

CORPORATE

| | |
|---------------|---------|
| Current price | 475p |
| Sector | Toys |
| Code | (CCT.L) |
| Listing | AIM |

SHARE PERFORMANCE



| | | | |
|---------|-------|-------|-------|
| | 1m | 3m | 12m |
| — CCT.L | +1.1% | +3.3% | -1.6% |

Source: Fidessa, Allenby Capital

SHARE DATA

| | | |
|---------------------|--------|-----|
| Market cap (£) | 100.2m | |
| Shares in issue (m) | 21.1 | |
| 52 weeks | High | Low |
| | 540 | 385 |
| Financial year end | August | |

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

| | |
|------------------------------|--------|
| Kiran Shah (joint MD) | 10.15% |
| GLG Partners | 7.38% |
| Otus Capital Partners | 6.78% |
| Jon Diver (joint MD) | 6.43% |
| Sweet Briar Investments Ltd | 6.05% |
| Ruffer Investment Management | 5.73% |

Source: Company Data, Allenby Capital

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THE CHARACTER GROUP (CCT.L)*

Interims: The right stuff

Interim results from The Character Group (CCT.L), the UK's leading independent toy company, reflect a good performance against a tough retail backdrop that has seen its larger rivals (including Hasbro, Mattel and Lego) suffer. This reflects the success of Character's strategy of offering price-competitive products that are not aligned to any particular film franchise coupled with a number of 'ever-green' brands (including *Peppa Pig*, *Little Live Pets*, *Scooby Doo* and *Stretch Armstrong*). Character is also riding the wave of lower priced 'craze' products successfully with four of its new Spring lines – *Soft and Slo* memory foam toys, *Cake Pop Cuties*, *Cra-z-Slimy* and *Mine It* – all doing well. 2018 has started well domestically and, given the higher gross margins available on domestic sales, we upgrade FY18 EPS forecasts by 13.8% to 43.6p and FY19 by 11.2% to 50.5p. CCT continues to enjoy a strong balance sheet that provides scope for share repurchases and a progressive dividend policy. We maintain a fair value of 580p/share, equivalent to a FY18 PER of 13.3x and 4.0% yield.

- H1 performance:** Overall H1 revenue fell as expected (down 18% to £50.5m). During the first four months, including the crucial Christmas period, sales in the UK held up whilst Free on Board (FoB) was weaker given adverse FX movements and the world-wide restructuring of Toys R Us. January and February saw a marked improvement domestically with record levels of revenue, ahead of management expectation. This change in mix resulted in a 300bps improvement in gross margin to 35.2%. Underlying PBT fell 36.6% to £4.5m. There was a £3.9m (H1 FY17: £0.6m charge) negative movement in the fair value of financial instruments reflecting CCT's significant \$ purchases. Net cash increased £2.8m from FY18 to £14.3m, with £1.4m spent on repurchases and £2.1m on dividends. H1 DPS +25%.
- Right products:** Character Group has developed a balanced portfolio of products that include in-house ranges (such as *Peppa Pig*, *Stretch*, *Teletubbies* and *Scooby Doo*) and third-party lines (*Little Live Pets* and *Mashems*). It continues to add to this line up and the arrival of *Pokémon* this summer is potentially significant for FY19. It has supplemented these with lines that tap into the demand for 'craze' toys. These lower priced impulse purchases are accounting for a larger proportion of consumer spend. Flexibility is key in this market and CCT has the necessary skills to enter and exit markets rapidly. The reception from retailers for CCT's 2018 products has been positive and we expect substantial growth in H2.

| Year End: 31 August | 2016A | 2017A | 2018E | 2019E |
|---------------------|---------|---------|---------|---------|
| (£'000) | | | | |
| REVENUE | 120,967 | 115,319 | 106,670 | 117,124 |
| REVENUE GROWTH | 22.1% | (4.7%) | (7.5%) | 9.8% |
| ADJ. EBITDA | 15,158 | 15,979 | 13,102 | 14,905 |
| MARGIN | 12.5% | 13.9% | 12.3% | 12.7% |
| ADJ. PBT | 12,559 | 13,397 | 11,099 | 12,771 |
| EPS (P) | 47.6 | 52.9 | 43.6 | 50.5 |
| PER | 10.0x | 8.3x | 10.9x | 9.4x |
| YIELD | 3.2% | 4.0% | 4.8% | 5.7% |

Source: Company; Allenby Capital

Allenby Capital acts as Joint Broker to The Character Group plc.

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Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication.

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