

RNS Half-year/Interim Report

HALF-YEAR REPORT - SIX MONTHS TO 28 FEBRUARY 2023**CHARACTER GROUP PLC**

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Character Group PLC
11 May 2023

**LONDON, THURSDAY, 11 MAY 2023**

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 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

The Character Group plc

(the "Company" or "Group" or Character")

*Designers, developers and international distributor of toys, games and giftware***HALF YEARLY FINANCIAL REPORT**

for the six months ended 28 February 2023

KEY PERFORMANCE INDICATORS	Six months ended 28 February 2023 (unaudited)	Six months ended 28 February 2022 (unaudited)	12 months ended 31 August 2022 (audited)
CONTINUING OPERATIONS			
Revenue	£57.9m	£90.9m	£176.4m
Operating profit before highlighted items*	£0.6m	£6.5m	£11.4m
Pre-tax profit before highlighted items*	£0.5m	£6.5m	£11.3m
Underlying basic earnings per share before highlighted items*	0.54p	25.15p	45.73p
Diluted earnings per share before highlighted items*	0.54p	24.62p	44.77p
Profit before tax	£0.2m	£6.5m	£11.4m
Basic loss per share	(0.85p)	25.21p	46.37p
Diluted loss per share	(0.85p)	24.68p	45.39p
Dividend per share (declared)	8.0p	7.0p	17.0p
EBITDA	£2.7m	£8.4m	£14.2m
Cash and cash equivalents	£10.7m	£21.5m*	£20.0m
Net assets	£37.1m	£35.2m*	£38.9m
*Excludes			
Mark to market (loss)/profit adjustments on FX derivative positions	£(0.3m)	-	£0.2m

"The Board predicted at the start of the year that the Group's trading performance would be very much one of two halves."

"Whilst the conditions remain challenging, the Board has a strong belief in the current product line up. The success of [Heroes of Goo Jit Zu](#) continues and is supported by other lines, including the influencer inspired [Lanky Box](#) and [Aphmau](#) products which are also featuring well in our sales numbers. In addition, the scheduled release of the new "Turtles" movie in August 2023 bodes well for the launch this summer of the [Teenage Mutant Ninja Turtles](#) line of products that we are distributing in the UK and Ireland."

"Overall, the Board is, accordingly, confident of the prospects for the second half and continues to expect that Character's profitability for FY2023 will be in line with current market expectations."*

*Current market consensus compiled by the Company for the year ending 31 August 2023 is an underlying profit before tax of c.£5m.

FTSE sector: leisure: **FTSE AIM All-share:** symbol: CCT: **Market cap:** £68m

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

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

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The Character Group plc

(the "Company" or "Group" or "Character")

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

HALF YEARLY FINANCIAL REPORT

for the six months ended 28 February 2023

INTRODUCTION

Since the Group's trading updates issued in October 2022 and January 2023, trading conditions have continued to be challenging across all the Group's markets. The business continues to have a solid product portfolio for both its international and domestic markets. A succession of exciting new introductions to be made in the second half will, the Board believes, result in a significant improvement in the Group's profitability in the second half of the financial year.

GROUP TRADING

Revenue in the period at £57.9m was down 36.3% on the comparable period last year (HY 2022 £90.9m; FY 2022: £176.4m).

The Group is reporting a profit before tax and highlighted items for the period of £0.5m (HY 2022: £6.5m; FY 2022: £11.3m).

Earnings before interest, tax, depreciation and amortisation (EBITDA) were £2.7m (HY 2022 £8.4m; FY 2022: £14.2m).

Gross profit margin in the period improved to 26.9%, compared to 24.8% in the same 2022 period and 23.5% for the August 2022 financial year. The increase in margin reflects the significant reduction in sales to the USA market, which attracts a lower margin than the Group's domestic and other international sales.

Underlying basic earnings per share before highlighted items amounted to 0.54p (HY 2022: 25.15p; FY 2022: 45.73p). Diluted earnings per share, on the same basis, were 0.54p (HY 2022: 24.62p; FY 2022: 44.77p).

A significant proportion of the Group's purchases are made in US dollars. The business is therefore exposed to foreign currency fluctuations and manages the associated risk through the purchase of forward exchange contracts and derivative financial instruments. Under International Financial Reporting Standards (IFRS), at the end of each reporting period the Group is required to make an adjustment in its financial statements to incorporate a 'mark to market' valuation of such financial instruments. The 'mark to market' adjustment for the financial period under review results in a loss of £0.3m. This compares to a profit of £16,000 shown in the corresponding period in 2022 and a profit of £0.2m reported in the year to 31 August 2022. These 'mark to market' adjustments are non-cash items, calculated by reference to unpredictable and sometimes volatile currency spot rates at the respective balance sheet dates. To present the results on a "normal" basis, these "mark to market" adjustments on FX derivative positions are excluded, although shown separately as "highlighted items" to demonstrate the "underlying" position.

