



CASE STUDY

JULY 2022

ADVANCE INFORMATION

This material is issued prior to the exam session on 20 July 2022.

**You MAY bring this material with you to the Exam Centre.
It will also be available on your ICAEW Bookshelf.**

FAB FUN LIMITED: ADVANCE INFORMATION

This Advance Information is issued prior to the exam session so as to allow you to familiarise yourself with the information provided and to undertake any other appropriate research and analysis. The Advance Information is also published on the website: www.icaew.com/students and it will also be available on your ICAEW Bookshelf.

You MAY bring this Advance Information with you to the Exam Centre, annotated if you wish, together with any other notes of your preparatory work. You must carry out sufficient and appropriate analysis work **of your own** in order to have a detailed understanding of the Advance Information. You should also undertake any additional research and analysis you feel necessary to enhance your awareness of the industry and market context and to enable you to clarify any technical terms or other issues of vocabulary. You will need to be able to refer back quickly to the Advance Information and your notes during the exam; you are therefore unlikely to benefit from taking large quantities of additional material with you into the Exam Centre.

At the start of the exam you will receive some additional material which will complete the description of the case scenario and state the Case Study requirements. Your answer must be submitted on the software provided by ICAEW in the Exam Centre.

Assessment of the Case Study

The marks in the Case Study are awarded for professional skills, allocated broadly as follows:

- | | |
|--|-------|
| • Assimilating and using information | 22.5% |
| • Structuring problems and solutions | 22.5% |
| • Applying judgement | 22.5% |
| • Drawing conclusions and making recommendations | 15.0% |
| • Demonstrating integrative and multidisciplinary skills | 17.5% |

Of the total marks available, 15% are awarded for the executive summary and approximately 10% for the relevant discussion of ethical issues within your answer to the requirements.

Ethical issues do not form a specific requirement but, within a requirement, may cover such topics as:

- Lack of professional independence or objectivity
- Conflicts of interest among stakeholders
- Doubtful accounting or commercial practice
- Inappropriate pressure to achieve a reported result.

You should be clear that marks are awarded for demonstrating your professional skills, not for reproducing facts from the case. In order to be successful, you will need to:

- Demonstrate your knowledge of the case material and make use of your preparatory work;
- Carry out relevant analysis of the problems and structure your proposed solutions;
- Apply your judgement on the basis of the analysis that you have carried out; and
- Draw conclusions from your analysis and judgement, and develop them into practical commercial recommendations.

Omitting any one of these elements will have a significantly detrimental effect on your chances of success.

July 2022 Case Study: Fab Fun Limited

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About you (Abie Cheng), your employer (ZN Chartered Accountants) and your client (Fab Fun Limited)

You are Abie Cheng, a final-year trainee ICAEW Chartered Accountant, based in the business advisory unit at ZN Chartered Accountants, a firm of ICAEW Chartered Accountants in Cambridge in the East of England. One of your clients is Fab Fun Limited (FFL), a company based at a business park in Cambridge. FFL designs, develops, distributes and sells board games (some under licence) and jigsaw puzzles, both to retailers throughout the UK and directly to consumers through its website. Its manufacturing operations are outsourced. You report to Oswald Perrin, a partner in the business advisory unit.

Your work has included the following:

- Reviewing clients' management accounts in the context of the external environment and internal objectives, drilling down where necessary to pinpoint key issues and concerns
- Using sensitivity analysis, scenario analysis and other numerical techniques to add value to your financial analysis
- Integrating financial and non-financial information to make business recommendations to clients
- Applying professional scepticism to financial and other data provided by a range of sources
- Ensuring that commercial decisions take account of relevant sustainability, ethical and business trust issues.

The UK traditional toys and games industry: An introduction

Although toys and games have existed for a very long time, it was only in the 19th century that they began to be produced on an industrial scale in the UK as the population grew more prosperous and had more leisure time. Emphasis was placed on intellectual toys, such as board games. In the early 20th century, UK companies manufactured many iconic toys (eg, Matchbox cars, Meccano) that were exported all over the world. Some of these companies survive, but few are under their original ownership, having been taken over by large global businesses. The toys are now highly 'collectable' and sought after.

Traditional toys and games comprise a wide range of products, notably:

- dolls and action figures (with related garments and accessories)
- toy animals and puppets
- toy musical instruments
- board games and jigsaw puzzles
- playing cards
- scale models, including train sets and construction kits
- educational toys (eg, science kits for older children, electronic learning sets for infants)
- arts and crafts products.

Current UK annual sales revenue is around £3 billion. While the industry is often associated with children, it has been estimated that over a quarter of toys and games are aimed at adults (and, in some cases, more suitable for adults), making them popular among families. Prominent among these are board games and jigsaw puzzles.

Board games

Board games are typically games of skill between two or more players in which counters or pieces are moved over a tabletop or board, often with accessories such as dice, timers and cards. They have been around for thousands of years. Among the most enduring are draughts (also called checkers), backgammon and chess, which were found amongst ancient civilisations and are still played today, with largely the same formats and rules. Successful modern games include Monopoly, Scrabble and Cluedo, which are known around the world, adapted as appropriate for local markets. Some games have been adapted for other purposes, eg, featuring an entertainment theme or brand such as a TV series or film (the game is then licensed from the brand owner: see **Exhibit 11**); or to make them more accessible, eg, 'family' editions of adult quiz games, incorporating questions that are more suitable for children. More complex strategy games tend to appeal to niche groups, such as gamers who replay historical events, or who enact fictional experiences with miniature figures on map boards.

Recent years have seen a sharp growth in the number of new board games being developed, marketed, sold and played. This has been attributed to quality improvement (more elegant mechanics, components and artwork) as well as increased availability. With the rise in technology, digital versions have become common. There has also been an upsurge in games designed purely for electronic platforms, which can offer more immersive experiences. On the other hand, board games in their traditional formats allow players to spend time physically together.

Jigsaw puzzles

A jigsaw puzzle (often simply 'jigsaw' or 'puzzle') is a picture adhered to a thin, stiff backing (wood or cardboard) and cut into multiple pieces, which must be reassembled by the user into the original picture. Composition varies from very few large pieces for young children to 5,000 small pieces for serious, experienced players. More recently, sophisticated variations such as 3D puzzles have become popular.

The first jigsaws (in the 18th century) were based on maps but they soon expanded into pictures of historical events and people. The development of colour lithography and die-cutting allowed puzzles to be mass-produced and to become cheaper. It was only in the 1890s that irregular, interlocking pieces became the standard design. In the late 1940s, while sales of wooden jigsaws fell sharply because of rising labour costs, improved techniques made cardboard puzzles more affordable. They are now by far the most common format.

Industry structure

The UK traditional toys and games industry is characterised by small, local businesses, often selling a narrow range of products. Many companies carry out their manufacturing outside the UK, whether in their own factories or under subcontract/outsourcing arrangements with other companies that can achieve economies of scale. Products are then imported – usually already assembled and packaged – into the UK. Many companies use specialists to distribute their products but some carry out distribution themselves.

Toys and games companies are usually situated near major customer bases and transport hubs – especially seaports. The East of England is home to the highest share (over 20%) of toys and games companies in the UK.

Key features of the industry and market

The following phenomena are important:

- Business is highly seasonal: 50% of sales are made in the run-up to Christmas (November and December).
- Toys and games are heavily inspired by the latest fashions, especially TV and film. Demand can peak within a few days of release and can fade equally fast as the next trend appears.
- Thousands of toys and games are launched every year but only a very small percentage really achieve extended popularity and commercial success. Relatively few last longer than one or two years.
- Companies that create a wide range of products and can adapt them to meet consumer demand are likely to gain a competitive edge.

