The Body Shop International PLC 2001: An Introduction to Financial Modeling

Finance bored the pants off me. I fell asleep more times than not.[1]
  —Anita Roddick, founder,
  The Body Shop International

Roddick, as self-righteous as she is ambitious, professes to be unconcerned [with financial results]. . . . "Our business is about two things: social change and action, and skin care," she snaps. "Social change and action come first. You money-conscious people . . . just don't understand." Well, maybe we don't, but we sure know this: Roddick is one hell of a promoter. . . . She and her husband, Gordon, own shares worth just under $300 million. Now that's social action.[2]

One of our greatest frustrations at The Body Shop is that we're still judged by the media and the City by our profits, by the amount of product we sell, whereas we want and have always wanted to be judged by our actions in the larger world, by the positive difference we make.[3]
  —Anita Roddick

In the late 1990s, The Body Shop International PLC, previously one of the fastest growing manufacturer-retailers in the world, ran aground. Although the firm had an annual revenue growth rate of 20% in the early to middle 1990s, by the late 1990s, revenue growth slowed to around 8%. New retailers of the naturally based skin- and hair-care products entered the market, bringing intense competition for The Body

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[1] Anita Roddick, *Body and Soul* (London: Ebury Press, 1991), 105.
[2] Jean Sherman Chatzky, "Changing the World," *Forbes* (2 March 1992): 87.
[3] Anita Roddick, *Business as Unusual* (London: Thorsons, 2000), 56.

Shop. Amidst the competition, The Body Shop failed to maintain its brand image by becoming something of a mass-market line as it expanded into "almost every mall in America, as well as virtually every corner on Britain's shopping streets."[4]

Anita Roddick, founder of The Body Shop, stepped down as chief executive officer (CEO) in 1998,[5] after numerous unsuccessful attempts to reinvent the company. Patrick Gournay, an executive from the French food giant Danone SA came on board as CEO. However, problems persisted despite the management change. In fiscal year 2001, revenue grew 13%, but pretax profit declined 21%. Gournay said of the results, "This is below our expectations, and we are disappointed with the outcome."[6]

Nonetheless, Gournay was confident that a newly implemented strategy would produce improved results. The strategy consisted of three principal objectives: "To enhance The Body Shop Brand through a focused product strategy and increased investment in stores; to achieve operational efficiencies in our supply chain by reducing product and inventory costs; and to reinforce our stakeholder culture."[7]

Suppose that Anita Roddick, the Shop's founder and cochair of the board of directors, and Patrick Gournay, CEO, came to you in the spring of 2001, looking for assistance in short- and long-term planning for The Body Shop. As a foundation for this work, you will need to estimate The Body Shop's future earnings and financial needs. The challenge of this advisory work should not be underestimated. Anita Roddick is a strong-willed decision-maker with little taste for finance or financial jargon. Your projections must not only be technically correct, but they must also yield practical insights and be straightforward. What you have to say and how you say it are equally important.

If you feel comfortable using **Exhibit 8** to prepare the next three years of financial statements and to demonstrate The Body Shop's debt financing needs, you might be better served by scanning the next few sections on basic financial modeling and concentrating on the last section of the case (Roddick Wants to Know). From experience, however, a vast number of students have found the following exercises to be invaluable in their early understanding of financial modeling.

An Overview of Financial Forecasting

In seeking to respond to Roddick's request, you can draw on at least two classic forecasting methods and a variety of hybrids that use some of each method. The two classic forecasting methods are as follows:

> *T-account forecasting:* This method starts with a base year of financial statements, such as last year's. Entries through double-entry bookkeeping determine how each account will change and what the resulting new balances will be. While

[4]Sarah Ellisan, "Body Shop Seeks a Makeover—U.K. Cosmetics Retailer Confirms Sale Talks with Mexico's Grupo Omnilife—A Long and Difficult Fall from Grace," *Wall Street Journal Europe,* 8 June 2001.

[5]Anita Roddick remained on the company's board of directors and, together with her husband Gordon Roddick, served as cochair.

[6]CEO report (The Body Shop International PLC's preliminary results for the 53 weeks to March 3, 2001).