FINANCIAL POSITION, WORKING CAPITAL & CASH FLOW

The Group's net assets at 28 February 2023 were £37.1m (HY 2022: £35.2m; FY 2022: £38.9m). During the period, the Group utilised cash from operations of £2.8m (HY 2022: £3.4m generated; FY 2022: £4.2m generated). The Group's inventory stood at an unseasonably high level of £26.2m at 31 August 2022, however, by 28 February 2023 this had been reduced by £8.0m to £18.1m (HY 2022: £17.9m).

The Group has no long-term debt. Net interest charges on the use of working capital facilities during the period were £0.1m (HY 2022: £23,000; FY 2022: £0.2m). After making dividend payments, the Group had cash and cash equivalents of £10.7m (HY 2022: £21.5m; FY 2022: £20.0m) at the end of the first-half period. In addition, the Group had unutilised headroom of over £50.0m under its banking and other finance facilities.

DIVIDEND

The Board remains committed to maintaining a progressive dividend policy. The Board is declaring an interim dividend of 8.0p per share (HY 2022: 7.0p; final dividend 2022: 10.0p). Although this is not supported by earnings cover (HY 2022 3.6 times), it reflects the Board's confidence in the Group's prospects for a second half recovery and performance beyond the current financial year.

The interim dividend will be paid on 28 July 2023 to shareholders on the register as at the close of business on 14 July 2023. The shares will be marked ex-dividend on 13 July 2023.

SHARE BUYBACK PROGRAMME

No share buybacks were conducted in the period under review. Shareholders passed a resolution at the 2023 Annual General Meeting authorising the Company to effect share buybacks (including by way of tender offers) of up to 2,890,000 issued ordinary shares of 5p each in the Company ("Ordinary Shares").

The Board will consider further buyback initiatives in the future, including by way of a tender offer as the Directors consider that it is in the interests of all shareholders to provide investors who wish to realise part or all of their investment in the Group with an opportunity to access liquidity that is not otherwise available in the market and to return excess capital to shareholders.

TOTAL VOTING RIGHTS (TVR)

As at today's date, the Company's issued share capital consists of 21,465,929 Ordinary Shares. The Company holds 2,100,159 Ordinary Shares in treasury which do not carry voting rights and, accordingly, the total number of voting rights in Character is 19,365,770. The figure of 19,365,770 may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest, or change to their interest, in the Company under the FCA's Disclosure Guidance and Transparency Rules.

OUR PEOPLE

As always, we are indebted to our teams that operate throughout our markets globally. Their gritty determination to face the ever changing, often unexpected, challenges that have affected our markets in recent years is humbling. We have not encountered the level of sales slowdown experienced in the first half for many years and it has, no doubt, been dispiriting for our people but they have shown, once again, a hunger for delivering the anticipated turnaround for the second half and the restoration of the previous growth pattern and fortunes of the Group. For this continuing service and commitment, the Board thanks them on behalf of all of our stakeholders.

OUTLOOK

The Board predicted at the start of the year that the Group's trading performance would be very much one of two halves. Whilst the conditions remain challenging, the Board has a strong belief in the current product line up. The success of *Heroes of Goo Jit Zu* continues and is supported by other lines, including the influencer inspired *Lanky Box* and *Aphmau* products which are also featuring well in our sales numbers. In addition, the scheduled release of the new "Turtles" movie in August 2023 bodes well for the launch this summer of the *Teenage Mutant Ninja Turtles* line of products that we are distributing in the UK and Ireland.

Overall, the Board is, accordingly, confident of the prospects for the second half and continues to expect that Character's profitability for FY2023 will be in line with current market expectation*. The Board will continue to update shareholders as we progress through the year.

11 May 2023

*Current market consensus compiled by the Company for the year ending 31 August 2023 is an underlying profit before tax of c.£5m.

