

## Corporate

 Current price **472p**

 Sector **Leisure**

 Code **CCT.L**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **100.9**

 Shares in issue (m) **21.4**

52 weeks High Low

**480p** **237p**

 Financial year end **August**

Source: Company Data, Allenby Capital

### Key Shareholders

KP Shah (joint MD) 10.13%

Henry Spain Inv. Services 8.01%

Close Bros 7.05%

Forager Capital 7.00%

JJ Diver (joint MD) 6.59%

Sweet Briar Inv. 5.96%

Ruffer LLP 5.11%

Source: Company Data, Allenby Capital

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# The Character Group plc (CCT.L)

## Strong H1 reported and further upgrade to year

The Character Group's (Character) interim results were remarkable in that the Group produced very strong results in a period of significant disruption. The right products at the right price and in the right categories all served to distinguish the Group in the first half. As trading begins to return to some sense of normality during H2 we anticipate trading to improve further and have raised forecasts accordingly. Selling on a significant discount to the US "giants" and with significant cash resources, we consider quite simply that Character is fundamentally undervalued and set a fair value of 650p on the shares.

- Strong growth in the first half** – Character has reported a strong first half with revenues ahead by 44% year-on-year (yoy) to £74.5m (H1 2020: £51.7m), underlying EBITDA by 86% to £7.9m (H1 2020: £4.3m), underlying PBT by 147% and underlying EPS by 140% to 23p. Gross margins decreased from 33.2% to 29.2% as anticipated as the volume of lower margin FOB sales, particularly to the US, saw very strong growth. Admittedly, the strength of this yoy growth was against weak comparatives impacted badly by the COVID-19 pandemic but nevertheless these are probably record results. Net cash at the year-end increased substantially from £16.8m to £34.9m and the interim dividend was raised from 2p to 6p per share.
- Broad product portfolio driving revenue growth** – The Group's portfolio of brands and products (including sustainable, eco-friendly products) remains key to its ability to grow the top line and management believes that the Group currently has one of the strongest portfolios in its history. This growth is anticipated to continue beyond Christmas 2021 and is being led by *Goo Jit Zu* (now Character's number one brand), *Peppa Pig*, *Pokémon*, *Little Live Pets*, etc. The Group has also announced that it has been selected as Master Toy Partner for the *Morphle* character which is due to be launched in the Autumn and which has built up a huge following on non-traditional, digital media. With the anticipated introduction of delayed movies in 2021 and 2022 (Marvel, DC, Jurassic, Sonic, etc) the Group is well placed to benefit from related licensed character toys in 2021 and 2022.
- Forecasts raised** – The momentum seen in the first half has carried into H2 and is forecast by the Board to continue through to and beyond Christmas 2021 with the Group on target to deliver the best sales performance in a calendar year in the Group's history. Consequently we are upgrading our previously upgraded forecasts still further. Revenue forecasts have risen from £125m to £140m, EBITDA from £13.0m to £14.5m and PBT from £10.5m to £12m. EPS rises from 37.6p to 43.1p and the full year dividend from 9p to 15p. We are also introducing forecast for 2022 which at this stage have been set cautiously but still anticipate further growth on the forecast for 2021. The shares sell on valuation multiples that are around half those of the large quoted US toy companies such as Hasbro and Mattel but do not carry their substantial debt burdens. Consequently we believe the shares to be significantly undervalued and we have set a fair value of 650p.

### Year End: August

| (£m)          | 2019A | 2020A | 2021E | 2022E |
|---------------|-------|-------|-------|-------|
| REVENUE       | 120.4 | 105.4 | 140.0 | 145.0 |
| ADJ. PBT      | 11.1  | 5.0   | 12.0  | 12.5  |
| ADJ. EPS (p)  | 43.2  | 18.1  | 43.1  | 45.2  |
| DIVIDEND (p)  | 26.0  | 5.0   | 15.0  | 17.0  |
| NET CASH (£m) | 6.5   | 19.1  | 30.0  | 35.0  |
| PER (x)       | 9.9   | 23.5  | 11.0  | 10.4  |
| YIELD         | 6.1%  | 1.2%  | 3.2%  | 3.6%  |

Source: The Character Group plc, Allenby Capital. Allenby Capital acts as Joint Broker to The Character Group plc (CCT.L).