[7]CEO report (3 March 2001).

exactly true to the mechanics of how funds flow through the firm, this method is cumbersome and may require a degree of forecast information about transactions that are unavailable to many analysts outside (and even inside) the firm.

Percentage-of-sales forecasting: This method starts with a forecast of sales and then estimates other financial statement accounts based on some presumed relationship between sales and that account. While simple to execute, this technique is easily misused. For instance, some naive analysts may assume that operational capacity can increase in fractional amounts parallel to increases in sales, but can an airline company really buy only half a jumbo jet? Operational capacity usually increases in lump amounts, rather than in smooth amounts. The lesson here is that when you use this technique, you should scrutinize the percentage-of-sales relationships to make sure they are reasonable.

The most widely used approach is a hybrid of these two. For instance, T-accounts are used to estimate shareholders' equity and fixed assets. Percentage-of-sales is used to estimate income statements, current assets, and current liabilities, because these latter items may credibly vary with sales. Other items will vary as a percentage of accounts other than sales. Tax expense will usually be a percentage of pretax income, while dividends will vary with after-tax income, and depreciation will usually vary with gross fixed assets.

A Pencil-and-Paper Forecast

As an introduction to financial modeling, we will walk through the construction of a forecasted income statement and balance sheet, first with pencil and paper (just visualizing the steps may suffice) and later with a spreadsheet. In either case, you are preparing a pro forma, or projected, income statement and balance sheet for The Body Shop for 2002 (income statement for the entire year and balance sheet for year-end). All values should be in British pounds (GBP). Use the following assumptions as a guide:

Sales:	GBP422.733 million (a 13% increase over 2001)
Cost of goods sold (COGS):	38% of sales
Operating expenses:	50% of sales
Interest expense:	6% of debt (about the current interest rate)
Profit before tax:	Sales − COGS − Depreciation and amortization (D&A) − Interest
Tax:	30% of profit before tax (the going corporate tax rate in Britain)
Dividends:	GBP10.9 million (same as the three previous years)
Earnings retained:	Profit after tax − Dividends
Current assets:	32% of sales
Fixed assets:	GBP110.6 million
Total assets:	Current assets + Fixed assets
Current liabilities:	28% of sales
Debt:	Total assets − Current liabilities + Shareholders' equity
Common equity:	GBP121.6 million + Retentions to earnings

Income statement: Begin with sales, and use it to estimate COGS and operating expenses. For the time being, leave interest expense at zero, since we do not yet know the amount of debt. Estimate profit before tax, tax expense, profit after tax, dividends, and earnings retained.

Balance sheet: Estimate current assets as 32% of sales and add that to GBP110.6 million to get an estimate for total assets. Next, estimate current liabilities as 28% of sales and common equity. Debt becomes the "plug" figure that makes the two sides of the balance sheet balance. This amount is your estimate of the external financing needed by The Body Shop by year-end 2002. Estimate the plug by subtracting the amounts for current liabilities and common equity from total assets.

Iterate: Initially, you entered an interest expense of zero on the income statement, but this cannot be correct if debt is outstanding or if excess cash is invested in interest-earning instruments. This is a classic finance problem arising from the income statement and balance sheet's dependence on each other. Interest expense is necessary to estimate retained earnings, which is necessary to esti-mate debt. Let's call this the problem of circularity. The way to deal with this problem is to insert your best estimate of interest expense in the income state-ment (using 6% $\times$ debt), then to re-estimate the plug figure, then re-estimate interest expense, and so on. By iterating through the two statements five or six times, you will come to estimates of interest expense and debt that do not change very much. Stop iterating when changes become small.

A Spreadsheet Model Forecast

Fortunately, the tedium of iterating can be eliminated with the aid of a computer and spreadsheet software such as Microsoft Excel. The specific commands reviewed here relate to Excel 2000. (These commands will appear in table form within the text.) The adaptation to other spreadsheet programs should be straightforward. Now, try the same forecast for The Body Shop using a computer spreadsheet.