The Character Group plc
Consolidated Income Statement
 six months ended 28 February 2023

	six months ended 28 February 2023 Result before *highlighted items (unaudited) £'000	six months ended 28 February 2023 *highlighted items (unaudited) £'000	six months ended 28 February 2023 Result (unaudited) £'000	six months ended 28 February 2022 Result before *highlighted items (unaudited) £'000	six months ended 28 February 2022 *highlighted items (unaudited) £'000	six months ended 28 February 2022 Result (unaudited) £'000	12 months ended 31 August 2022 Result before *highlighted items (audited) £'000	12 months ended 31 August 2022 *highlighted items (audited) £'000	mont end Aug 20 Statut Res (audite £'0
Revenue	57,887	-	57,887	90,947	-	90,947	176,402	-	176,402
Cost of sales	(42,335)	-	(42,335)	(68,347)	-	(68,347)	(135,036)	-	(135,036)
Gross profit	15,552	-	15,552	22,600	-	22,600	41,366	-	41,366
Other income	334	-	334	339	-	339	502	-	502
Selling and distribution expenses	(5,825)	-	(5,825)	(5,140)	-	(5,140)	(8,260)	-	(8,260)
Administrative expenses	(9,429)	-	(9,429)	(11,251)	-	(11,251)	(22,173)	-	(22,173)
Operating profit	632	-	632	6,548	-	6,548	11,435	-	11,435
Finance income	75	-	75	17	-	17	51	-	51
Finance costs	(164)	-	(164)	(40)	-	(40)	(207)	-	(207)

Changes in fair value of financial instruments	-	(342)	(342)	-	16	16	-	159	1
Profit/(loss) before tax	543	(342)	201	6,525	16	6,541	11,279	159	11,4
Income tax	(438)	73	(365)	(1,188)	(3)	(1,191)	(2,018)	(30)	(2,04
Profit/(loss) for the period	105	(269)	(164)	5,337	13	5,350	9,261	129	9,3

*highlighted items comprise material items that are disclosed separately by virtue of their size or incidence and because they are considered relevant to an understanding of the overall performance of the Company.

The Character Group plc
Consolidated Income Statement
six months ended 28 February 2023

	Notes	six months ended 28 February 2023 (unaudited) £'000	six months ended 28 February 2022 (unaudited) £'000	12 months ended 31 August 2022 (audited) £'000
Attributable to:				
Owners of the parent				
(Loss)/profit for the period		(164)	5,350	9,390
Earnings per share before significant items (pence)	5			
Basic earnings per share		0.54p	25.15p	45.73p
Diluted earnings per share		0.54p	24.62p	44.77p
Earnings per share after significant items (pence)	5			
Basic (loss)/earnings per share		(0.85p)	25.21p	46.37p
Diluted (loss)/earnings per share		(0.85p)	24.68p	45.39p
Dividend per share (pence)	4	10.00p	9.00p	15.0p
EBITDA (earnings before interest, tax, depreciation and amortisation)		2,694	8,407	14,195

The Character Group plc
Consolidated Statement of Comprehensive Income
six months ended 28 February 2023

	six months ended 28 February 2023 (unaudited) £'000	six months ended 28 February 2022 (unaudited) £'000	12 months ended 31 August 2022 (audited) £'000
(Loss)/profit for the period after tax	(164)	5,350	9,390
Items that may be reclassified subsequently to profit and loss			
Net exchange differences on translation of foreign operations	98	201	1,091
Total comprehensive (loss)/income for the period	(66)	5,551	10,481
Total comprehensive income for the period attributable to:			
Equity holders of the parent	(66)	5,551	10,481

The Character Group plc
Consolidated Balance Sheet
at 28 February 2023

	28 February 2023 (unaudited) £'000	28 February 2022 (unaudited) £'000	31 August 2022 (audited) £'000
Non-current assets			
Intangible assets	1,955	1,567	1,963
Investment property	1,420	1,485	1,453
Property, plant and equipment	9,915	8,471	9,307

Right of use assets	1,098	1,162	1,216
Deferred tax assets	450	432	542
	14,838	13,117	14,481
Current assets			
Inventories	18,133	17,946	26,173
Trade and other receivables	12,141	14,827	24,728
Current income tax receivable	498	596	576
Derivative financial instruments	77	44	412
Cash and cash equivalents	10,779	21,550	26,646
	41,628	54,963	78,535
Current liabilities			
Short term borrowings	(121)	(3)	(6,627)
Trade and other payables	(15,886)	(29,133)	(42,151)
Lease liabilities	(658)	(545)	(577)
Income tax payable	(1,367)	(1,936)	(3,345)
Derivative financial instruments	(350)	(118)	(343)
	(18,382)	(31,735)	(53,043)
Net current assets	23,246	23,228	25,492
Non - current liabilities			
Deferred tax	(492)	(430)	(427)
Lease liabilities	(456)	(676)	(648)
	(948)	(1,106)	(1,075)
Net assets	37,136	35,239	38,898
Equity			
Called up share capital	1,074	1,074	1,074
Shares held in treasury	(1,762)	(1,826)	(1,813)
Capital redemption reserve	1,883	1,883	1,883
Share based payment reserve	4,060	3,857	3,957
Share premium account	17,751	17,540	17,566
Merger reserve	651	651	651
Translation reserve	1,433	887	1,950
Profit and loss account	12,046	11,173	13,630
Total equity attributable to equity holders of the parent	37,136	35,239	38,898