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## Income statement and forecasts

## EXHIBIT 1: INCOME STATEMENT

| Year to August                                      | 2019         | 2020         | 2021E        | 2022E        |
|---|--------------|--------------|--------------|--------------|
|   | £m           | £m           | £m           | £m           |
| <b>UNDERLYING RESULTS</b>                           |              |              |              |              |
| Revenue   | 120.416      | 105.315      | 140.000      | 145.000      |
| Underlying cost of sales                            | -78.849      | -75.152      | -98.600      | -102.000     |
| Gross profit (excluding mark to market derivatives) | 41.567       | 30.163       | 41.400       | 43.000       |
| <i>margin</i>                                       | 34.5%        | 28.6%        | 29.6%        | 29.7%        |
| Selling & distribution costs                        | -9.114       | -7.355       | -8.120       | -8.500       |
| <i>as a % of revenue</i>                            | -7.6%        | -7.0%        | -5.8%        | -5.9%        |
| Administration expenses                             | -18.982      | -15.151      | -19.080      | -19.800      |
| <i>as a % of revenue</i>                            | -15.8%       | -14.4%       | -13.6%       | -13.7%       |
| Other operating income                              | 0.244        | 0.501        | 0.300        | 0.200        |
| Underlying EBITDA (including SBC)                   | 13.715       | 8.158        | 14.500       | 14.900       |
| <i>margin</i>                                       | 11.4%        | 7.7%         | 10.4%        | 10.3%        |
| Depreciation  | -0.547       | -1.015       | -0.900       | -0.850       |
| Amortisation  | -1.582       | -1.783       | -1.600       | -1.500       |
| Discount charge on deferred consideration           | -0.049       | 0.000        | 0.000        | 0.000        |
| Operating profit                                    | 11.537       | 5.360        | 12.000       | 12.550       |
| Finance income                                      | 0.040        | 0.047        | 0.150        | 0.000        |
| Finance expense                                     | -0.512       | -0.388       | -0.150       | 0.000        |
| Underlying profit before tax                        | 11.065       | 5.019        | 12.000       | 12.550       |
| Tax   | -2.273       | -1.312       | -2.640       | -2.761       |
| Minorities  | 0.400        | 0.165        | -0.150       | -0.150       |
| Underlying post tax profit                          | 9.192        | 3.872        | 9.210        | 9.639        |
| <b>STATUTORY RESULTS</b>                            |              |              |              |              |
| Underlying operating profit                         | 11.537       | 5.360        | 12.000       | 12.550       |
| Mark to market adjustments                          | 0.364        | -1.980       | 0.000        | 0.000        |
| Goodwill impairment                                 | -3.132       | 0.000        | 0.000        | 0.000        |
| Gain on buyback of loan                             | 0.000        | 0.886        | 0.000        | 0.000        |
| Profit on sale of property                          | 0.000        | 0.000        | 2.016        | 0.000        |
| Contingent consideration not payable                | 1.547        | 0.000        | 0.000        | 0.000        |
| Statutory operating profit                          | 10.316       | 4.266        | 14.016       | 12.550       |
| Finance income                                      | 0.040        | 0.047        | 0.150        | 0.000        |
| Finance expense                                     | -0.512       | -0.388       | -0.150       | 0.000        |
| Statutory profit before tax                         | 9.844        | 3.925        | 14.016       | 12.550       |
| Tax   | -2.273       | -1.312       | -2.640       | -2.761       |
| Tax relating to fair value                          | -0.066       | 0.376        | 0.000        | 0.000        |
| Minorities  | 0.400        | 0.165        | -0.150       | -0.150       |
| Statutory post tax profit                           | 7.905        | 3.154        | 11.226       | 9.639        |
| WAS   | 21.242       | 21.368       | 21.380       | 21.330       |
| Options   | 0.153        | 0.051        | 0.153        | 0.153        |
| FD WAS  | 21.395       | 21.380       | 21.380       | 21.380       |
| Year-end shares                                     | 23.893       | 23.609       | 23.609       | 23.609       |
| Of which Treasury                                   | 2.279        | 2.229        | 2.229        | 2.229        |
| <b>Underlying EPS (p)</b>                           | <b>43.24</b> | <b>18.12</b> | <b>43.08</b> | <b>45.19</b> |
| <b>Underlying diluted EPS (p)</b>                   | <b>42.93</b> | <b>18.11</b> | <b>43.08</b> | <b>45.08</b> |
| Statutory EPS (p)                                   | 37.21        | 14.76        | 52.51        | 45.19        |
| Statutory diluted EPS (p)                           | 36.95        | 14.75        | 52.51        | 45.08        |
| Interim dividend                                    | 13.0         | 2.0          | 6.0          | 7.0          |
| Final dividend                                      | 13.0         | 3.0          | 9.0          | 10.0         |
| <b>Total dividend</b>                               | <b>26.0</b>  | <b>5.0</b>   | <b>15.0</b>  | <b>17.0</b>  |