Industry performance and trends

Demand is influenced by demographic change; consumer preferences; the UK economy (which has been fragile in the last two years); and, as toys and games are discretionary purchases, disposable income (which fell in 2020-21). These factors together mean that overall UK industry revenue is expected to drop by 4% in 2021-22 after growing by an estimated 5% in each of the past few years.

Board games and jigsaws have been an exception. They have continued to prosper, benefiting from a general increase in leisure time spent at home, by both adults and children. Around 10-20% of consumers bought a board game for the first time in 2020-21, often going on to buy another one (or the same one as a gift for family or friends). This period has also witnessed the emergence of collaborative games, in which all players must achieve a specific target (eg, escape room board games) rather than aim to defeat opponents.

UK toys and games businesses have traditionally sold their goods through a diverse set of retailers, from large chains to small independents. With the collapse of major specialist Toys 'R' Us in 2018, industry revenue dipped, but higher internet sales, coupled with enhanced social media activity, have helped maintain buoyant demand: one-third of all toys and games are now sold online. The return of Toys 'R' Us in 2022 may also stimulate growth.

Although UK cinemas were closed for parts of 2020 and 2021, with few major new film releases, licensed toys and games remained popular. Some successful licences in 2020 related to films released at the end of 2019.

Consumers increasingly care whether products fit their cultural and social values. One example is the growing demand for sustainable toys and games. Manufacturers are responding to this by making their production processes more eco-friendly or – in the case of start-ups – being eco-friendly from the outset. Other steps include reducing and/or replacing plastic components and plastic packaging with more eco-friendly materials.

Fab Fun Limited (FFL): An introduction

Overview

FFL designs, develops, distributes and sells board games and jigsaw puzzles. Its business customers, all located in the UK, comprise both (a) specialist toys and games stores and (b) generalist retailers. FFL also sells direct to consumers, both in the UK and internationally, through its online store. Revenue in the year ended 30 June 2021 was just over £70 million, representing around 3.7 million units. Around 60% of annual sales take place in the October-December quarter. FFL's products are well known to children and adults alike. Some feature popular film, television, music and sports brands, reproduced under licence from the respective brand owners.

FFL is headquartered at a business park in Cambridge in the East of England (around 80 kilometres from London), where most of its staff are based. It also operates from four distribution warehouses. FFL outsources the manufacturing of its products to three large UK-based suppliers (**Exhibit 10**), one of which subcontracts parts of the process to other manufacturers, including some overseas.

The Board comprises:

- Benedict Rossi – CEO
- Olivia Sarna – Finance and Licensing Director
- Annabella Connor – Sales and New Business Director
- Raj Kambli – Purchasing, Inventory and Sustainability Director
- Dan Hydon – Design, Development and IT Director

Benedict Rossi holds a Lifetime Achievement Award from the British Toy and Hobby Association (BTHA) for his work in highlighting the importance of board games for intellectual development, on which he wrote a doctoral thesis. The BTHA, of which FFL is a long-standing member, aims to promote members' interests, together with best practice and excellence in product design, toy safety, ethical manufacturing, environmental issues and responsible marketing.

FFL prides itself on seven 'pillars', known collectively as SUCCESS:

- **S**kills, experience, flexibility and efficiency across all areas of its operations
- **U**nparalleled range of top-quality, market-leading games
- **C**ompetitive pricing policy
- **C**ommitment to innovation through its rolling product development programme
- **E**co-friendliness across all areas of its operations
- **S**trong relationships with suppliers and customers
- **S**taff: their friendliness, courtesy and extensive product knowledge.

History and development

FFL was founded in 1981 by a group of friends who had met at a university gaming convention. The company was incorporated in 1983.

FFL first achieved prominence in 1986 through its breakthrough product, Optix, an innovative board game based on the planets. In 1990, it released the word game Mucho, which received widespread acclaim and remains a flagship game, with special editions being regularly released. In the decade or so after that, it acquired several other, smaller games businesses. In the following 20 years, FFL has launched numerous other products, including Zyx, a skilled game of political strategy. Zyx won the prestigious industry "Game of the Year" award in 2019.

More recently, FFL has formed licensing arrangements with several entertainment brands, extending its reach into previously untapped sections of the UK population. Another key development was the

move into jigsaws in 2006. FFL has also bought some games from other companies (eg, Lampho – **Exhibit 9**) and sold others (eg, Optix) that it has considered to be surplus to requirements. The first FFL apps for smartphones and handheld devices were launched in 2015. The vast majority of FFL apps are free to use, serving mainly as marketing tools that help to promote FFL’s products.

Products

For accounts and operational purposes, FFL organises its products in three groups. The figures below show the approximate share of sales for each group in the year ended 30 June 2021.

	By volume	By value
Heritage board games	38.4%	47.6%
Licensed board games	23.5%	31.3%
Jigsaw puzzles	38.1%	21.1%
	<u>100.0%</u>	<u>100.0%</u>

Heritage board games (eg, Mucho and Zyx) are primarily games that FFL has developed internally and which it owns. Some have been in existence since FFL’s earliest days and have remained popular; others have been created more recently. Heritage games also include games (eg, Lampho) that FFL has bought from other companies. Management analysis of revenue highlights the three main heritage board games individually.

Licensed board games are games to which FFL has the rights through a licensing arrangement and which are specially devised in conjunction with owners of entertainment brands. Licence fees payable included within cost of sales relate solely to this group of products. Management analysis of revenue shows separately the amounts earned from products relating to the main existing licensors: Mondo, Clown House and Ringover (**Exhibit 11**).

Jigsaw puzzles comprise a vast range of products, including traditional puzzles and 3D puzzles. As there are so many types, figures in the management accounts are presented on an overall basis rather than with any analysis by product. At present, FFL has no licensing arrangements for jigsaws.

In general, because of the fees payable to licensors and related negotiation costs, licensed board games earn a significantly lower gross margin than the other two product groups.

Pricing

FFL sets a Manufacturer’s Suggested Retail Price (MSRP) – the price recommended for retailers to sell the game or puzzle to end-consumers. Retailers have their own costs and have to earn a profit, so they buy from FFL at an average discount of 25% on MSRP. For example, Zyx has an MSRP of £40, so FFL sells it for £30 to retailers. All of FFL’s online sales direct to customers are at MSRP. Revenue in the management accounts comprises sales to retailers at the discounted price and sales to online customers at MSRP.

Competitors

FFL views the following as its principal competitors in the UK. Annual revenue is derived from the latest published financial statements of each company.

Company	Products	Annual revenue
Yolki	Board games, educational toys	£113 million
Bonanza	Board games, jigsaws	£64 million
Hamlin	Board games, jigsaws	£66 million

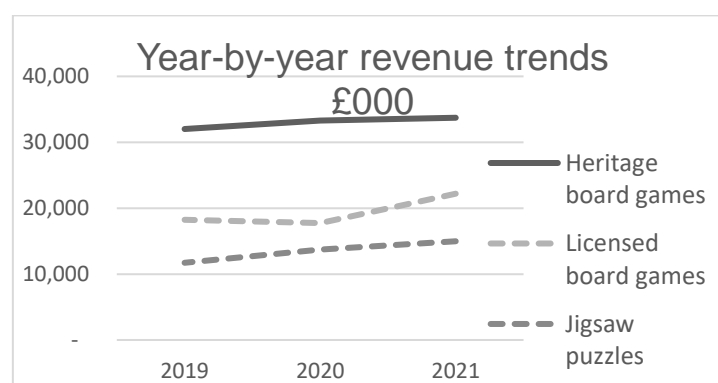
FFL: Review of the management accounts for the three years ended 30 June 2021 (prepared by Olivia Sarna, 20 July 2021)

I attach the management accounts for the three years ended 30 June 2021 (**Exhibit 5**). These are for our internal use to enable us to manage the business, so are not required to be fully compliant with applicable financial reporting standards. The review below covers the key issues arising in each year. It is interspersed with graphs to illustrate important trends over the period.