Setup: Start with a clean spreadsheet. Set the recalculation mode to MANUAL so that the model will iterate only when you press CALC (F9). Also, set the number of iterations to **1** so that you will be able to see Excel re-estimate the plug figure and interest expense. You can set the number of iterations higher (Excel's default is 100), but Excel will converge on a solution after five or six iterations, so a setting of **1** is best to see the iterations in action. The commands are listed in **Table 1.**

TABLE 1 | Excel Spreadsheet Commands

Choose the <**Tools**> menu and then the <**Options**> menu item. Next, choose the <**Calcula-tions**> tab; select the button next to <**Manual**>, and enter **1** in <**Maximum Iterations**>. Be sure the box next to <**Iterations**> is checked.

Saving: As you develop your model, be sure to save it every five minutes or so, just in case.

Format: Use the format in **Exhibit 1** as a guide to plan your worksheet. To facilitate sensitivity analysis, it is generally best to place the Input Data at the top of the worksheet. Next, develop the income statement just as you did on pencil and paper. Use **Exhibit 2** as your guide. Be sure to tie the cells to the proper percentage rate in the Input Data section. The first time through, enter **0** for the interest. (This is very important for the iteration to work properly.) We will return to it later.

Now do the balance sheet. Again, be sure to tie the balance sheet together by formulas. With the basic format laid out, go back and enter the formula to calculate interest as "Interest rate × Debt." Press the (F9) key, and you should see the worksheet change. You should be able to press the (F9) key several more times until the numbers stop changing, which means the model has converged to a solution. You should have interest as exactly 6% of long-term liabilities and a balance sheet that balances.

Once you have seen how this works, you may want to have the model converge without having to press <CALC> several times. In order to do that, you must set the number of iterations you wish the spreadsheet to perform. Set the number of iterations back to **100** (Excel's default), and allow the computer to recalculate automatically. See the Excel commands listed in **Table 2.**

TABLE 2 | Excel Spreadsheet Commands

Choose the <**Tools**> menu, and then the <**Options**> menu item. Next, choose the <**Calculations**> tab; click on <**Automatic**>, and enter **100** in <**Maximum Iterations**>. Be sure the box next to <**Iterations**> is checked.

Note: Changing your iterations setting, combined with the circularity of the debt plug and interest expense (later we'll add the circularity of data tables), can lead to some confusing situations. It is easy to forget where you have your iterations set (more data tables lead to more circularity). When comparing your work to someone else's, be sure that both of you have the same iterations setting and have hit (F9) the same number of times (be sure you either have no data tables or the same data tables). Your worksheet should now look like **Exhibit 3.**

Projecting Farther

So far, you have managed to project The Body Shop's financial statements through 2002. Now, extend your projection to years 2003 and 2004. See **Table 3** for Excel commands. A simple way to do this is to copy your model for two additional years. Before copying the formulas from column B to columns C and D, make sure that any references to your Input Data (cells B3 through B12) are absolute references as opposed to relative references. An absolute reference means that when you copy

cells B16 through B35 to other parts of your spreadsheet, the cells are still linked back to the originals (i.e., B5). Otherwise, the program assumes that the cells should be linked to new cells, such as C5. To make a reference absolute, put in dollar signs—B3, instead of B3. Now you should be ready to copy:

TABLE 3 | Excel Spreadsheet Commands

> Select the range of your data by highlighting it in the worksheet. Choose the <**Edit**> menu and then the <**Copy**> menu item. Highlight the cells where you want the copy to go. Choose the <**Edit**> menu and then the <**Paste**> menu item.

Note that you will have to change the equity formula for 2003 and 2004. For 2003, make the formula equal to 2002's equity plus 2003's additions to retained earnings. In addition, you should make sales grow by compounding. To do that, take 2002's sales × 2003's expected sales growth rate (say 13%). As you enter those changes, you should see the effect ripple through your model.

When Debt is Negative

Now modify the model to deal with the situation where the plug for debt is negative—this can happen routinely for firms with seasonal or cyclical sales patterns. Negative debt can be interpreted as excess cash. However, this is an odd way to show cash. A nonfinancial manager (like Anita Roddick) might not appreciate this type of presentation. The solution is to add a line for excess cash on the assets' side of the balance sheet and then to set up three new lines below the last entry in the balance sheet.