Source: Character; Allenby

## Balance Sheet and forecasts

| <b>EXHIBIT 2: Balance Sheet</b>         |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| <b>Year to August</b>                   | <b>2019</b>    | <b>2020</b>    | <b>2021E</b>   | <b>2022E</b>   |
|   | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| <b>Non-current assets</b>               |                |                |                |                |
| Intangible assets - product development | 0.903          | 0.891          | 0.991          | 1.291          |
| Investment property                     | 1.649          | 1.584          | 1.536          | 1.490          |
| PP&E                                    | 3.251          | 3.226          | 2.676          | 2.226          |
| Right of use asset                      | 0.000          | 2.069          | 2.069          | 2.069          |
| Deferred tax assets                     | 0.542          | 0.704          | 0.600          | 0.600          |
| <b>Total non-current assets</b>         | <b>6.345</b>   | <b>8.474</b>   | <b>7.872</b>   | <b>7.676</b>   |
| <b>Current assets</b>                   |                |                |                |                |
| Inventories                             | 16.405         | 14.736         | 16.486         | 18.086         |
| Trade receivables                       | 34.973         | 23.013         | 20.913         | 17.913         |
| Current income tax receivable           | 0.000          | 0.244          | 0.000          | 0.000          |
| Derivative financial instruments        | 0.398          | 0.075          | 0.150          | 0.150          |
| Cash                                    | 28.998         | 22.292         | 30.016         | 36.034         |
| <b>Total current assets</b>             | <b>80.774</b>  | <b>60.360</b>  | <b>67.565</b>  | <b>72.183</b>  |
| <b>Total assets</b>                     | <b>87.119</b>  | <b>68.834</b>  | <b>75.437</b>  | <b>79.859</b>  |
| <b>Current liabilities</b>              |                |                |                |                |
| Short term borrowings                   | -21.182        | -3.168         | 0.000          | 0.000          |
| Trade payables                          | -28.766        | -26.432        | -26.232        | -23.632        |
| Lease liabilities                       | 0.000          | -0.550         | -0.550         | -0.550         |
| Income tax                              | -1.083         | -0.777         | -1.500         | -2.000         |
| Derivative financial instruments        | -0.637         | -2.293         | -0.700         | -0.700         |
| <b>Total current liabilities</b>        | <b>-51.668</b> | <b>-33.220</b> | <b>-28.982</b> | <b>-26.882</b> |
| <b>Non-current liabilities</b>          |                |                |                |                |
| Deferred tax                            | -0.002         | -0.021         | 0.000          | 0.000          |
| Lease liabilities                       | 0.000          | -1.547         | -1.547         | -1.547         |
| Long term borrowings                    | -1.312         | 0.000          | 0.000          | 0.000          |
| <b>Total non-current liabilities</b>    | <b>-1.314</b>  | <b>-1.568</b>  | <b>-1.547</b>  | <b>-1.547</b>  |
| <b>Total liabilities</b>                | <b>-52.982</b> | <b>-34.788</b> | <b>-30.529</b> | <b>-28.429</b> |
| <b>Net current assets</b>               | <b>29.106</b>  | <b>27.140</b>  | <b>38.583</b>  | <b>45.301</b>  |
| <b>Net Assets</b>                       | <b>34.137</b>  | <b>34.046</b>  | <b>44.908</b>  | <b>51.430</b>  |
| Cash                                    | 28.998         | 22.292         | 30.016         | 36.034         |
| Debt                                    | -22.494        | -3.168         | 0.000          | 0.000          |
| <b>Net cash/(debt)</b>                  | <b>6.504</b>   | <b>19.124</b>  | <b>30.016</b>  | <b>36.034</b>  |