The Character Group plc
Consolidated Statement of Cash Flows
six months ended 28 February 2023

	six months ended 28 February 2023 (unaudited) £'000	six months ended 28 February 2022 (unaudited) £'000	12 months ended 31 August 2022 (audited) £'000
Cash flow from operating activities			
Profit before taxation for the period	201	6,541	11,438
Adjustments for:			
Depreciation of property, plant and equipment	341	304	556
Depreciation of investment property	33	33	66
Depreciation of right of use assets	321	276	632
Amortisation of intangible assets	1,383	1,246	1,509
(Profit) on disposal of property, plant and equipment	(16)	-	(3)
Interest expense	89	23	156
Financial instruments fair value adjustments	342	(16)	(159)
Share based payments	103	108	208
Decrease/(increase) in inventories	8,040	(7,053)	(15,280)
Decrease in trade and other receivables	12,587	11,192	1,291
(Decrease)/increase in trade and other creditors	(26,265)	(9,257)	3,761
Cash (utilised)/generated from operations	(2,841)	3,397	4,175
Interest paid	(89)	(23)	(156)
Income tax paid	(2,206)	(841)	(401)
Net cash (outflow)/inflow from operating activities	(5,136)	2,533	3,618
Cash flows from investing activities			
Payments for intangible assets	(1,376)	(1,007)	(1,666)
Payments for property, plant and equipment	(953)	(547)	(1,845)
Proceeds from disposal of property, plant and equipment	16	-	225
Net cash outflow from investing activities	(2,313)	(1,554)	(3,286)
Cash flows from financing activities			
Payment of leasing liabilities	(332)	(268)	(538)
Proceeds from issue of share capital	236	260	299
Purchase of own shares for cancellation	-	(13,640)	(13,640)
Dividends paid	(1,937)	(1,929)	(3,280)
Net cash used in financing activities	(2,033)	(15,577)	(17,159)
Net (decrease) in cash and cash equivalents	(9,482)	(14,598)	(16,827)

Cash, cash equivalents and borrowings at the beginning of the period	20,019	35,920	35,920
Effects of exchange rate movements	121	225	926
Cash, cash equivalents and borrowings at the end of the period	10,658	21,547	20,019

Cash, cash equivalents and borrowings consist of:			
Cash, cash equivalents	10,779	21,550	26,646
Short term borrowings	(121)	(3)	(6,627)
Cash, cash equivalents and borrowings at the end of the period	10,658	21,547	20,019

The Character Group plc
Consolidated Statement of Changes in Equity
six months ended 28 February 2023

	Called up share capital £'000	Shares held in treasury £'000	Capital redemption reserve £'000	Share premium account £'000	Merger reserve £'000	Share based payment £'000	Translation reserve £'000	Profit and loss account £'000	Total £'000
Balance as at 31 August 2021 (audited)	1,181	(1,870)	1,776	17,324	651	3,749	767	21,274	44,852
Profit for the period	-	-	-	-	-	-	-	5,350	5,350
Net exchange differences on translation of foreign operations	-	-	-	-	-	-	120	81	201
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	120	5,431	5,551
Transactions with owners									
Share based payment	-	-	-	-	-	108	-	-	108
Deferred tax relating to share options	-	-	-	-	-	-	-	37	37
Dividend paid	-	-	-	-	-	-	-	(1,929)	(1,929)
Shares issued	-	44	-	216	-	-	-	-	260
Tender offer fees	-	-	-	-	-	-	-	(142)	(142)
Cancellation on tender offer	(107)	-	107	-	-	-	-	(13,498)	(13,498)
Six months ended 28 February 2022	1,074	(1,826)	1,883	17,540	651	3,857	887	11,173	35,239

