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Monday, 3 June 2019

The Character Group plc
("Character Group", "Group" or the "Company")

Update on Proxy

The Board of Character Group (AIM: CCT) (the "Board") provides the following update to shareholders on the progress made with resolving the increased working capital requirements arising in relation to OVG-Proxy A/S ("**Proxy**"), the Danish incorporated toy distributor in which the Group, through its subsidiary Character Nordic Limited ("**CNL**"), acquired a 55% equity interest in October 2018.

As stated in the Group's interim report published on 9 May 2019, the liquidation of Top-Toy (a leading retailer in the in the toy markets of the Nordic territories) has caused systemic disruption in the region. The vacuum in the market resulting from Top-Toy's demise has created exciting new and additional growth opportunities for Proxy. A number of overseas toy companies who had exclusive distribution arrangements with Top-Toy are now offering their Nordic distribution to Proxy. Already, Proxy has secured the distribution rights for [Little Live Pets](#) and [Laser X](#). There is an opportunity for Proxy's existing and new customers to further increase market share in the region. This bodes well for Proxy's future growth prospects.

The Board has been working with the management of Proxy, who retained 45% of the equity of Proxy at the time of the acquisition, to exploit these opportunities and to secure Proxy's long-term future and financial independence from the Group.

On Friday, 31 May 2019, the Company entered into an agreement (the "**Agreement**") with the other shareholders of Proxy, Kidz A/S ("**Kidz**") and Wamami Holding APS ("**Wamami**") (companies owned respectively by Proxy's CEO, Morten Geschwendtner and Proxy's CFO, Mikkel Kjærsgaard), to provide credit facilities and security to support ongoing banking facilities for Proxy, details of which are contained below. As consideration for these facilities and support, Kidz has sold and transferred to CNL further shares in Proxy, constituting 20% of the share capital of Proxy (the "**Additional Shares**"), for a nominal consideration of one (1) Danish Krone (c. 12 pence). As a result of this acquisition, CNL now holds 75% of the issued share capital of Proxy. Kidz will be entitled to repurchase these Proxy shares, at the same nominal price, in the event that certain conditions (principally a substantial reduction of Proxy's reliance on Group credit and financial support) are satisfied no later than 31 December 2021.

The management of Proxy are confident that the increased working capital requirements are short-term and that they will be able to satisfy the conditions such that Kidz will be entitled to reacquire the Additional Shares. The Board is assured that, with the additional resources available to it, Proxy is well positioned to capitalise on the market opportunities now presented in the Nordic region.

Under the terms of the Share Purchase Agreement dated 17 October 2018 (the "**SPA**"), EBIT-based earn-out consideration is potentially payable to Kidz and Wamami in respect of each of the three years ending 31 December 2018, 2019, and 2020. The audited, adjusted, consolidated EBIT of Proxy for the year ended 31 December 2018 was approximately 8.0 million Danish Krone (c. £943,000) and, following the entering into of the Agreement, earn-out consideration has become due to Kidz and Wamami under the terms of the SPA in respect of that year. This consideration will be satisfied partly in shares, 150,000 ordinary shares of 5p each in the capital of the Company, which will be subject to a lock-up until 4 May 2020, and in the payment in cash of the sum of approximately 3.7million Danish Krone (c. £438,000). It is anticipated that this earn-out consideration will be satisfied on or before 14 June 2019.

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

"This is a pragmatic solution to address the change in the operating environment that Proxy has faced in the Nordic region since the collapse of Top Toy. Both the Board of Character and the management at Proxy believe the market conditions in our Nordic territories will favour Proxy in the medium term and that together we will grow our presence profitably going forward. I am delighted that the management team at Proxy are not only confident of Proxy's future but are backing that judgement in reaching this deal with us"

Further details of the transaction

Under the terms of the Agreement Kidz has sold 100,000 shares of (constituting 20% of the equity capital in) Proxy to CNL for a total price of one (1) Danish Krone ("**DKK**") (c. 12 pence). In consideration of this sale of the Additional Shares to CNL, CNL has agreed to provide (or procure through the Company or other Group entity) the following additional financial facilities for Proxy:

- a revolving, 60-day credit facility of up to US\$ 1.5 million to finance inventory purchases;
- a short-term loan of approximately US\$ 920,000 to be repaid (on scheduled repayment terms) by 31 July 2019;
- a cash security deposit to Proxy's bankers of DKK 12 million (c. £1.42 million) (the "Cash Deposit");
- an agreement with Proxy's bankers to acquire the toy inventories of Proxy at cost up to a value not exceeding DKK 22 million (c. £2.6 million) in the event of a default by Proxy of its banking facility agreement terms (the "Inventory Guarantee").

In addition CNL will continue to provide (or procure the continuance of the provision by other Group companies) of guarantee, trade finance, loan and other financial facilities agreed at the time of the original acquisition in October 2018.

In the event that conditions requiring a substantial reduction in the amount of financial support provided to Proxy by the Group (including the elimination of the Inventory Guarantee, repayment of loans made by Group companies and a reduction of the Cash Deposit) are satisfied by 31 December 2021, the Additional Shares may be reacquired by Kidz for DKK 1.

(* exchange rate applied £1: dkk 8.46)

ENQUIRIES

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