

Corporate

Current price **240p**

Sector **Leisure Goods**

Code **CCT.L**

AIM **AIM**

Share Performance



	1m	3m	12m
CCT.L	-20%	-8%	-57%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **51.3**

Shares in issue (m) **21.3**

52 weeks High Low

582.5p 190.0p

Financial year end **August**

Source: Company Data, Allenby Capital

Key Shareholders

KP Shah (joint MD) 10.13%

Close Bros AM 7.05%

JJ Diver (joint MD) 6.59%

Forager Capital 6.30%

Sweet Briar Inv 5.96%

Ruffer LLP 5.11%

Henry Spain Inv Services 4.38%

Source: Company Data, Allenby Capital

Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

The Character Group plc (CCT.L)

Robust performance despite challenging headwinds

Having had to negotiate a stock overhang in its Scandinavian markets, a depressed UK toy sector, weaker Sterling and the uncertainty engendered by Brexit, it was perhaps inevitable that interim results from The Character Group (Character) were going to be negatively impacted. However, despite these challenges the Group managed to achieve profitability in the period and more importantly significantly increased its net cash balances over the level reported at its year end. The second half will present further headwinds due to Covid-19 disruptions, but management still anticipates achieving a profit in H2 and for the year. We consider the Group to be well positioned to resume normal trading when conditions allow.

- **A half year of exceptional challenges even before Covid-19** – As noted above, the first six months to February 2020 were exceptionally difficult with a combination of a stock overhang from the demise of Top Toy in Scandinavian markets, the continued decline in consumer spending in the UK toy market, the weakness of Sterling against the US\$ and an uncertain trading climate created by Brexit negotiations and a General Election.
- **Weaker trading conditions lead to a sharp reduction in profits** – For the half year, Character reported a 12% reduction in revenue from £58.8m to £51.7m. Gross margin fell by 360bps to 33.2% as a result of lower UK domestic sales which are typically higher margin than international FOB sales. Underlying EBITDA was down 42% to £4.0m (H1 2019: £6.9m), underlying profit before tax 55% lower at £2.5m (H1 2019: £5.6m) and underlying basic EPS down 54% at 9.64p (H1 2019: 20.98p). Despite the first half difficulties, the strength of Character’s balance sheet has enabled an interim dividend of 2p to be declared (H1 2019: 13p) which is nearly 5x covered by underlying earnings.
- **Cash balances increase from year end levels** – Net cash at the half year end stood at £16.8m, somewhat below the level reported in the comparative period of £18.6m, but much higher than the £6.5m reported at the year end. Character enjoys strong financials with a cash generative business model that has led to the Group having no debt on its balance sheet other than the usual working capital facilities, a significant proportion of which remains unutilised.
- **Covid-19 has inevitably impacted sales in H2** – Back in January 2020, the Group was anticipating a strong second half recovery. However, the Covid pandemic brought a change to these expectations as many retailers in the UK and overseas closed their stores with international distributors also scaling back operations. While there are now signs of a gradual relaxation of the lockdown with some stores anticipating a resumption of trading, it is still too early to offer forecasts although we expect the Group to be in a strong position to resume growth when conditions allow.

Year End: August

(£m)	2018A	2019A	2020E	2021E
REVENUE	106.2	120.4		
ADJ. EBITDA	13.6	13.7	Forecasts temporarily	
ADJ. PBT	11.6	11.1	suspended	
ADJ. EPS (p)	45.1	43.2		
NET CASH (£m)	15.6	6.5		

Source: The Character Group plc (CCT.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Interim results summary

INCOME STATEMENT	H1 2020	H1 2019	Year
	£m	£m	£m
Revenue	51.7	58.8	120.4
Gross profit	17.2	21.6	41.6
margin	33.2%	36.8%	34.5%
EBITDA	4.1	6.9	13.7
margin	7.9%	11.7%	11.4%
Underlying PBT	2.5	5.6	11.1
Underlying basic EPS (p)	9.6	21.0	43.3
Dividend (p)	2.0	13.0	26.0
BALANCE SHEET			
Non-current assets	7.0	9.3	6.3
Current assets:			
Inventories	10.6	11.2	16.4
Receivables	13.5	12.7	35.0
Cash	19.6	23.5	30.0
Other	0.1	0.1	0.4
Total current assets	43.7	47.6	81.8
Current liabilities:			
Payables	-12.1	-15.9	-28.8
Borrowings	-1.9	-3.7	-22.2
Other	-2.1	-2.1	-1.7
Total current liabilities	-16.2	-21.7	-52.7
Non-current liabilities:			
Borrowings	-0.9	0.0	-1.3
Other	-0.8	-1.7	0.0
Total non-current liabilities	-1.7	-1.7	-1.3
Net current assets	27.5	25.9	29.1
Net assets	32.8	33.5	34.1
CASH FLOW			
Cash from operations pre-WC	4.4	7.2	14.0
Net working capital movement	10.7	9.8	-3.6
Interest and tax	-0.5	-1.5	-2.5
Net cash inflow from operating activities	14.5	15.5	7.9
Cash outflow from investing activities	-1.2	-9.4	-11.0
Dividends	-2.8	-2.5	-5.3
Other	0.0	-0.6	-0.8
Net cash used in financing activities	-2.8	-3.1	-6.1
Net increase/(decrease) in cash	10.5	3.0	-9.2
Net cash at period end	16.8	18.6	6.5

Source: The Character Group plc

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Allenby Capital, 5 St Helen’s Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com