Name	Formula
Trial assets	Current assets + Fixed assets
Trial liabilities and equity	Current liabilities + equity
Plug	Trial assets – Trial liabilities

Now enter the formula for excess cash:

$$=\text{IF(PLUG}<0,-\text{PLUG},0)$$

Instead of the word plug, you should use the cell address for the actual plug number. The formula for debt is the following.

$$=\text{IF(PLUG}>0,+\text{PLUG},0)$$

See **Exhibit 4** for an example of how your spreadsheet should look. To see how these modifications really work, change your COGS/SALES assumption to 0.45 and press (F9).

With excess cash, you should generate interest income instead of interest expense. In the event of an excess cash balance, to have your model treat interest as income rather than expense, you need to modify your interest expense formula as follows.

$$= +(B6*B34)-(B6*B28)$$

An example of the finished results appears in **Exhibit 5.**

Explore Sensitivities

After your model replicates the exhibit, you are ready to conduct a sensitivity analysis on the pro forma years by seeing how variations in the forecast assumptions will affect the financing requirements. A financial analyst might want to try the following variations, or more than one in combination.

*   Suppose sales in 2002 will be GBP500 million.
*   Suppose COGS runs at 45% of sales.
*   Suppose dividends are increased to 60% of net income.
*   Suppose The Body Shop must double its manufacturing capacity by adding a new GBP100-million facility in 2002.
*   Assume inventories run higher than expected (model this by increasing current assets to 40% of sales).
*   Assume that accounts receivable collections improve so that current assets run at 28% of sales.
*   Assume that operating expenses increase faster than sales.

What happens to the plug value (i.e., debt) under these different circumstances? In general, which assumptions in the Input Data section of your spreadsheet seem to have the biggest effect on future borrowing needs?

The data table is an invaluable tool for conducting a sensitivity analysis. It automatically calculates debt, or whatever else you want it to focus on, as it varies across different values for a particular assumption—for instance, growth rates. In Excel, you can create a data table using a two-step process illustrated in the following examples. Suppose you want to estimate The Body Shop's debt required and excess cash generated at COGS/SALES ratios of 0.35, 0.38, 0.40, 0.42, 0.44, 0.45, and 0.48.

1. **Set up the table.** Move to a clean part of the spreadsheet and type the COGS/SALES ratios (0.35, 0.38, 0.40, 0.42, 0.44, 0.45, and 0.48) in a column. At the top of the next column (one row above your first COGS/SALES ratio), enter the location of the value to be estimated, in this case, debt, or =B34. In the next column, type the cell location for excess cash, =B28. Your data table should be formatted as shown in **Exhibit 6.**
2. **Enter the data table commands. Table 4** gives the commands for setting up the data table.

TABLE 4 | Excel Spreadsheet Commands

Highlight the cells that contain your COGS/SALES ratios and your cell references to Debt and Excess Cash. The cells to the right of your COGS/SALES ratios and below your cell references to Debt and Excess Cash are the cells to be filled in and should also be highlighted.

Choose the <**Data**> menu and then the <**Table**> menu item.

In the <**Column Input Cell**> box, enter the cell where your COGS/SALES assumption is B4.

The computer will fill in the table.

The additional circularity brought about by data tables can lead to some confusing results. To avoid this, be sure at this point to set the number of iterations to *at least* **10.** The result should look like **Exhibit 7.**

The data table in **Exhibit 7** reveals that at COGS/SALES ratios of 45%, the firm will need to borrow. This should trigger questions in your mind about what might cause that to happen, such as a price war or a surge in materials costs. Your spreadsheet format can tell you about some more sophisticated data-table formats. No financial analyst can afford to ignore that valuable tool. Armed with that tool, it is easy to go back and try the variations in other input assumptions listed previously.

Note: Remember that data tables add more calculations that need to be iterated in your worksheet. When comparing your work to that of a fellow student, make certain that your iterations are set the same and that you have roughly the same data tables in your files.

Roddick Wants to Know

Now that you have completed a simplified forecast, prepare a forecast based on the full range of accounts as actually reported by The Body Shop in 2001. **Exhibit 8** presents the results for the past three years. Please forecast all of the accounts individually for the next three years. You will see many familiar accounts, as well as some unusual accounts like minority interests.