Revenue and sales volumes by product group

The table below shows revenue by product group for the past three years to 30 June, separately identifying the three biggest-selling heritage board games and the three licensors generating the most revenue – detail that is crucial for assessing the performance of these two product groups.

	2021	2020	2019
	£000	£000	£000
Heritage board games			
Mucho	5,630	5,714	6,032
Zyx	6,744	6,819	6,660
Lampho	3,621	3,734	3,992
Other	17,726	17,009	15,331
Total revenue	33,721	33,276	32,015
Licensed board games			
Ringover	3,711	3,559	3,346
Clown House (CH)	3,503	2,771	2,244
Mondo	4,319	-	-
Other licensors	10,665	11,409	12,634
Total revenue	22,198	17,739	18,224
Jigsaw puzzles			
Total revenue	14,978	13,734	11,717



Sales volumes by product group have been as follows:

	2021	2020	2019
	Units	Units	Units
	000	000	000
Heritage board games	1,426	1,394	1,342
Licensed board games	875	726	729
Jigsaw puzzles	1,416	1,303	1,138
	3,717	3,423	3,209



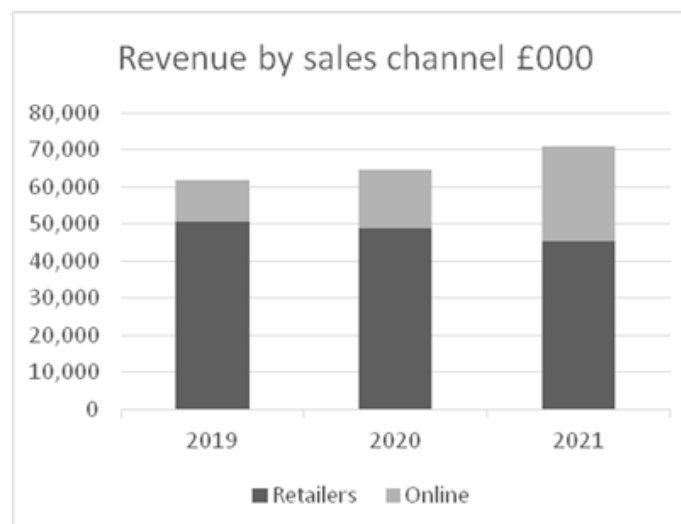
Year ended 30 June 2019 (2019)

Revenue was up by 7.5%, taking it above £60 million for the first time – a notable achievement. All three product groups contributed to the increase, but to differing extents: licensed board games went up sharply, by 21.1% to £18,224k, but the other two groups saw much smaller rises – heritage board games by 1.5% to £32,015k and jigsaw puzzles by 6.4% to £11,717k.

The signing of the Clown House (CH) licence, based mainly on its popular Jack the Jackal character, was chiefly responsible for the strong performance of licensed board games. The licence had been signed in 2018, enabling us to begin developing a series of games for launch early in the 2019 financial year. The timing allowed FFL to benefit from the release of the first Jack the Jackal film in July 2018. The CH licence is seen as a key driver of future growth. Revenue from our key established licence agreement with Ringover rose by 3.9% from £3,219k to £3,346k. Promotional expenditure on CH products in the year was £172,000, versus £66,000 for the 2018 pre-launch period.

The three main heritage board games achieved modest growth (Lampho exactly met Bonanza's 2019 forecast made at the time of purchase – see **Exhibit 9**), and there was steady growth across the jigsaw portfolio.

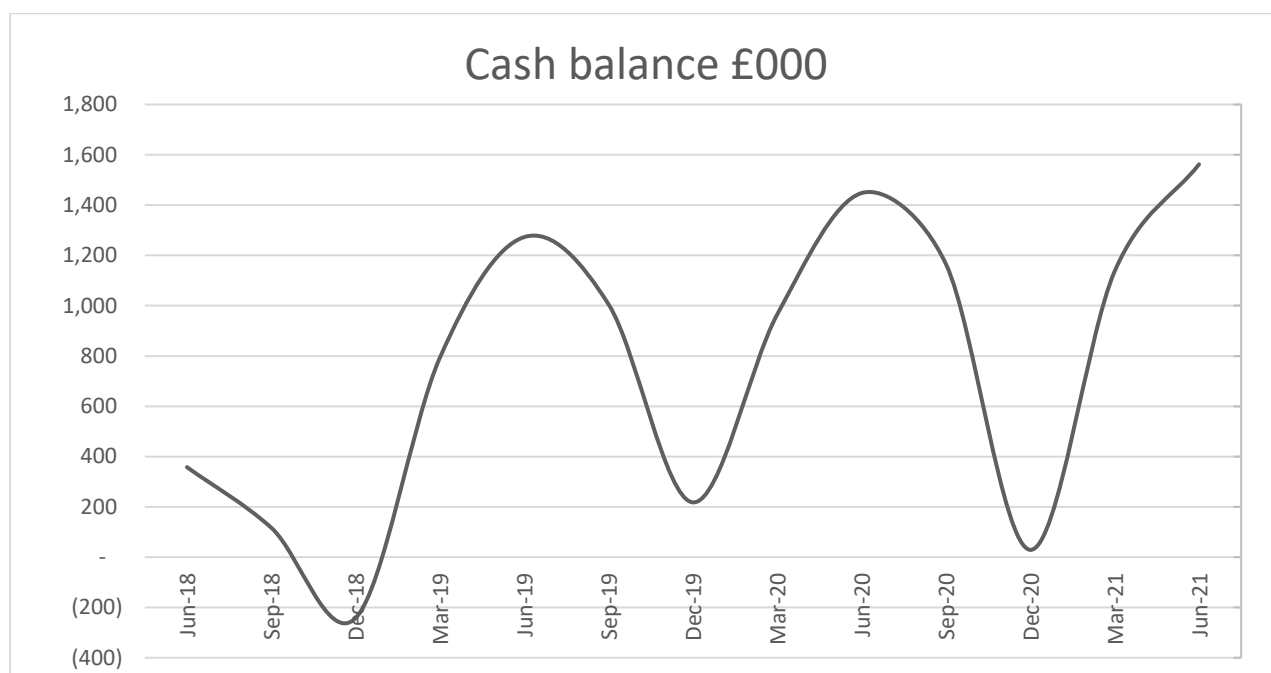
Online's share of overall revenue rose from 15.4% to 18.1%. It remains very much our intention to continue this pattern, especially with the permanent closure of some high street retailers that had been trusted and important customers for us in the past. With online sales being at higher prices, average revenue per unit has increased, though this varies between product groups because of the mix of products and range of price points within each.



Overall gross margin dropped from 25.3% to 24.7%. The drop was very much due to heritage games, where higher production costs caused a drop of 0.8 percentage points. This was offset by gains in the other two product groups: licensed games benefited from the renegotiation of one of our licence agreements; and at the start of the year we found a new jigsaw manufacturer (PZ) that was able to produce our 3D puzzles more efficiently, and at a lower cost, than our previous manufacturer. The changing mix in sales channels also had a small positive overall effect on the gross profit margin.

Administrative expenses and distribution costs both remained fairly constant by reference to revenue, but the lower gross margin fed down the statement of profit or loss to register a decline in operating profit from £3,581k to £3,337k.

Although the cash balance fluctuated during the year – as is normal in our business – it increased impressively to stand at over £1 million by the end of the year, generating some useful finance income.