Source: Character; Allenby

## Cash Flow and forecasts

| <b>EXHIBIT 3: CASH FLOW</b>   |                |               |               |               |
|---|----------------|---------------|---------------|---------------|
| <b>Year to August</b>   | <b>2019</b>    | <b>2020</b>   | <b>2021E</b>  | <b>2022E</b>  |
|   | <b>£m</b>      | <b>£m</b>     | <b>£m</b>     | <b>£m</b>     |
| PBT   | 9.844          | 3.925         | 14.016        | 12.550        |
| Depreciation  | 0.547          | 1.015         | 0.900         | 0.850         |
| Amortisation  | 1.582          | 1.783         | 1.600         | 1.500         |
| Contingent consideration not payable                                      | -1.547         | 0             | 0.000         | 0.000         |
| Gain on buy back of loan  | 0              | -0.886        | 0.000         | 0.000         |
| Discount on deferred consideration  | 0.049          | 0             | 0.000         | 0.000         |
| Profit on disposal of PP&E  | 3.132          | 0             | 0.000         | 0.000         |
| Interest paid   | 0.001          | -0.009        | 0.000         | 0.000         |
| Financial instruments fair value adjustments                              | 0.472          | 0.341         | 0.000         | 0.000         |
| Share based payments  | -0.364         | 1.98          | 0.000         | 0.000         |
| <b>Cash flow from operating activities before working capital changes</b> | <b>13.906</b>  | <b>8.338</b>  | <b>16.716</b> | <b>15.100</b> |
| <i>(Increase)/decrease in inventories</i>                                 | <i>-1.831</i>  | <i>1.669</i>  | <i>-1.750</i> | <i>-1.600</i> |
| <i>Decrease/(increase) in receivables</i>                                 | <i>-1.283</i>  | <i>11.96</i>  | <i>2.100</i>  | <i>2.000</i>  |
| <i>(Decrease)/increase in payables</i>                                    | <i>-0.438</i>  | <i>-2.334</i> | <i>-0.200</i> | <i>-2.600</i> |
| <b>Net movement in working capital</b>                                    | <b>-3.552</b>  | <b>11.295</b> | <b>0.150</b>  | <b>-2.200</b> |
| Net interest  | -0.472         | -0.341        | 0.000         | 0.000         |
| Income tax  | -1.999         | -1.728        | -2.000        | -2.761        |
| <b>Net cash flow from operating activities</b>                            | <b>7.883</b>   | <b>17.564</b> | <b>14.866</b> | <b>10.139</b> |
| Payments for intangible assets  | -1.682         | -1.772        | -1.700        | -1.800        |
| Purchase of subsidiary company  | -8.925         | 0             | 0.000         | 0.000         |
| Payments for PP&E   | -0.449         | -0.528        | -0.350        | -0.400        |
| Proceeds from disposal of PP&E  | 0.028          | 0.012         | 0.000         | 0.000         |
| <b>Net cash outflow from investing activities</b>                         | <b>-11.028</b> | <b>-2.288</b> | <b>-2.050</b> | <b>-2.200</b> |
| Reduction in borrowings   | 0.000          | 1.408         | 0.000         | 0.000         |
| Buyback of loan   | 0.000          | -0.521        | 0.000         | 0.000         |
| Repayment of lease liabilities  | 0.000          | -0.378        | 0.000         | 0.000         |
| Proceeds from issue of share capital                                      | 0.519          | 0.205         | 0.000         | 0.500         |
| Purchase of own shares for cancellation                                   | -1.270         | -0.163        | 0.000         | 0.000         |
| Dividends paid  | -5.316         | -3.207        | -1.924        | -3.421        |
| Unwinding of discount on deferred consideration                           | -0.015         | 0.000         | 0.000         | 0.000         |
| <b>Net cash used in financing activities</b>                              | <b>-6.082</b>  | <b>-2.656</b> | <b>-1.924</b> | <b>-2.921</b> |
| <b>Net increase in cash</b>   | <b>-9.227</b>  | <b>12.620</b> | <b>10.892</b> | <b>5.018</b>  |
| Cash at start of year   | 15.580         | 6.504         | 19.124        | 30.016        |
| FX  | 0.151          | 0.000         | 0.000         | 0.000         |
| <b>Cash at end of year</b>  | <b>6.504</b>   | <b>19.124</b> | <b>30.016</b> | <b>35.034</b> |

Source: Character; Allenby

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