For most accounts, you should extrapolate by using the same percentage of sales borne out by the preceding years' experience. You might use an average of the three historical years. You might want to use only the most recent year, or if you notice a significant upward or downward trend in an account, try growing or shrinking the percentage in the future years, according to your judgment. Whatever assumptions you decide upon, you should again isolate them at the top of your worksheet, so you can easily change an assumption and then have it flow through your worksheet. Additionally, this is very important for calculating sensitivities later, as you want to be able to point to one cell as the Column Input Cell in a data table.

Make overdrafts the plug figure and base interest expense (at 6%) on the overdrafts, current portion of long-term debt, and long-term liabilities. If you skipped to this section without doing the exercise above, you may differ from your fellow students in your treatment of the case where debt is negative.

Make your own assumptions regarding sales growth. Make other assumptions as needed. Be prepared to report to Roddick your answers to these questions.

1. How did you derive your forecast? Why did you choose the base case assumptions that you did?

2. Based on your pro forma projections, how much additional financing will The Body Shop need during this period?

3. What are the three or four most important assumptions or key drivers in this forecast? What is the effect on the financing need of varying each of these assumptions up or down from the base case? Intuitively, why are these assumptions so important?

4. Why are your findings relevant to a general manager like Roddick? What are the implications of these findings for her? What action should she take based on your analysis?

In discussing your analysis with Roddick, do not permit yourself to get mired in forecast technicalities or financial jargon. Focus your comments on your results. State them as simply and intuitively as you can. Do not be satisfied with simply presenting results. Link your findings to recommendations, such as key factors to manage, opportunities to enhance results, and issues warranting careful analysis. Remember that Roddick plainly admits she finds finance boring. Whenever possible, try to express your analysis in terms that she finds interesting, including people, customers, quality of natural products, and the health and dynamism of her business. Good luck!

EXHIBIT 1 | Format for Developing a Spreadsheet Model

	A	B
1	Input Data	
2		
3	SALES	422,733
4	COGS/SALES	0.38
5	OPERATING EXPENSES/SALES	0.50
6	INTEREST RATE	0.06
7	TAX RATE	0.30
8	DIVIDENDS (Thousand pounds)	10,900
9	CURR. ASSETS/SALES	0.32
10	CURR. LIABS./SALES	0.28
11	FIXED ASSETS	110,600
12	STARTING EQUITY	121,600
13		
14	INCOME STATEMENT	2002
15		
16	SALES	
17	COGS	
18	OPERATING EXPENSES	
19	INTEREST EXPENSE (INCOME)	
20	PROFIT BEFORE TAX	
21	TAX	
22	PROFIT AFTER TAX	
23	DIVIDENDS	
24	EARNINGS RETAINED	
25		
26	BALANCE SHEET	2002
27		
28	CURRENT ASSETS	
29	FIXED ASSETS	
30	TOTAL ASSETS	
31		
32	CURRENT LIABILITIES	
33	DEBT	
34	EQUITY	
35	TOTAL LIAB. & NET WORTH	

EXHIBIT 2 | Spreadsheet Formulas to Forecast 2002 Financials

	A	B
1	Input Data	
2		
3	SALES	422,733
4	COGS/SALES	0.38
5	OPERATING EXPENSES/SALES	0.50
6	INTEREST RATE	0.06
7	TAX RATE	0.30
8	DIVIDENDS (Thousand pounds)	10,900
9	CURR. ASSETS/SALES	0.32
10	CURR. LIABS./SALES	0.28
11	FIXED ASSETS	110,600
12	STARTING EQUITY	121,600
13		
14	INCOME STATEMENT	2002
15		
16	SALES	+B3
17	COGS	+B4*B16
18	OPERATING EXPENSES	+B5*B16
19	INTEREST EXPENSE (INCOME)	+B6*B33
20	PROFIT BEFORE TAX	+B16-B17-B18-B19
21	TAX	+B7*B20
22	PROFIT AFTER TAX	+B20-B21
23	DIVIDENDS	+B8
24	EARNINGS RETAINED	+B22-B23
25		
26	BALANCE SHEET	2002
27		
28	CURRENT ASSETS	+B9*B16
29	FIXED ASSETS	+B11
30	TOTAL ASSETS	+B28+B29
31		
32	CURRENT LIABILITIES	+B10*B16
33	DEBT	+B30-B32-B34
34	EQUITY	+B12+B24
35	TOTAL LIAB. & NET WORTH	+B32+B33+B34

