



Thursday, 18 October 2018

The Character Group plc

designers, developers and international distributors of branded toys, games and giftware
(“Character Group”, “Group” or the “Company”)

Character acquires 55% equity holding in Nordic based toy company

Substantial Transaction under Rule 12 of the AIM Rules

Character Group (**AIM: CCT**) is pleased to announce that it has yesterday agreed terms to acquire a 55% equity shareholding in OVG-PROXY A/S (“**PROXY**”), a Danish incorporated toy distributor based in Copenhagen. PROXY sources and secures exclusive rights to toy products and then markets and sells them to retailers in the Nordic region.

The purchase price comprises an initial cash consideration of DKK2.5 million (approximately £300,000*), with further “earn-out” consideration of up to DKK25 million (approximately £3 million*) payable, depending on performance, in each of the years ending 31 December 2018, 2019 and 2020. The acquisition is expected to be earnings enhancing in the first full year in the enlarged Group.

It is believed that the acquisition of this substantial interest in PROXY will enable the Character Group to extend its European reach, potentially enable frictionless access to EU markets post-Brexit, provide a more compelling marketing/distribution proposition for toy companies and brand owners seeking UK and EU market access and provide a vehicle for growth of the Group’s non-UK sales of its own-developed product ranges/resources.

PROXY, with 27 employees, currently sources product through a strong international network of suppliers and partners, including Character Group. All product lines are sold exclusively in the Nordic region (principally Denmark, Sweden, Norway and Finland) by PROXY, with all sales to the top 5 customers (accounting for approximately 69% of turnover) managed in-house through its own sales force, with smaller accounts managed through distribution partners in the markets. PROXY’s website is available at <https://www.proxyas.com>.

The business is headed by CEO Morten Geschwendtner and CFO Mikkel Kjærsgaard, both of whom have over 25 years of experience in the toy industry and, also, have worked in collaboration with the Character team over several years. The current team at PROXY will continue to run the day to day business. To provide additional resource and skills to the senior team, Jon Diver, Kiran Shah and Mike Hyde (all Executive Directors of the Company) will join the operating board of PROXY.

Commenting on the transaction, Jon Diver, Joint-Managing Director of Character Group, said:

“We are delighted to secure a formal working partnership with the team at PROXY. Having known and worked with them for a number of years we have recognised that there are many opportunities to enhance our current market positions.

“There are many synergies that we can achieve together, including PROXY being able to take advantage of our Far East infrastructure in terms of sourcing and quality assurance and, on a domestic basis, our in-house marketing and distribution capability. Both teams are of similar mind set and together will be in a better position to grow our businesses.”

Morten Geschwendtner, Chief Executive Officer of PROXY, added:

“As a leading toy products distributor in the Nordic territories, PROXY is very excited to have Character on board as a major investor in our business.

“We have known the Character team for a number of years and have mutual respect for each other’s businesses. This partnership allows us to work more closely with a well-respected international toy business and opens new opportunities; we will also benefit from being able to access the wider knowledge and skills of Character as well as its sourcing, purchasing and marketing capabilities. We look forward to working with the team at Character, exchanging ideas and initiatives and growing our business further in the coming years.”

The transaction

Character has formed a new subsidiary, Character Nordic Limited (“**Character Nordic**”) which has entered into and completed an agreement (the “**Agreement**”) to acquire a 55% equity interest in OVG-PROXY A/S (“**PROXY**”) from Kidz A/S and Wamami Holding APS for an initial cash consideration of DKK2.5 million, approximately £300,000* (the “**Transaction**”). The initial consideration has been met from Character Group’s existing cash resources.

Following completion of the Transaction, PROXY is now owned 35% by Kidz A/S (a Danish company owned by PROXY’s CEO, Morten Geschwendtner), 10% by Wamami Holding ApS (a Danish company owned by PROXY’s CFO, Mikkel Kjærsgaard) and 55% by Character Nordic. It is not the intention of Character Group to acquire the remaining shareholding held by the management through their associated companies.

Additional “earn-out” consideration will be payable to the selling shareholders of PROXY in relation to each of the years ending 31 December 2018, 2019 and 2020 on the basis of 1.2375 times the adjusted earnings before tax and interest (“EBIT”) less (as applicable) prior earn-out payments and any prior year losses. Subject to the Additional Facility (as defined below) being secured on or before 31 March 2019, the earn-out consideration for the year ending 31 December 2018 (“**First Year**”) will be subject to a cap of DKK15 million (approximately £1.8* million). In addition, the overall consideration is subject to a cap of DKK27.5 million (approximately £3.3* million). The first part of any First Year earn-out entitlement will be satisfied by the allotment or transfer of ordinary shares of 5p each in the capital of the Company (“**Ordinary Shares**”) to the sellers. The effective value of an Ordinary Share for such purpose is fixed by the Agreement at 487.5p (being the mid-market price of an issued share in the capital of the Character Group at the close of business on 16 October 2018). The number of Ordinary Shares to be issued under this arrangement is subject to a cap of 150,000 Ordinary Shares. The balance of any earn-out consideration will be satisfied in cash.

Character Nordic will provide a short-term loan facility to PROXY of DKK2 million and, on or before 30 November 2018, Character Nordic intends to procure a further loan facility (the “**Additional Facility**”) for PROXY of DKK12 million (approximately £1.44* million). These loans are being provided to refinance certain existing facilities utilised by PROXY. The Group will also support some of the working capital requirements of the PROXY group of companies going forward by providing or procuring trade finance facilities of up to US\$2 million. In addition, the Company has given a guarantee in respect of borrowings from PROXY’s principal bankers of up to DKK8 million (approximately £960,000*).

The following financial information has been extracted from the PROXY’s s audited, consolidated financial statements and its subsidiaries for the year ended 31 December 2017:

Revenues	DKK150.5 million (approximately £17.9 million*)
Adjusted EBIT	DKK -9.5 million (approximately -£1.13m*)
Loss before tax	DKK13.7m (approximately £1.63*)
Net assets	DKK -3.8 million (approximately £-0.45m*)

Notes:

The losses sustained in the year ended 31 December 2017 were principally attributable to PROXY’s now discontinued kitchen and household products division and significant adverse movements on foreign exchange rates. The remaining inventory of kitchen and household products will be sold or fully written-off in the year ending 31 December 2018.

*exchange rate applied DKK (Danish Krone) 1: GBP 0.12

This announcement contains inside information, disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.

ENQUIRIES:

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FTSE sector: leisure:

FTSE AIM All-share: symbol: CCT.L: **Market cap:** £105.9m

Product ranges can be viewed at www.character-online.co.uk

Copies of this statement can be viewed at www.thecharacter.com

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.