



The small company specialists

# COMPANY INFORMATION

Character Group plc (LSE:CCT)

Info sheet compiled March 2007

Company Eye Ranking

31/50

## EDITOR'S NOTE

Character Group plc continues to design and develop games and toys, under the groups own brand and under licence. In the last year they have sold their digital section, which accounts for part of the rise in profit.

In our opinion the company has successfully restructured itself and has an achievable goal in mind. We see this company as being a decent mid term investment.

## CHART



## FUNDAMENTALS

Company Name	Character Group plc
Current Price	139.5
Status	AIM
Market Cap	62.38
Price-To-Book Ratio	5.5
Shares in Issue	44.72 m
Activities	Involved in the design, development and distribution of toys, games and giftware
Sector	Media Agencies
Corporate advisor	Charles Stanley Securities
Registrar	Neville Registrars Limited

## HISTORY

The Character Group plc was founded in 1991 and gained admission to AIM on 30<sup>th</sup> December 2005 having previously been on the Main List since 1995.

## THE BUSINESS

The Character Group plc designs, develops and distributes toys, games and giftware, principally to the UK although it has an ever increasing exposure to international markets. Revenues are generated from a mix of product with

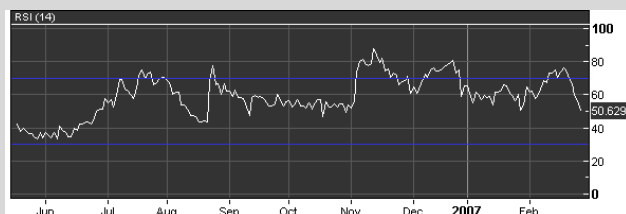
over 50% designed and developed in-house either under the Group's own brand or under licence with the balance being derived from third party distribution.



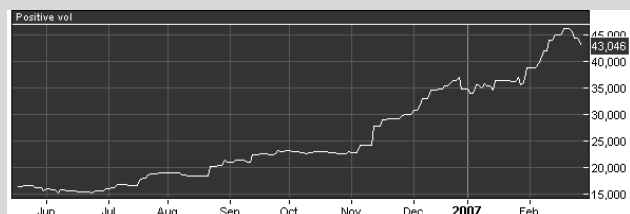
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# COMPANY INFORMATION

## RSI-14



## POSITIVE VOLUME INDEX



## ACTIVITIES

The Group's principal activity is designing, developing and distributing toys, games and giftware. The Group's business is conducted through two divisions:

### The Toy and Games Division

This division comprises Character Options Limited, Character Games Limited, Toy Options (Far East) Limited and Character Games (Far East) Limited. This division is engaged in the design, development, importation, marketing and distribution of toys and games. Traditionally this division has focused

principally on the UK market but, following the acquisition of its games business in 2000 and given the recent successful development of its strategy for the origination of its own product lines, the division's market has grown with distribution being achieved, and further developed, in Europe, the United States of America and in other significant territories.

### The Giftware Division

This division comprises Downpace Limited and Downpace (Far East) Limited. This division is engaged in business as a gift importer and distributor in the UK.

## SUBSIDIARIES

### Character Options Limited

The original core business of The Character Group - Character Options Limited designs, develops and distributes a broad portfolio of toys both in the UK and latterly to a greater and growing extent internationally.

### Character Games Limited

Acquired by The Character Group in 2000 - Character Games designs, develops and markets a wide range of games and puzzles suitable for kids of any age. Character Games products are to be found from the United States to Australia.

### Character Gifts Limited

Character Gifts Limited was acquired by The Character Group plc in 1997. Character Gifts is primarily a supplier of licensed giftware to the major high street retailers.

### World Wide Licenses Limited

World Wide Licenses Ltd. ("WWL") is a Hong Kong-based wholly owned subsidiary of The Character Group plc. Following the sale of its digital business, WWL now purely provides logistical support for the continuing business of the Group

## DEVELOPMENT HIGHLIGHTS

**June 2006** The Character Group plc has been presented with an award, the "Special Consistency Award 2005", by **Toys R Us**, the UK's leading toy retailer.

**January 2006** – Sale of digital division to Flextronix.

**December 2005** – Transfer to AIM from the main list.

**2004** UK Gift of the Year award.



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# COMPANY INFORMATION

## GROUP STRUCTURE

### THE CHARACTER GROUP PLC

\* TOYS, GAMES & GIFTS DIVISION  
 \* Character Options Limited  
 \* Toy Options (Far East) Limited  
 \* Character Games Limited  
 \* Character Games (Far East) Limited  
 \* Character Gifts Limited

\* World Wide Licenses Limited  
 \* WWL (Europe) Limited

## DIRECTORS

### **Richard King - Aged 61 - Executive Chairman and Joint Managing Director**

He has extensive experience in the toy industry and has been involved in importing consumer products from the Far East since 1969. He established the original business of The Character Group plc jointly with Mr Kissane and Mr Shah in 1991 and works in close association with the management of each division to develop and implement Group strategies.

### **Kiran Shah - Aged 51 - Group Finance Director and Joint Managing Director**

He is a member of the Chartered Association of Certified Accountants. After initially working in private accountancy practice, he moved into industry and since 1978 has been involved extensively in the toy industry, notably in his role in jointly heading up a successful management buyout of Merit Toys Limited in 1981 and its subsequent sale to Bluebird Toys plc in 1988. He jointly established the original business of The Character Group plc with Mr King and Mr Kissane in April 1991.