EXHIBIT 3 | Basic Forecasting Results for 2002

	A	B
1	Input Data	
2		
3	SALES	422,733
4	COGS/SALES	0.38
5	OPERATING EXPENSES/SALES	0.50
6	INTEREST RATE	0.06
7	TAX RATE	0.30
8	DIVIDENDS (Thousand pounds)	10,900
9	CURR. ASSETS/SALES	0.32
10	CURR. LIABS./SALES	0.28
11	FIXED ASSETS	110,600
12	STARTING EQUITY	121,600
13		
14	INCOME STATEMENT	2002
15		
16	SALES	422,733
17	COGS	160,639
18	OPERATING EXPENSES	211,367
19	INTEREST EXPENSE (INCOME)	(1,171)
20	PROFIT BEFORE TAX	51,899
21	TAX	15,570
22	PROFIT AFTER TAX	36,329
23	DIVIDENDS	10,900
24	EARNINGS RETAINED	25,429
25		
26	BALANCE SHEET	2002
27		
28	CURRENT ASSETS	135,275
29	FIXED ASSETS	110,600
30	TOTAL ASSETS	245,875
31		
32	CURRENT LIABILITIES	118,365
33	DEBT	(19,520)
34	EQUITY	147,029
35	TOTAL LIAB. & NET WORTH	245,875

EXHIBIT 4 | Adjusting to Reflect Excess Cash

	A	B
1	Input Data	
2		
3	SALES	422,733
4	COGS/SALES	0.38
5	OPERATING EXPENSES/SALES	0.50
6	INTEREST RATE	0.06
7	TAX RATE	0.30
8	DIVIDENDS (Thousand pounds)	10,900
9	CURR. ASSETS/SALES	0.32
10	CURR. LIABS./SALES	0.28
11	FIXED ASSETS	110,600
12	STARTING EQUITY	121,600
13		
14	INCOME STATEMENT	2002
15		
16	SALES	422,733
17	COGS	160,639
18	OPERATING EXPENSES	211,367
19	INTEREST EXPENSE (INCOME)	+(B6*B34)-(B6*B28)
20	PROFIT BEFORE TAX	40,706
21	TAX	14,247
22	PROFIT AFTER TAX	26,459
23	DIVIDENDS	10,900
24	EARNINGS RETAINED	15,559
25		
26	BALANCE SHEET	2002
27		
28	EXCESS CASH	=IF(B40<0,-B40,0)
29	CURRENT ASSETS	135,275
30	FIXED ASSETS	110,600
31	TOTAL ASSETS	+B29+B30+B28
32		
33	CURRENT LIABILITIES	118,365
34	DEBT	=IF(B40>0,+B40,0)
35	EQUITY	137,159
36	TOTAL LIAB. & NET WORTH	+B33+B34+B35
37		
38	TRIAL ASSETS	+B29+B30
39	TRIAL LIABILITIES AND EQUITY	+B33+B35
40	PLUG: DEBT (EXCESS CASH)	+B38-B39