Year ended 30 June 2020 (2020)

Revenue growth slowed down this year but was still healthy at 4.5%. The spread of the change across product groups was markedly different from last year's. Licensed board games revenue actually fell, by 2.7% to £17,739k, but the other two product groups showed an increase: heritage board games, by £1,261k (3.9%) to £33,276k; and jigsaw puzzles, by £2,017k (17.2%) to £13,734k. Jigsaws became especially popular in the last few months of the year.

The most significant development was the sharp rise in online revenue, which accounted for almost a quarter of the year's total. Revenue from retailers was down, by £2,007k (4.0%) to £48,718k. The impact was felt especially in the three months to June, when online buying became much more widespread for consumer products generally. This confirmed that our e-commerce systems are well placed to deal with further growth.

Looking at the three product groups individually:

- Heritage board games: Underlying revenue growth was good but impacted by a decline in Mucho, which (after years of popularity) appears to be becoming less fashionable; and in Lampho, which has begun to fade after the 3-year post-purchase period, for reasons we cannot readily identify. The three main games now account for less than half of total heritage games revenue.
- Licensed board games: Revenue from Ringover maintained its upward movement and CH built on its first-year results. However, some other existing licensed games saw a sudden drop in sales.

The result was a small overall fall in units sold, from 729k to 726k. These figures can partly be explained by the growth in heritage board games – which are cheaper and so an easier purchase for consumers with reducing disposable income – but also by difficulties with another licensing partner, which led to the termination of our agreement. Despite the shift towards online, average revenue per unit fell, notably for one new CH game launched at a special low introductory price.

- Jigsaws: Both revenue and units sold increased for almost all items in the range. With the higher proportion of online sales, average revenue per unit was up by £0.24, to £10.54.

Gross profit margin declined further, from 24.7% to 24.0%. The impact was felt across all three product groups. It was partly the result of having to give higher discounts to some retailers because, with the move towards online, we did not meet the minimum sales targets stipulated in our agreements with them. We also began replacing plastic counters with wooden ones in some of our games and were unable to pass on the additional costs of these to our customers.

Distribution costs rose faster than revenue. This was a consequence of the move to online, which meant more, low-value dispatches to individual consumers, including overseas. The impact of this on margin was partly offset by delivery charges for online transactions below the free delivery thresholds.

Administrative expenses were up by £844k (8.8%) to £10,393k. This was caused by several factors, notably: promotional expenditure on a significant new licence; additional staff recruitment to help process online orders; a pay rise to all staff; and a higher depreciation charge. Product design and development expenditure stayed constant at just below our target level (4% of revenue).

The combined effect of all the above changes was another decline in operating profit, by almost a quarter. However, it remains above £2.5 million, still leaving ample cover for the annual £1.0 million dividend.

Cash inflow this year was only £175k, largely because of a significant investment in PPE after several years in which we had not spent much in this area. The main features of this were enhancements to our online systems and an expansion of our vehicle fleet to service the growth in distribution.

Year ended 30 June 2021 (2021)

With the ongoing wider growth in interest from consumers in games and puzzles (fun activities that could be undertaken from home and which provided social interaction within the household), we were delighted to report a percentage revenue increase just short of double digits this year.

The nature of the growth continues to vary between product groups. For 2021, the clear winner was licensed board games, where revenue went up by just over 25% (£4,459k) to £22,198k. The existing main licensors both performed well but the principal driver was the hugely successful launch of the Mondo licence, which contributed £4,319k to revenue in its debut year from a series of new board games. This followed months of preparation and negotiation with Mondo, enabling the games to be released on schedule and as part of a carefully constructed promotional campaign. Social media engagement proved particularly important. However, we also terminated our arrangements with two smaller licensors as we could not agree terms on renewal.

Revenue growth from heritage board games was much lower, at only 1.3%. The three main products all registered small falls – for the second year running in two cases. It is clear that we need to invest time and money in refreshing them or, failing that, to reassess our overall strategy in this area.

Jigsaws showed much more consistent growth, with revenue rising for most products. The expanding interest in 3D puzzles has kept jigsaws in the public mind and has helped maintain our strong profile. We raised the prices for some of our best-liked puzzles but this was largely offset by the need to give higher discounts to the retailer Jigsaw when our agreement came up for renewal at the start of the year.

The movements in average revenue per unit varied across the three product groups. Licensed board games recorded an increase from £24.43 to £25.37, partly reflecting the higher-value Mondo products.

Jigsaws were almost unchanged but heritage board games saw a small fall, indicating a slight shift to cheaper items. Despite the shift to higher-priced online sales, the overall impact was a rise of just under 1%, from £18.92 to £19.07.

The trend towards online sales continued apace in 2021. This sales channel now represents more than one-third of our total business by revenue (though less than one-third by volume since online sales are at a higher price); if the expansion continues at the same rate, it will reach 50% in the next two years. Although the switch has been partly brought about by outside factors, we believe that it will not be reversed. We must be prepared to reflect this in all commercial and operational areas. The fall in sales to retailers (7.2%) was actually less than that reported by our competitors and, despite the downward trend, we still view this sales channel as important, not least because of the profile that it gives to our products. We benefited especially from one competitor's decision to reduce its retailer activity. This meant that we received more prominent displays in some stores, further supported with a structured programme of product demonstrations.

We were unable to stop the spiral of declining gross margins. The overall figure now stands at 23.4%, almost two percentage points down from where it was in 2018. This appears to be a wider industry issue, so we are not alone, but at the same time we cannot let it carry on. Because they are at higher prices, our online sales achieve a higher margin than our sales to retailers, so the fact that the overall margin is falling does cause concern. For 2021, there are several reasons, including higher production costs (components, packaging, utilities), which we cannot always pass on; difficulties with one manufacturer (PZ); price pressures from large retailers; and increased sales of licensed games, which are lower-margin. The average discount given to retailers went up slightly to 25.5% for the full year.

Similarly, distribution costs and administrative expenses both maintained their upward curve, with the ongoing impact of more, smaller sales to online customers reducing economies of scale. We may need to increase the delivery charges payable by these customers (offset against distribution costs in the accounts) if the order value is below a specified level. We recruited a number of new staff and awarded a pay rise to all employees. Further promotional expenditure of £200,000 was incurred in relation to the Mondo licence, both to support the first Mondo products and to prepare for the launch of a new football game in 2022. Product design and development costs reflect amounts spent on the Mondo game and other planned new 2022 releases, as well as on some games that were abandoned during the development stage – a common feature of the industry and our business.

Operating profit was just above £2.0 million, but it is now only a little more than half of where it was three years ago despite revenue having gone up by more than 20% in that time and we would not want to see it fall any further. At the start of the year, we made changes to our procedures, enabling the business to adapt quickly, with large numbers of back-office staff working from home for much of the year.

The year-end cash balance remained steady at around £1.5 million, although as always it went up and down over the year. In fact, it dipped alarmingly in the run-up to the busy Christmas season, when we were having to pay suppliers before receiving payment from some key customers, and we nearly needed to use our overdraft facility. One customer experienced cashflow difficulties of its own but after a debt restructuring exercise it has resumed regular settlements with FFL and we are hopeful that there will be no further problems. However, we are conscious that it has been a challenging period for many retailers and we need to find ways to protect ourselves against further such customer issues in future.

