks to 1st May 1999 are an abridged version of the Group's full accounts, which carried an unqualified Auditors' Report and which have been filed with the Registrar of Companies.

## 2. SEGMENTAL ANALYSIS

|                                    | Turnover                               |  |                                  | Operating Profit (pre exceptional)     |  |                                  |
|------------------------------------|--|--|----------------------------------|--|--|----------------------------------|
|                                    |  | Interim                                | Full year                        |  | Interim                                | Full year                        |
|                                    | Half year<br>to 30th Oct<br>1999<br>£m | Half year<br>to 31st Oct<br>1998<br>£m | Year to<br>1st May<br>1999<br>£m | Half year<br>to 30th Oct<br>1999<br>£m | Half year<br>to 31st Oct<br>1998<br>£m | Year to<br>1st May<br>1999<br>£m |
| <b>Distribution services</b>       | <b>527.4</b>                           | 544.3                                  | 1,129.3                          | <b>9.6</b>                             | 11.7                                   | 29.5                             |
| Joint Venture:                     |  |  |                                  |  |  |                                  |
| London Cargo Centre                | <b>3.6</b>                             | 2.0                                    | 5.2                              | <b>0.5</b>                             | (0.2)                                  | 0.2                              |
| Associate:                         |  |  |                                  |  |  |                                  |
| Samas Universal<br>Office Supplies |  |  |                                  | <b>2.4</b>                             | 2.0                                    | 5.1                              |
|                                    | <b>531.0</b>                           | 546.3                                  | 1,134.5                          | <b>12.5</b>                            | 13.5                                   | 34.8                             |
| <b>Retailing</b>                   | <b>65.5</b>                            | 58.4                                   | 146.3                            | <b>(6.5)</b>                           | (8.7)                                  | (4.0)                            |
| <b>Continuing operations</b>       | <b>596.5</b>                           | 604.7                                  | 1,280.8                          | <b>6.0</b>                             | 4.8                                    | 30.8                             |
| <b>Discontinued operation</b>      | <b>-</b>                               | 2.9                                    | 3.7                              | <b>-</b>                               | (0.3)                                  | -                                |
|                                    | <b>596.5</b>                           | 607.6                                  | 1,284.5                          | <b>6.0</b>                             | 4.5                                    | 30.8                             |

## 3. EXCEPTIONAL ITEMS

- (a) The 14.9m charge related to a stock disposal programme at THE in the year to 1st May 1999.
- (b) On 15th September 1999 the Group sold its freehold interest in Hanover Buildings, Edinburgh for a gain of £3.7m upon which no taxation will be payable. On 30th November 1998 the Smythson of Bond Street business was sold for a gain of £0.4m.

## 4. TAXATION

Taxation has been estimated at an effective UK tax rate of 30% (1998: 31%).

## 5. EARNINGS PER SHARE

|  | Headline                               |  |                                  | Post exceptional items                 |  |                                  |
|--|--|--|----------------------------------|--|--|----------------------------------|
|  |  | Interim                                | Full year                        |  | Interim                                | Full year                        |
|  | Half year<br>to 30th Oct<br>1999<br>£m | Half year<br>to 31st Oct<br>1998<br>£m | Year to<br>1st May<br>1999<br>£m | Half year<br>to 30th Oct<br>1999<br>£m | Half year<br>to 31st Oct<br>1998<br>£m | Year to<br>1st May<br>1999<br>£m |
| Operating profit                                 | <b>6.0</b>                             | 4.5                                    | 30.8                             | <b>6.0</b>                             | 4.5                                    | 30.8                             |
| Interest (exc exceptional<br>item in full year)  | <b>(1.9)</b>                           | (1.3)                                  | (2.2)                            | <b>(1.9)</b>                           | (1.3)                                  | (2.2)                            |
| Exceptional items                                | <b>-</b>                               | -                                      | -                                | <b>3.7</b>                             | -                                      | (15.2)                           |
| Profit before taxation                           | <b>4.1</b>                             | 3.2                                    | 28.6                             | <b>7.8</b>                             | 3.2                                    | 13.4                             |
| Preference dividend                              | <b>(0.9)</b>                           | (0.9)                                  | (1.8)                            | <b>(0.9)</b>                           | (0.9)                                  | (1.8)                            |
| Taxation   | <b>(1.4)</b>                           | (1.0)                                  | (8.9)                            | <b>(1.4)</b>                           | (1.0)                                  | (3.9)                            |
| <b>Earnings for period</b>                       | <b>1.8</b>                             | 1.3                                    | 17.9                             | <b>5.5</b>                             | 1.3                                    | 7.7                              |
| Earnings per share                               | <b>3.2p</b>                            | 2.3p                                   | 31.8p                            | <b>9.8p</b>                            | 2.3p                                   | 13.7p                            |
| Number of ordinary shares<br>in issue (millions) |  |  |                                  |  |  |                                  |
| Weighted average                                 | <b>56.40</b>                           | 56.33                                  | 56.36                            |  |  |                                  |
| Diluted weighted<br>average                      | <b>56.42</b>                           | 56.52                                  | 56.44                            |  |  |                                  |

## 6. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|   | Interim                   |                           | Full year                |
|---|---------------------------|---------------------------|--------------------------|
|   | As at<br>30th Oct<br>1999 | As at<br>31st Oct<br>1998 | As at<br>1st May<br>1999 |
|   | £m                        | £m                        | £m                       |
| Profit for the financial period                           | 6.4                       | 2.2                       | 9.5                      |
| Dividends: ordinary shares                                | (2.8)                     | (2.7)                     | (8.8)                    |
| preference shares   | (0.9)                     | (0.9)                     | (1.8)                    |
| Shares issued   | 0.3                       | 0.5                       | 0.5                      |
| Other   | -                         | -                         | 1.3                      |
| <b>Net increase/(decrease)<br/>in shareholders' funds</b> | <b>3.0</b>                | <b>(0.9)</b>              | <b>0.7</b>               |
| Shareholders' funds at beginning of period                | 88.0                      | 87.3                      | 87.3                     |
| <b>Shareholders' funds at end of period</b>               | <b>91.0</b>               | <b>86.4</b>               | <b>88.0</b>              |

## 7. INTERIM DIVIDEND

Payment of the interim dividend will be made on 7th April 2000 to shareholders on the register at the close of business on 17th March 2000.

## 8. ANALYSIS OF NET DEBT

|                                   | Half year<br>to 30th Oct<br>1999 | Year to<br>1st May<br>1999 | Interim<br>cash<br>flows |
|-----------------------------------|----------------------------------|----------------------------|--------------------------|
|                                   | £m                               | £m                         | £m                       |
| Cash at bank and in hand          | 17.4                             | 52.4                       | (35.0)                   |
| Bank overdrafts                   | (17.2)                           | (14.6)                     | (2.6)                    |
|                                   | 0.2                              | 37.8                       | (37.6)                   |
| Current portion of finance leases | (0.9)                            | (1.0)                      | 0.1                      |
| Loan stock due within one year    | (0.1)                            | (0.8)                      | 0.7                      |
| Debt due after one year           | (35.2)                           | (35.4)                     | 0.2                      |
|                                   | (36.0)                           | 0.6                        | (36.6)                   |

## 9. ACQUISITIONS

On 4th June 1999 the Group acquired the UK air cargo handling operations of the BOC Group plc for £4.9m in cash. The Australian BOC air cargo handling operations were acquired on 29th July 1999 for £2.1m, £1.0m of which was deferred until 4th June 2000. The goodwill associated with these transactions amounts to £2.7m. The results and cashflows since acquisition are not material.

