

Ottakar's financial performance

1. This appendix examines the financial performance of Ottakar's in the 2005/06 financial year and the first two months of 2006/07 and the impact that this has had on its future plans.
2. For the financial year ended 28 January 2006 Ottakar's returned a profit before tax, exceptional and other one-off costs of £2.6 million (2004/05: £6.9 million). It attributed the decline in its profitability to a number of factors including increased market penetration and price competition from Internet retailers and supermarkets.
3. Results for the year show that like-for-like sales fell by 2.8 per cent compared with the previous financial year and by [X] per cent when compared with budget (2004/05: increase in like-for-like sales of 3.5 per cent on the previous year).
4. Ottakar's told us that 2005/06 was a tough year financially, particularly in the period since August 2005. Four profit warnings were issued during the year, the latest of which, on 14 December 2005, reported a fall in like-for-like sales of 3.4 per cent over the preceding 45 weeks and a fall of 6.7 per cent over the preceding 19 weeks in the face of 'unprecedented levels of price discounting'. However, the Christmas 2005 trading statement showed that, whilst sales had declined, Ottakar's managed to protect its margins by reducing costs. The monthly results are shown in Table 1 below.

TABLE 1 Financial performance—February 2005 to March 2006

	<i>per cent</i>				
	<i>LFL sales growth</i>	<i>LFL gross profit growth</i>	<i>Total company gross margin 2005/06</i>	<i>Total company gross margin 2004/05</i>	
2005					
Feb	()				
Mar					
Apr					
May					
Jun					
Jul					
Aug				✂	
Sep					
Oct					
Nov					
Dec					
2006					
Jan					
			2006/07*	2005/06*	
<i>Financial year 2006/07</i>					
Feb	()				
Mar					

Source: Ottakar's January, February and March 2006 management accounts.

*Gross margin from sales in coffee concessions is only included within the Total company gross margin from the new financial year beginning February 2006. The comparatives for February and March 2006 have been adjusted to reflect the change in presentation.

5. Like-for-like sales for the two months to the end of March 2006 were down by 7.3 per cent on the previous year. This was, in part, attributed to an early Easter in 2005, a period of high sales.
6. The weak end to the last financial year, particularly in January 2006, had a direct impact on the working capital requirements of the company. [X] As a result of the steps taken by management (see paragraphs 7 to 9) to stem the decline in the business, Ottakar's financial performance in the new financial year appears to be stabilizing around budgeted performance levels. The company believes that margins are moving in line with budget, the sales trend for the year is improving and the sales gap to budget is expected to narrow.
7. [X]
8. [X]
9. The steps which have been taken or are to be taken shortly to adapt to the changing competitive environment include:
 - (a) the opening of four new stores to which the company is already committed;
 - (b) [X];
 - (c) development of an in-house designed stock management system to improve stock control and reduce working capital requirements;
 - (d) considering the launch of a transactional website;
 - (e) [X]
 - (f) [X]
 - (g) [X]; and
 - (h) [X]