FFL: Management accounts for the three years ended 30 June 2021

	Notes	2021 £000	2020 £000	2019 £000
<u>Statement of profit or loss</u>				
Revenue	1	70,897	64,749	61,956
Cost of sales	1	(54,300)	(49,211)	(46,656)
Gross profit	1	16,597	15,538	15,300
Distribution costs		(2,959)	(2,591)	(2,414)
Administrative expenses	2	(11,633)	(10,393)	(9,549)
Operating profit		2,005	2,554	3,337
Net finance income		38	26	29
Profit before tax		2,043	2,580	3,366
Taxation		(388)	(490)	(640)
Profit for the year		1,655	2,090	2,726
<u>Statement of financial position</u>				
Non-current assets				
Property, plant & equipment (PPE)	3	1,174	1,105	601
		1,174	1,105	601
Current assets				
Inventories – goods for resale		5,693	5,261	4,750
Trade and other receivables	4	10,549	9,562	9,593
Cash and cash equivalents		1,562	1,448	1,273
		17,804	16,271	15,616
TOTAL ASSETS		18,978	17,376	16,217
Equity				
Ordinary shares		120	120	120
Retained earnings		11,197	10,542	9,452
		11,317	10,662	9,572
Trade and other payables	5	7,661	6,714	6,645
TOTAL EQUITY AND LIABILITIES		18,978	17,376	16,217

<u>Statement of cash flows</u>	2021	2020	2019
	£000	£000	£000
Cash flows from operating activities			
Profit before tax for the period	2,043	2,580	3,366
Adjustments for:			
(Profit)/loss on disposal of PPE	(1)	(11)	2
Depreciation	302	316	239
Finance income	(38)	(26)	(29)
	<u>2,306</u>	<u>2,859</u>	<u>3,578</u>
Change in inventories	(432)	(511)	(742)
Change in trade and other receivables	(987)	31	(343)
Change in trade and other payables	<u>1,049</u>	<u>219</u>	<u>260</u>
	<u>1,936</u>	<u>2,598</u>	<u>2,753</u>
Income tax paid	(490)	(640)	(684)
Net cash generated from operating activities	<u>1,446</u>	<u>1,958</u>	<u>2,069</u>
Cash flows from investing activities			
Acquisition of PPE	(405)	(847)	(223)
Proceeds from disposal of PPE	35	38	40
Interest received	<u>38</u>	<u>26</u>	<u>29</u>
Net cash generated from investing activities	<u>(332)</u>	<u>(783)</u>	<u>(154)</u>
Cash flows from financing activities			
Dividends paid	(1,000)	(1,000)	(1,000)
Net cash generated from financing activities	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>
Net change in cash and cash equivalents	114	175	915
Cash and cash equivalents at start of year	<u>1,448</u>	<u>1,273</u>	<u>358</u>
Cash and cash equivalents at end of year	<u>1,562</u>	<u>1,448</u>	<u>1,273</u>

Notes to the management accounts

Note 1: Segmental analysis

	2021	2020	2019
Revenue	£000	£000	£000

By product group

Heritage board games	33,721	33,276	32,015
Licensed board games	22,198	17,739	18,224
Jigsaw puzzles	14,978	13,734	11,717
	70,897	64,749	61,956

By sales channel

Retailers	45,191	48,718	50,725
Online	25,706	16,031	11,231
	70,897	64,749	61,956

Cost of sales

By product group

Heritage board games	23,819	23,338	22,203
Licensed board games	18,591	14,850	15,099
Jigsaw puzzles	11,890	11,023	9,354
	54,300	49,211	46,656

By cost area

Manufacture and production	48,504	44,057	41,724
Head office overheads	3,299	3,071	2,878
Licence fees payable	2,497	2,083	2,054
	54,300	49,211	46,656

Gross profit

By product group

Heritage board games	9,902	9,938	9,812
Licensed board games	3,607	2,889	3,125
Jigsaw puzzles	3,088	2,711	2,363
	16,597	15,538	15,300

Note 2: Administrative expenses

General administration	5,594	5,055	4,658
Premises, IT and facilities	1,297	1,126	1,054
Promotion	1,978	1,673	1,366
Product design and development	2,764	2,539	2,471
	11,633	10,393	9,549

Note 3: Property, plant and equipment (PPE)

Cost	£000
At 1 July 2018	1,416
Additions	223
Disposals	(98)
At 1 July 2019	1,541
Additions	847
Disposals	(164)
At 1 July 2020	2,224
Additions	405
Disposals	(79)
At 1 July 2021	2,550
 Depreciation	 £000
At 1 July 2018	757
Charge for the year	239
Disposals	(56)
At 1 July 2019	940
Charge for the year	316
Disposals	(137)
At 1 July 2020	1,119
Charge for the year	302
Disposals	(45)
At 1 July 2021	1,376
 Carrying amount	 £000
At 1 July 2018	659
At 1 July 2019	601
At 1 July 2020	1,105
At 1 July 2021	1,174

PPE comprises leasehold improvements, plant and machinery, IT and other equipment and motor vehicles. Depreciation is charged on a straight-line basis to write off the cost of these items over their estimated useful lives, which vary between 3 and 20 years.

Note 4: Trade and other receivables	2021	2020	2019
	£000	£000	£000
Trade receivables	8,292	7,773	7,501
Other receivables and prepayments	2,257	1,789	2,092
	10,549	9,562	9,593

Note 5: Trade and other payables

Trade payables	5,835	4,872	4,735
Other payables, accruals and provisions	1,438	1,352	1,270
Taxation	388	490	640
	7,661	6,714	6,645

FFL: Business model and processes

The notes that follow set out key features of FFL's business.

Customers – sales to retailers

The majority of sales are made to retailers, comprising specialist toy shops, department stores, supermarkets and hobby stores. (See **Exhibit 7** for profiles of four key customers.) FFL was named Best Supplier at the 2020 Board Games Awards for its “unmatched service to retailers”.

Before being taken on by FFL, all prospective customers undergo due diligence. They must have a physical store and/or their own independent online store (ie, not third-party sellers such as Amazon and eBay). For physical stores, FFL undertakes a visit to view the layout, storage area, tills and payment system; for online stores, it obtains access to carry out a test purchase.

Large customers have their own dedicated FFL account managers ('customer care executives' or CCEs). The relationships with these customers are governed by multi-year contracts which, among other clauses, include minimum annual sales targets, as well as payment terms, which range from 30 days for small stores to 60 days for some large retailers. FFL's credit control department faces the ongoing challenge of enforcing the terms for big customers that seek to wield their purchasing power.

Some customers hold special events promoting particular games or FFL's products in general, allowing consumers to experience them at first hand. On such occasions, a larger than usual number of units of a product may be needed, so retailers are asked to order well in advance to guarantee delivery. For these events, FFL's staff show the game being played and its key features. Early advertising ensures that the events are well attended, leading to awareness, excitement and strong sales.

All customers have a unique password-protected FFL account, through which they can access their dashboard (showing all open transactions and orders made and/or sent in the past 12 months) and receive regular email updates. These include a full list of games currently available and significant upcoming releases. If a game is shown as 'low availability', customers are advised to check status and order as soon as possible. FFL generally dispatches new releases on Friday in time to arrive at customers for the scheduled official launch on the following Monday. Customers that begin selling before the official launch are in breach of FFL's terms and conditions and may have their future orders delayed.

Customers – online sales

FFL sells direct to consumers in the UK and overseas through its own online store. The volume and value of sales made through this sales channel have been growing sharply over the past few years. The expansion has enabled FFL to have a direct relationship with rising numbers of end-consumers and has therefore transformed its marketing activities. The website was set up with the capacity to support a large volume of transactions and it is currently still able to do so. FFL's IT manager estimates that an upgrade would be required if, with average transaction value remaining relatively constant, total online revenue went above £40 million.

Online customers settle their purchases by credit card, debit card or trusted electronic payment methods through secure portals, so FFL generally receives the funds within a few days.