### **Joe Kissane - Aged 53 - Managing Director - Character Options Limited**

He has considerable sales expertise in and outside of the toy industry, gained over a period of 30 years, notably with such companies as Nabisco, Lego and Tonka. He is one of the founders of the Group.

### **Jon Diver - Aged 42 - Group Marketing Director**

He joined the Group in September 1991 from Rainbow Toys Limited, where he was Senior Marketing Executive. He became Group Marketing Director in August 1994, and has developed close working relationships with the Group's suppliers. He

has played a key role in the development and implementation of the Group's marketing strategy.

### **Ian Fenn - Aged 62 - Senior Independent Non-Executive Director**

He is Senior Independent Non-Executive Director, joined the Board in May 1995. He has extensive experience in corporate finance gained over many years in stockbroking and merchant banking in the City of London. He is a Director of ARM Corporate Finance Limited which is authorised and regulated by the Financial Services Authority Limited.

### **Lord Birdwood - Aged 67 - Independent Non-Executive Director**

He was appointed to the Board in September 1995. He has experience as a Director of quoted and private companies. He has particular interests in executive placement and recruitment.

### **Aldo Horvat - Aged 63 - Non-Executive Director**

He was appointed to the Board in November 2002. He is a consultant to Giochi Preziosi S.p.A. and has considerable experience in the toy industry gained over more than 30 years.

### **David Harris - Aged 56 - Independent Non-Executive Director**

He was appointed to the Board in May 2004. David Harris has considerable financial experience gained over a 30-year career, in both executive and non-executive capacities, and the Directors believe that he will considerably enhance the overall skill base of the Group's Main Board. He will become a member of the Audit, Remuneration and Nominations committees.



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# COMPANY INFORMATION

## SHAREHOLDINGS

	Number	%
3i	11,525,898	25.8
Kiran Shah	5,645,000	12.6
Richard King	5,345,428	11.9
Tops Pension Scheme	1,725,000	3.5
Jon Diver	1,690,640	3.78

	Number	%
Sweet Briar Investments Limited	1,675,000	3.4
Joe Kissane	1,462,300	3.0
Employees Share Ownership Trust	285,000	0.6

## FINANCIAL HISTORY

### Profit and loss account for 12 months to 31<sup>st</sup> Aug 2006

£000	12 months to 31 <sup>st</sup> Aug 2006	12 months to 31 <sup>st</sup> Aug 2005
Turnover - continuing	69,546	48,670
- discontinued	25,986	50,121
Total Turnover	95,532	98,791
Cost of sales	(66,543)	(75,110)
Gross profit	28,989	23,681
Selling and distribution costs	(11,737)	(9,750)
Administration expenses	(13,826)	(12,867)
Administration expenses - exceptional	-	(643)
Other operating income	261	443
Operating profit/(loss) - continuing	6,980	(511)
- discontinued	(3,293)	1,375
Operating profit/(loss)	3,687	864
Gain before goodwill write back	4,053	-
Goodwill charge	(1,897)	-
Exceptional item - discontinued activity	-	-
Profit/(loss) on ordinary activities before interest	5,843	864
Interest	(644)	(703)
Profit/(loss) on ordinary activities before taxation	5,199	161
Taxation	(2,139)	(365)
Profit/(loss) on ordinary activities after taxation	3,060	(204)
Earnings/(loss) per share		
- basic - continuing	8.49p	(2.11p)
- discontinued	(2.56)p	1.72p
	5.93p	(0.39p)
- fully diluted	5.57p	(0.39p)
Dividend per share	3.3p	2.0p
EBITDA	7,524	1,492

### Balance Sheet at 28<sup>th</sup> February 2006

£000	31 <sup>st</sup> August 2006	31 <sup>st</sup> August 2005
Intangible assets	400	646
Tangible assets	1,609	1,849
Investments	2	2
Fixed assets	2,011	2,497
Stocks	10,671	9,810
Trade debtors subject to finance arrangements	11,813	9,053
Factor advances	(6,275)	(6,937)
Trade and other debtors	9,474	21,803
Cash at bank and in hand	7,369	3,748
Current assets	33,052	37,477
Creditors: amounts falling due within one year	(23,324)	(29,009)
Net current assets	9,728	8,468
Total assets less current liabilities	11,739	10,965
Net assets	11,739	10,965
Capital and reserves		
Called up share capital	2,452	2,641
Shares held in Treasury	(665)	-
Investment in own shares	(908)	(908)
Capital redemption reserve	243	40
Share premium account	11,917	11,821
Merger reserve	651	651
Profit and loss account	(1,951)	(3,280)
Equity shareholders' funds	11,739	10,965

## RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients.

Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.



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# COMPANY INFORMATION

A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition

targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

## CONTACT

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86-88 Coombe Road,  
NEW MALDEN,  
Surrey,  
KT3 4QS,  
United Kingdom

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	30
Customers	34
Low cost	25
Management	30
- corporate governance	
- quality	
- shareholding	
Product	35
Sector	35
<b>Financial evaluation</b>	
Early and profitable exit potential	
Financial strength	35
- cash flow	
- conservative accounting	
- need for funding	
Growth at a reasonable price	25
Risk	30
<b>Overall average rating</b>	<b>31</b>



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# COMPANY INFORMATION

### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's

value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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