EXHIBIT 5 | Finished Results for 2002 Reflecting Excess Cash

	A	B
1	Input Data	
2		
3	SALES	422,733
4	COGS/SALES	0.38
5	OPERATING EXPENSES/SALES	0.50
6	INTEREST RATE	0.06
7	TAX RATE	0.30
8	DIVIDENDS (Thousand pounds)	10,900
9	CURR. ASSETS/SALES	0.32
10	CURR. LIABS./SALES	0.28
11	FIXED ASSETS	110,600
12	STARTING EQUITY	121,600
13		
14	INCOME STATEMENT	2002
15		
16	SALES	422,733
17	COGS	160,639
18	OPERATING EXPENSES	211,367
19	INTEREST EXPENSE (INCOME)	(1,171)
20	PROFIT BEFORE TAX	51,899
21	TAX	15,570
22	PROFIT AFTER TAX	36,329
23	DIVIDENDS	10,900
24	EARNINGS RETAINED	25,429
25		
26	BALANCE SHEET	2002
27		
28	EXCESS CASH	19,520
29	CURRENT ASSETS	135,275
30	FIXED ASSETS	110,600
31	TOTAL ASSETS	265,395
32		
33	CURRENT LIABILITIES	118,365
34	DEBT	0
35	EQUITY	147,029
36	TOTAL LIAB. & NET WORTH	265,395
37		
38	TRIAL ASSETS	245,875
39	TRIAL LIABILITIES AND EQUITY	265,395
40	PLUG: DEBT (EXCESS CASH)	(19,520)

EXHIBIT 6 | Setup for a Forecast with Data Table

	A	B	C	D	E	F
1	Input Data					
2						
3	SALES	422,733				
4	COGS/SALES	0.38				
5	OPERATING EXPENSES/SALES	0.50		Sensitivity Analysis		
6	INTEREST RATE	0.06		Of Debt and Excess Cash		
7	TAX RATE	0.30		To COGS/SALES Ratio		
8	DIVIDENDS (Thousand pounds)	10,900				
9	CURR. ASSETS/SALES	0.32		COGS/SALES	DEBT	Ex. CASH
10	CURR. LIABS./SALES	0.28			=B34	=B28
11	FIXED ASSETS	110,600		0.35		
12	STARTING EQUITY	121,600		0.38		
13				0.40		
14	INCOME STATEMENT	2002		0.42		
15				0.44		
16	SALES	422,733		0.45		
17	COGS	160,639		0.48		
18	OPERATING EXPENSES	211,367				
19	INTEREST EXPENSE (INCOME)	(1,171)				
20	PROFIT BEFORE TAX	51,899				
21	TAX	15,570				
22	PROFIT AFTER TAX	36,329				
23	DIVIDENDS	10,900				
24	EARNINGS RETAINED	25,429				
25						
26	BALANCE SHEET	2002				
27						
28	EXCESS CASH	19,520				
29	CURRENT ASSETS	135,275				
30	FIXED ASSETS	110,600				
31	TOTAL ASSETS	265,395				
32						
33	CURRENT LIABILITIES	118,365				
34	DEBT	-				
35	EQUITY	147,029				
36	TOTAL LIAB. & NET WORTH	265,395				
37						
38	TRIAL ASSETS	245,875				
39	TRIAL LIABILITIES AND EQUITY	265,395				
40	PLUG: DEBT (EXCESS CASH)	(19,520)				

EXHIBIT 7 | Finished Forecast with Data Table

	A	B	C	D	E	F
1	Input Data					
2						
3	SALES	422,733				
4	COGS/SALES	0.38				
5	OPERATING EXPENSES/SALES	0.50		Sensitivity Analysis		
6	INTEREST RATE	0.06		Debt and Excess Cash		
7	TAX RATE	0.30		By COGS/SALES		
8	DIVIDENDS (Thousand pounds)	10,900.00				
9	CURR. ASSETS/SALES	0.32		COGS/SALES	DEBT	Ex. CASH
10	CURR. LIABS./SALES	0.28			+B34	+B28
11	FIXED ASSETS	110,600		0.35	0	28,787
12	STARTING EQUITY	121,600		0.38	0	19,520
13				0.40	0	13,342
14	INCOME STATEMENT	2002		0.42	0	7,165
15				0.44	0	987
16	SALES	422,733		0.45	2,102	0
17	COGS	160,639		0.48	11,369	0
18	OPERATING EXPENSES	211,367				
19	INTEREST EXPENSE (INCOME)	(1,171)				
20	PROFIT BEFORE TAX	51,899				
21	TAX	15,570				
22	PROFIT AFTER TAX	36,329				
23	DIVIDENDS	10,900				
24	EARNINGS RETAINED	25,429				
25						
26	BALANCE SHEET	2002				
27						
28	EXCESS CASH	19,520				
29	CURRENT ASSETS	135,275				
30	FIXED ASSETS	110,600				
31	TOTAL ASSETS	265,395				
32						
33	CURRENT LIABILITIES	118,365				
34	DEBT	0				
35	EQUITY	147,029				
36	TOTAL LIAB. & NET WORTH	265,395				
37						
38	TRIAL ASSETS	245,875				
39	TRIAL LIABILITIES AND EQUITY	265,395				
40	PLUG: DEBT (EXCESS CASH)	(19,520)				