As well as serving as a sales channel, FFL's website provides the latest information on its activities and products. It also allows visitors to play free online 'taster' versions of some of its games. Other website resources include frequently asked questions (FAQs), game instructions and a form on which to order replacement parts (available at a small charge including postage). Customer support staff can answer queries and complaints by phone or online chat. FFL also interacts with its end-consumers through a variety of social media channels.

Products

All FFL games and puzzles are available from retailers, whether in-store or online, or online direct from FFL. Most FFL products were designed and created by FFL. However, in its early years it acquired and absorbed some smaller games companies with their product portfolios, and on a few occasions it has bought a game from another company that no longer wished to manufacture or market it. The purchase process involved valuing the game on a multiple of adjusted future maintainable gross profit, and then negotiating a price with the vendor. One of these purchases (Lampho) is described in **Exhibit 9**.

Expansion packs or add-ons are available for many of FFL's games. These comprise new objects, characters or cards, refreshing the game to prevent players from becoming bored with it through familiarity. Expansion packs are usually much cheaper than the original game. Expansion packs and replacement parts currently represent around 1% of overall revenue.

An extract from the website of FFL's largest retail customer, Trendy Toys (**Exhibit 7**), with the page for Lampho, is shown below. It has several features that encourage visitors to make a purchase – and go on to buy other FFL products.

TRENDY TOYS WEBSITE

Lampho (by Fab Fun)

Product description: An infectious, hilarious game that will have the whole family giggling!

Product code F690b

Product price £25.00

[Currently in stock online / Check in-store stock](#)

[Add to your basket / Add to wish list](#)

[Share](#)

[Check customer reviews](#)

116 people viewed in the last 24 hours

Customers who bought this item also bought [Zyx](#).

Product specifications

Box dimensions: 27cm x 27cm x 6cm

Material: Cardboard, wood, metal

Number of pieces: 1 x board, 6 counters, 2 x dice, 240 cards

Number of players: 2-6

Suitable: Age 8 and above

Warning: Not suitable for children under 36 months (danger of choking on small pieces)

Weight: 600g

Delivery and returns

1. Click & Collect (free). Choose a collection day at checkout.
2. Home delivery on your chosen day 07.30-18.30, 7 days a week (free on orders over £50, otherwise £4). You'll receive a text on the morning of delivery with a 2-hour delivery window.

If you are dissatisfied with the product, you may return it direct to our shops. You may also return a Click & Collect order to where you collected it. At Trendy Toys' discretion, you may be entitled to a replacement at no cost, or a full refund.

The games listed below represent a broad cross-section of the products in FFL's portfolio in addition to the bestselling games already highlighted.

- **Panthero** Strategy game launched in 2005. Family edition released on 1 October 2018.
- **Kwizzi** Fast-thinking quiz game launched in 2011. Updates with new sets of questions began appearing in 2015 and have continued since then.
- **Fortuna** Game of chance launched in 2014, in two formats (Standard and Junior), under the name 'Ludi', rebranded in 2018 to avoid confusion with an unrelated entertainment product having a similar name.
- **Picci** 3D jigsaw launched in 2016, with multiple variations introduced since. There are now 15 versions on the market, all at the same price.
- **Hoodiddit** Role-playing mystery game launched on 1 July 2019.
- **Logiq** Game based on logic puzzles, launched on 1 October 2020.

Staff

FFL employs around 200 staff. Most are based at head office, in a range of administrative, support and management roles. The rest work at the warehouses or as drivers. Their payroll costs are spread over cost of sales (mainly comprising CCEs and the customer service team; licence negotiators; liaison with manufacturers; and freelance translators), distribution costs and administrative expenses.

Senior management pride themselves on FFL's high staff retention rates, which they manage by regularly benchmarking remuneration (comprising basic pay, bonuses, holiday allowances, flexible working hours and staff benefits) against that of competitors and by having a transparent promotion scheme that rewards success and encourages initiative.

Marketing and advertising

FFL advertises extensively on television and through social media and other digital platforms. Its adverts often promote several products together. Trade magazines and specialist games websites are key, as are bloggers, podcasters and vloggers. Some simply announce new product releases or provide neutral reviews of them; others voice opinions and publish market analysis. Unlike some of its rivals, FFL is very careful not to influence any reviews, whether financially or otherwise. It is sufficiently confident in the quality of its own products.

Erika Barnett, the publicity manager, is a crucial member of the marketing team. Her main role is to interact with customers, both online (operating the website, forums, social media) and offline (eg, planning FFL's presence at product demonstrations and other promotional events). She also moderates forums that are set up for fans of specific games: these forums play a vital role in creating and maintaining momentum, especially for new games, but they can sometimes receive negative posts from competitors or people seeking to tarnish FFL's name.

FFL introduces significant new products to major customers before they are generally available for retail sale. Traditionally, it showcased selected new products at major festivals, toy fairs and conventions across the year but many of these events were cancelled in 2020 and 2021.

Marketing and advertising costs (shown as 'Promotion' in the management accounts) comprise both general promotion of the company and advertising of specific products. The costs associated with a new product or range can be significant (see **Exhibit 8**).

Being a caring business

FFL seeks to be a highly ethical, professional and caring business to all stakeholders including its end-consumers, trade partners, staff and local communities. This covers three aspects of its work: quality and safety; ethical practices; and the environment.

Quality and safety

Quality and safety are top priority. All games undergo rigorous safety assessments and testing from concept stage through to final production, enabling them to meet all relevant standards. FFL and its manufacturing partners, including subcontractors (see **Exhibit 10**), must abide by industry regulations, which require all manufacturers of toys and games intended for children:

- to satisfy essential safety requirements
- to mark them properly for traceability
- to ensure that they are accompanied by instructions for use and warnings where necessary, for example by carrying the BTHA Lion Mark (see **Exhibit 13**).

Ethical practices

FFL operates according to various written policies, including its Code of Conduct. Employees receive regular briefings on these policies, which are reviewed and updated, as required by best practice.

The manufacturers with which FFL works directly, as well as their subcontractors, are expected to operate to the highest ethical standards. Before being accepted by FFL, they must demonstrate compliance with FFL's Code of Conduct. FFL is a founder member of the CARE programme, whereby all toys and games are made in factories that care properly for workers and do not use child labour.

The environment

In 2020, FFL formally adopted a sustainability policy, focused on minimising its carbon footprint, as well as continuously improving and monitoring the environmental impact of: water and energy usage; waste and recycling; transport; and choice of materials. In the 12 months to 30 June 2021, FFL:

- resolved that all wood for its game counters would be sourced from certified suppliers only
- introduced a policy of acquiring only electric vehicles and installed charging facilities at all sites
- launched its commitment to reduce the amount of single-use plastic in all products and eliminate it from its packaging and product components; where possible, packaging materials are recyclable.

FFL: Customer profiles

Set out below are snapshots of four of FFL's main retailer customers.

Trendy Toys

Trendy Toys (TT) is a major UK toys and games retailer, dedicated to offering top-quality products with unparalleled customer service. Currently, it has 60 stores in shopping centres and on high streets across the UK, as well as a further 20 smaller 'concession' stores within large department stores and 10 out-of-town megastores. Despite the general trend towards online, TT has continued to achieve impressive revenue from its stores and is looking to expand further: more stores of all three types are being planned. It has found that customers still like to visit their stores to view games and toys in person. Most stores have a dedicated play area for young children, which offers daily supervised play sessions, and an in-house restaurant with child-friendly menu options.

TT is FFL's longest-standing and largest customer, accounting for around 10% of FFL's total revenue in each of the past three years. Stores can stock and order all items in FFL's range and, under the agreement between the two parties, FFL products receive prominent shelf-space. For each major product launch, there is a special programme of events to encourage strong take-up from the outset.

