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Friday, 13 September 2019

The Character Group plc

(“Character”, “Group” or the “Company”)

Designers, developers and international distributor of toys, games and giftware

Trading Update

The Board of The Character Group plc (AIM: CCT) (the “Board”) provides the following update to shareholders on Group trading ahead of the publication of the Company’s results for the year ended 31 August 2019.

The second half of the financial year just ended has seen several factors negatively impacting our business. The most significant factor has been the failure of the retail market in Scandinavia to fully absorb the sales vacuum caused by the liquidation in January this year of Top Toy, OVG-Proxy ApS’s (“Proxy”) largest customer until its demise. This loss of sales has resulted in losses being sustained by Proxy in the year to 31 August 2019 and this has had a negative impact on the Group’s results as a whole. This setback is considered by the Board and the Proxy management to be attributable to the delayed recovery in retail in Scandinavia. The Board continues to support the Group’s strategy to achieve growth through this niche territory, which will allow continued access to EU markets post-Brexit.

In addition, the continued uncertainty over Brexit has led to a weakening of Sterling in foreign exchange markets, particularly against the US Dollar, and this has been a factor for Character’s domestic business, given that a significant proportion of the Group’s purchases for UK distribution is made in US Dollars. As a result, this has put considerable pressure on our margins and negatively impacted the Group’s results for the second half of the year ended 31 August 2019 and will likely continue to be a factor in the current year.

Through a combination of these factors, the profit before tax for the Group for the year ended 31 August 2019 is likely to be in the range of £11.0m – £11.5m., slightly under the lower end of current market expectations.

Since the announcement by the Company on 3 June 2019, which gave details of the proposed financial support to be extended by the Group to Proxy, the configuration of that support has been revised. A newly-incorporated, wholly-owned, Danish subsidiary of Character (Character Denmark ApS (“CDA”)) has acquired all of Proxy’s inventory and forward purchasing commitments, thereby eliminating Proxy’s overdraft. CDA has agreed to provide inventory to Proxy as it receives orders from its customers. This will enable the Group more directly to apply the resources and support of its well-oiled sourcing and purchasing teams to Proxy’s sales efforts. Whilst this reconfiguration of financial facilities has led to a reduction in the Group’s cash-flow in the year to 31 August 2019, the Board believes that Proxy will return to profitable trading in the current financial year.

Shareholders will have noted the recent announcement by Hasbro, Inc. of its intended takeover of Entertainment One Limited (“eOne”), the **Peppa Pig** brand owner. To date, there has been no dialogue between the Company and Hasbro as to its future intentions for **Peppa Pig** and, although it is unlikely that a definitive position in that regard will be known for some time, discussions have taken place with eOne and it has been agreed that the Group’s current **Peppa Pig** licence (due to expire on 31 December 2020) will be extended for an additional six months to expire on 30 June 2021. This assures the Group of a continued contribution to sales from its **Peppa Pig** product lines for two further financial years.

It remains a fundamental part of the Group's strategy to continue to develop, discover and exploit exciting new product concepts/lines, whether as new in-house brands, new licencing opportunities or exclusive distribution rights for third party products, and to regularly refresh the product offerings for our enduring brands. In this regard, we have launched **Goo Jit Zu**, a new in-house product line/brand developed in collaboration with an overseas toy company, and the reception in the market amongst our customers and global distributors has been very enthusiastic. We are currently focused on capturing new licence opportunities for this range. There are also a number of other projects in development and negotiation at this time and we look forward to updating shareholders with details of these as they come to fruition.

The Board remains confident in the Group's continued profitable performance and balance sheet strength and, therefore, will be recommending to shareholders that the final dividend for the year is maintained.

Character expects to release its preliminary results for the year ended 31 August 2019 in the first week of December 2019.

ENQUIRIES

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