EXHIBIT 8 | Historical Financial Statements (GBP in millions)

	Fiscal Year Ended February 28					
	1999 (GBP)	1999 (% sales)	2000 (GBP)	2000 (% sales)	2001 (GBP)	2001 (% sales)
Income Statement						
Turnover	303.7	100.0	330.1	100.0	374.1	100.0
Cost of sales	127.7	42.0	130.9	39.7	149.0	39.8
Gross profit	176.0	58.0	199.2	60.3	225.1	60.2
Operating expenses: — excluding exceptional costs	151.4	49.9	166.2	50.3	195.7	52.3
— exceptional costs[1]	4.5	1.5	0.0	0.0	11.2	3.0
Restructuring costs[2]	16.6	5.5	2.7	0.8	1.0	0.3
Net interest expense	0.1	0.0	1.5	0.5	4.4	1.2
Profit before tax	3.4	1.1	28.8	8.7	12.8	3.4
Tax expense	8.0	2.6	10.4	3.2	3.5	0.9
Profit (loss) after tax	(4.6)	(1.5)	18.4	5.6	9.3	2.5
Ordinary dividends	10.9	3.6	10.9	3.3	10.9	2.9
Profit (loss) retained	(15.5)	(5.1)	7.5	2.3	(1.6)	(0.4)

EXHIBIT 8 | Historical Financial Statements (GBP in millions) (*continued*)

	Fiscal Year Ended February 28					
	1999 (GBP)	1999 (% sales)	2000 (GBP)	2000 (% sales)	2001 (GBP)	2001 (% sales)
Balance Sheet						
Assets						
Cash	34.0	11.2	19.2	5.8	13.7	3.7
Accounts receivable	27.8	9.2	30.3	9.2	30.3	8.1
Inventories	38.6	12.7	44.7	13.5	51.3	13.7
Other current assets	12.5	4.1	15.6	4.7	17.5	4.7
Net fixed assets	87.8	28.9	104.7	31.7	110.6	29.6
Other assets[3]	0.0	0.0	6.0	1.8	6.7	1.8
Total assets	200.7	66.1	220.5	66.8	230.1	61.5
Liabilities and equity						
Accounts payable	13.0	4.3	20.5	6.2	10.7	2.9
Taxes payable	11.3	3.7	11.7	3.5	7.1	1.9
Accruals	10.8	3.6	15.6	4.7	11.5	3.1
Overdrafts	0.0	0.0	0.3	0.1	0.7	0.2
Other current liabilities	21.6	7.1	13.3	4.0	16.9	4.5
Long-term liabilities	28.0	9.2	36.7	11.1	61.2	16.4
Other liabilities[4]	1.7	0.6	1.0	0.3	0.4	0.1
Shareholders' equity	114.3	37.6	121.4	36.8	121.6	32.5
Total liabilities and equity	200.7	66.1	220.5	66.8	230.1	61.5

[1]Exceptional costs in 2001 included redundancy costs ($4.6 million), costs of supply chain development ($2.4 million) and impairment of fixed assets and goodwill ($4.2 million). The exceptional costs of $4.5 million in 1999 were associated with closing unprofitable shops and an impairment review of the remaining shops in the United States.

[2]Restructuring costs in 2001 and 2000 relate to the sale of manufacturing plants in Littlehampton, England, and to associated reorganization costs. Restructuring costs in 1999 arose from the realignment of the management structure of the business in the United States and the United Kingdom.

[3]Other assets in 2001 and 2000 represented receivables related to the sale of the company's Littlehampton manufacturing plant.

[4]Other liabilities included mostly deferred taxes.