TT also has an established website, through which it makes around 15% of all its sales by value. FFL products are given priority coverage on TT's site, contributing to high positioning on search engines.

Checkmate

Checkmate is a games and hobbies retailer with 12 sites across the East of England. It was originally set up by a young entrepreneur, Rodney Leason. While working in the games section of a local department store in Chelmsford in the East of England, he would challenge customers to a 5-minute game of chess (as a former regional junior champion himself) and this fast became a major attraction in the store.

Rodney's manager identified that he had a strong aptitude for selling and fast-tracked him to promotion. However, he was frustrated by the bureaucracy and decided to set up on his own as a supplier of board games and accessories. He acquired the site of an abandoned bank and converted it to a toy shop. He naturally chose a business name associated with his favourite game.

Obtaining extensive local media coverage for the launch, Rodney quickly established Checkmate, and soon added a café where customers could play against each other whilst enjoying a drink and a snack. This model proved to be so popular that with the help of bank funding, Rodney began an expansion programme, and by 2019 there were 12 Checkmate venues in the region. With its emphasis on board games, Checkmate is a key customer for FFL products, representing around 3% of FFL's total annual revenue. FFL also works closely with Checkmate on promotional activities (for example, the rolling display screens in Checkmate shop windows regularly feature FFL games). This benefits both parties by raising FFL's profile and increasing sales of FFL products from Checkmate stores.

Your Home is Our Home

Your Home is Our Home (known familiarly as 'Your Home' or 'YH') is a large UK chain of department stores with a presence in many towns and cities. It offers a vast range of products, including clothing, furniture, kitchenware and luggage, as well as a wide selection of items for both outdoor sports and indoor games. Most stores are on two or three floors, and the games sections tend to be at the top and so not readily visible, even though accessible by a lift or escalator.

YH has recently revamped its website, which was widely recognised as being outdated and hardly generated any sales. YH sells most of the well-known games and toys on the market. In the years to 30 June 2018 and 2019, it was responsible for around 6% of FFL's total revenue, but this figure has

increased to 8% in the following two years as a result of the website upgrade. FFL has to be aggressive when competing for shelf-space in YH stores with some of its rivals. Similarly, YH's advertising in newspapers, in magazines and on television, plus its digital marketing, generally highlight products from other games companies. FFL management are currently debating how to receive more attention from YH without having to incur significant costs. The contract is due for renewal on 1 January 2023, so this may provide an opportunity to improve FFL's position.

Jigjag (website extract)

Welcome to the UK's leading specialist online jigsaw store! If you're new to the wonderful world of jigsaws, you've come to the right place! You'll find all your jigsaw needs here at competitive prices ...

At Jigjag, we have been selling jigsaws for over 25 years. We offer thousands of puzzles, from renowned companies such as FFL, Bonanza and Hamlin. We also make and sell our very own range of puzzles.

Did you know ...

- Alongside standard products, we also offer custom-made jigsaws. You can upload an image (such as a family photo or your favourite painting) to our site and we will turn it into a puzzle.
- More than 90% of all reviews on Emag, a third-party website, give us a top rating of five stars.
- Each year we sell over 200,000 FFL items, 150,000 Bonanza items and 100,000 Hamlin items.
- We have a 24/7 dedicated customer support service ready and waiting to assist you.
- We offer a money-back guarantee: in the unlikely event that you have a problem with a product, we will resolve it quickly or offer you a refund.
- We welcome feedback (positive or negative) and are always happy to answer your questions.

FFL: Product development and marketing (July 2021)

Overview

Design and development have been key to FFL's success, ensuring a steady pipeline of additions to its portfolio. (Design and development mainly apply to board games; the work involved in creating jigsaws, other than some 3D jigsaws, is generally much less.) At any one time, FFL seeks to have a spectrum of products on the market that are at different stages of the lifecycle and others that will be introduced in the months ahead, with the aim that they should collectively appeal to a wide range of demographic groups, interests and skills. FFL undertakes regular market research, both to receive feedback on existing products and to identify gaps in the market.

Even the most established games need occasional refreshing (eg, box redesign) – or more extensive changes, such as the development of a new version. A good example is the launch of Kwizzi Kids, a new family-friendly format of an established quiz game for adults with added questions and tasks suitable for children. This was based on feedback indicating that Kwizzi was being bought and played less because children resented not being able to join in with their parents. The new version has not only sold well itself but also revived interest in the original.

Other changes can be forced on FFL by circumstance. For instance, in 2020 the subcontractor that made plastic counters for two of its games went out of business. This gave FFL the opportunity to advance its 'green' credentials by working with its manufacturer, Orvan (see **Exhibit 10**), to identify another subcontractor that could create similar counters in another material. It eventually chose one that could make wooden counters. This was popular with environmentalists but it added to the cost, which FFL was unable to pass on to its customers.

FFL may decide to discontinue a product, or product variant, for one or more of the following reasons: declining sales; inability to sell at a price that commands an acceptable profit; threat from a similar product by a rival; production issues. Occasionally, a new game is discontinued soon after launch if it has become apparent quickly that it will not achieve significant sales without extensive marketing, despite rigorous testing in advance.

FFL's product development process

The product development process for board games can take many months – comprising thousands of person hours – from original concept, through prototyping, to the final version and launch. New games undergo a meticulous cycle of testing, followed by a pilot launch in a chosen UK region, before they can be released to the mainstream market. Players of all games are encouraged to give any feedback on FFL's social media pages, or through an online form, at any time.

Unlike some of its rivals, FFL does not subcontract its design and development work. It trusts in its internal expertise, recruiting people with a proven record in games design. FFL has a strong, dedicated in-house product development and design team, which works closely with other FFL specialists: artists, marketeers, social media managers, accountants (to determine a price that will generate an acceptable profit) and lawyers (especially where licensing is involved). FFL also works with customers and outsourced manufacturers, whose role is critical at the prototyping phase and then subsequently. The team holds regular meetings throughout and keeps detailed notes to inform future game development.

Game artwork

Most board games include graphical elements, collectively referred to as 'artwork'. FFL has a group of in-house artists with the necessary skills, ranging from fine arts to photography. They input from the earliest stages all the way through to agreeing the final design. Artwork has evolved rapidly in recent years: players now expect eye-catching design and high-quality presentation.

Design and development expenditure

As development is a continuing process, the product development function can bear the cost of an unsuccessful launch without significant adverse financial impact. As costs cannot always be directly linked to individual products or ranges, and not all development work leads to a viable new product, FFL's policy is to write off all development costs as incurred in its management accounts. Nonetheless, in determining the price for a game or puzzle, FFL takes account of the total design and development expenditure involved.

Product launches and marketing

In general, FFL can plan well in advance when it will bring out new games. A rolling marketing calendar reflects scheduled new launches, with the promotional activity and associated expenditure planned for each. In a typical year, FFL seeks to launch around 10 brand-new products and 20 new variants of existing products. The extract below lists some games due for forthcoming release, with the associated marketing activity and promotional expenditure.

	6 months to 31 Dec 2021		6 months to 30 June 2022		6 months to 31 Dec 2022	
Product	Event	Marketing	Event	Marketing	Event	Marketing
New range of 3D jigsaws	Product launch	Television, social media £130,000	Follow-up	Television, social media £60,000	-	-
Music quiz game	New licence	Television, newspapers, magazines, social media £118,000	Launch & follow-up	Television, newspapers, magazines, social media £94,000	-	-
Alien Overflow strategy game	Product launch	Select media £78,000	-	-	-	-
New licensed board game (tie-in with new TV series)	-	-	-	-	Product launch	Television, social media £235,000

The table shows that major launches are geared towards the lucrative Christmas market. However, unlike some games companies, FFL recognises the need to spread launches across the whole year, often creating a crucial competitive advantage.