Balance as at 1 September 2021 (audited)	1,181	(1,870)	1,776	17,324	651	3,749	767	21,274	44,852
Profit for the year after tax	-	-	-	-	-	-	-	9,390	9,390
Net exchange differences on translation of foreign operations	-	-	-	-	-	-	1,183	(92)	1,091
Total comprehensive income/(expense) for the year	-	-	-	-	-	-	1,183	9,298	10,481
Transactions with owners									
Share based payment	-	-	-	-	-	208	-	-	208
Current tax credit relating to exercised share options	-	-	-	-	-	-	-	18	18
Deferred tax relating to share options	-	-	-	-	-	-	-	(40)	(40)
Dividends	-	-	-	-	-	-	-	(3,280)	(3,280)
Shares issued	-	57	-	242	-	-	-	-	299
Tender offer fees	-	-	-	-	-	-	-	(142)	(142)
Shares cancelled on tender offer	(107)	-	107	-	-	-	-	(13,498)	(13,498)
At 31 August 2022 (unaudited)	1,074	(1,813)	1,883	17,566	651	3,957	1,950	13,630	38,898
(Loss) for the period	-	-	-	-	-	-	-	(164)	(164)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(517)	615	98
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	(517)	451	(66)
Transactions with owners									
Share based payment	-	-	-	-	-	103	-	-	103
Deferred tax relating to share options	-	-	-	-	-	-	-	(98)	(98)
Dividend paid	-	-	-	-	-	-	-	(1,937)	(1,937)
Shares issued	-	51	-	185	-	-	-	-	236
Six months ended 28 February 2023	1,074	(1,762)	1,883	17,751	651	4,060	1,433	12,046	37,136

The Character Group plc
Notes to the Financial Statements

1. Basis of Preparation

The financial information set out in this Half Yearly Financial Report for the six months ended 28 February 2023 has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's Annual Report and Financial Statements for the year ending 31 August 2023. These are consistent with the accounting policies used in the financial statements for the year ended 31 August 2022 as described in those annual financial statements.

As permitted, this Half Yearly Financial Report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'.

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and share based payments at fair value.

These Half Yearly Financial Statements and the financial information do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. These unaudited Half Yearly Financial statements were approved by the Board of Directors on 10 May 2023.

The information for the year ended 31 August 2022 is based on the consolidated financial statements for that year on which the Group's auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Going concern

The Directors acknowledge the Financial Reporting Council's 'Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks' issued in April 2016.

In assessing the Group and Company's ability to continue as a going concern, the Board reviews and approves the annual budget and updated forecasts, including forecasts of cash flows, borrowing requirements and headroom. The Board reviews the Group's sources of available funds and the level of headroom available against its committed borrowing facilities. The Group's financial forecasts, taking into account possible sensitivities in trading performance indicate that the Group will be able to operate within the level of its committed borrowing facilities for the foreseeable future. The banks remain supportive of the Group, and in the UK has an ongoing invoice discount facility of £20m, together with overdraft and trade finance facilities of £23m. The Directors have a reasonable expectation that the Group and Company have adequate resources to continue their operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Interim report.

3. Dividends

	six months ended 28 February 2023 (unaudited) £'000	six months ended 28 February 2022 (unaudited) £'000	12 months ended 31 August 2022 (audited) £'000
On equity shares:			
Final dividend paid for the year ended 31 August 2022			
- 10.00p (2021: 9.00p) per share	1,937	1,929	1,929
- Interim	-	-	1,351
	1,937	1,929	3,280

4. Earnings per share

Basic (loss)/earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the period.

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Group has one (2022: one) category of dilutive potential ordinary shares, being share options granted where the exercise price is less than average price of the Company's ordinary shares during this period.

An adjusted earnings per share has also been calculated as, in the opinion of the Directors, this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

The calculations are based on the following:

	six months ended 28 February 2023 (unaudited) £'000	six months ended 29 February 2022 (unaudited) £'000	12 months ended 31 August 2022 (audited) £'000
(Loss)/profit attributable to equity shareholders of the parent	(164)	5,350	9,390
Financial instruments fair value adjustments net of tax	269	(13)	(129)
Profit for adjusted earnings per share	105	5,337	9,261
Weighted average number of shares			
In issue during the year - basic	19,331,081	21,217,582	20,251,532
Weighted average number of ordinary shares for basic and diluted loss per share * ¹	19,331,081	-	-
Dilutive potential ordinary shares	221,744	457,318	436,409
Weighted average number of ordinary for diluted earnings per share	19,552,825	21,674,900	20,687,941

*¹ The potential ordinary shares on exercise of share options are excluded from the number of weighted average shares due to their anti-dilutive effect.

(Loss)/earnings per share			
Basic (loss)/earnings per share (pence)	(0.85)	25.21	46.37
Diluted (loss)/earnings per share (pence)	(0.85)	24.68	45.39

Adjusted earnings per share			
Basic earnings per share (pence)	0.54	25.15	45.73
Diluted earnings per share (pence)	0.54	24.62	44.77

5. Electronic Communications

The Half Yearly Financial Report for the six months ended 28 February 2023 will shortly be available for viewing and download on the Group's website: www.thecharacter.com.

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