For licensed games, timing depends on the licensor. For example, if a new television series for which FFL has a licensing arrangement comes out in April, FFL must be able to capitalise by having an associated new game variant ready to launch at or around the same time.

For a major new product, marketing activity begins several months before the scheduled launch, with excitement building right up to the Monday when the game first goes on sale. Teaser announcements are placed on social media and advance copies are sent to major retailers. Some large city toy stores open specially on Sunday night, with a limited number of sets available at very reduced prices: these typically sell out in a few minutes. Where the game is being sold under licence, the brand-owner is closely involved in the marketing activity.

Marketing then carries on through the launch phase before tailing off once the product has become known and established. The expenditure may therefore straddle two financial years.

Example launch – Zyx (2018)

The launch of Zyx was accompanied by extensive advertising on television, in specialist magazines and on social media. In the two weeks before official launch, free copies were given to all branches of a well-known coffee chain, where players could try out the game while having a drink. This helped raise Zyx's profile and formed close associations in players' minds. Following the launch, magazine and internet reviews were universally positive, which led to strong sales and a series of additional production runs.

Many of those who bought and enjoyed Zyx commented that they would like to play it on train and plane journeys but this was not practicable because of its size. FFL therefore created a 'travel' version, which was launched the following October and became a major success. The time-lag was necessary because the travel version had to go through another series of steps before the product design and development team was happy with it, and it also had significantly different manufacturing requirements.

After the successful launch of the original game and travel version, FFL set about creating an app in conjunction with an external developer, Gamu. This was launched six months later. FFL's is now seeking to move to a system whereby for major new game launches, an app is produced in parallel with the physical game development rather than as a separate later exercise.

FFL: Game purchase – Lampho (July 2016)

In July 2016, at the Liverpool Games Fair, FFL received an approach from Bonanza offering to sell its heritage board game Lampho to FFL. At the time, Lampho was contributing just under 10% of Bonanza's reported annual revenue (then £30 million).

Bonanza had developed Lampho itself. Billed as a 'guessing game sure to make the whole family laugh', it had been popular from the outset. However, Bonanza no longer wished to support the game as it was focused on strengthening its presence in the jigsaws market.

Bonanza provided the following summary sales volumes and financial information about Lampho for its last accounting year and forecasts for the following three years. All sales, both actual and forecast, are to retailers only.

<u>Sales volumes</u>	Units 000
Year ended 30 June 2016 (actual)	137
Year ending 30 June 2017 (forecast)	145
Year ending 30 June 2018 (forecast)	160
Year ending 30 June 2019 (forecast)	175
<u>Revenue, cost of sales and gross profit</u>	£000
Year ended 30 June 2016 (actual)	
Revenue	2,850
Cost of sales	(2,025)
Gross profit	825
Year ending 30 June 2017 (forecast)	
Revenue	3,100
Cost of sales	(2,150)
Gross profit	950
Year ending 30 June 2018 (forecast)	
Revenue	3,600
Cost of sales	(2,400)
Gross profit	1,200
Year ending 30 June 2019 (forecast)	
Revenue	4,000
Cost of sales	(2,550)
Gross profit	1,450

- The forecasts were Bonanza's best estimates of the results that FFL could achieve by incorporating Lampho into its portfolio, with reference to recent trends, overall market activity and plans for an annual inflationary price increase.
- In particular, they reflected an expected improvement in margin from scaling up production, based on Bonanza's discussions with its principal manufacturer.
- Bonanza includes distribution costs within cost of sales. Distribution costs typically correspond to 5% of revenue.

FFL offered £2,139,000 for Lampho, based on a multiple of 3 x (maintainable gross profit less annual incremental administrative expenses), with appropriate adjustments. FFL calculated the offer price as follows.

	Note	£000
Maintainable gross profit	1	1,200
Less: FFL adjustment	2	(120)
Reduction in distribution costs	3	12
Less: annual incremental administrative expenses	4	(300)
		<hr/> 792
Deduct 10%	5	(79)
Adjusted maintainable gross profit		<hr/> 713
FFL offer price = 713 x 3 =		<hr/> 2,139

Notes

1. Average of the three forecast years to 30 June 2019.
2. General 10% downgrading in the profit estimates. FFL felt that the planned price rises and growth rates for both revenue and gross profit were unsustainable in the current market; also, these would take time to achieve with a new owner who would need to give the game renewed attention. The forecast margins were also higher than those currently achieved by FFL on its existing portfolio of heritage games. The downgrading would have been more but FFL believed that there was scope to introduce expansion packs for the game, which would help maintain its profile.
3. Differential between Bonanza's average (5% x revenue) for distribution costs and FFL's typical 4%.
4. FFL's estimate of additional annual administrative expenses of £300,000 (promotion and head office support) that it would incur by adding Lampho to its portfolio.
5. 10% leeway for negotiation purpose.

Bonanza responded with a counter-offer of £2.5 million. It questioned FFL's figure for administrative expenses, arguing that Lampho would not add significantly to FFL's running costs and that much of it could be covered by FFL's existing overall marketing budget.

After a short process of negotiation, the parties agreed a price of £2.25 million, to be settled in five equal instalments over 18 months, enabling FFL to manage its cashflow and arrange some short-term finance. FFL recorded the purchase price in the management accounts under intangible assets, to be amortised over the period from 1 July 2016 to 30 June 2018.

FFL: Supply chain and manufacturing

Overview

Outsourced manufacturing has become common in recent years, as toys and games companies try to keep costs low amidst increased competition. The cost of (often highly specialised) equipment required to produce top-quality board games is prohibitive for smaller entities, which do not sell enough units to justify large-scale capital investment. Many toys and games companies outsource to Asian countries, notably China, where a high proportion of global toys and games production occurs.

FFL has never had its own internal production capability: it has always outsourced, currently to three companies in different parts of the UK. The manufacturing process is complex, especially for games containing many different items made from different materials and needing different equipment. For these, some production is subcontracted by the primary manufacturer (Orvan – see below) to specialist organisations in Germany and China. The assembling and packing of the finished products all take place in the UK.

FFL recognises an important principle: while it can outsource physical manufacture, it cannot outsource its overall responsibility. It therefore checks carefully all its manufacturers and their subcontractors for their credentials and track records in such areas as human resources and environmental practices. This can be particularly challenging with non-UK subcontractors.

Board games – the manufacturing process

The manufacture of board games typically involves prototyping; printing and production; box assembly; and packaging. FFL's manufacturers also carry out compliance testing: all FFL products are required to satisfy applicable industry safety regulations for toys and games (see **Exhibit 13**).

Prototyping

The first stage of manufacture is to develop a prototype – the trial version of a game. There will often be several iterations, involving consultation with a wide range of interest groups (retailers, potential buyers and players), before it moves to mass production. Where a game is being made under licence, the licensor has to sign off the prototype under the terms of the licence agreement.

Printing and production

The main element of production is printing the board. This is an elaborate and time-consuming process involving many steps and special tools. Most games include additional items (eg, dice, counters and timers), some of which are manufactured by subcontractors that have the required equipment.

An essential part of any game is the instructions booklet. The text of this is prepared in-house by FFL and emailed to the manufacturer for printing. For games with an international appeal, the instructions are translated (by expert translators engaged by FFL on a freelance basis) from English into one or more languages, and all the versions are printed in a single booklet, also downloadable from FFL's website. The games themselves are designed to be language-neutral where possible, but where there is a significant perceived demand from non-English-speaking countries, other versions are created.

Box assembly

Once the board, instructions and all components have been made, they are assembled together in boxes at dedicated assembly centres operated by the manufacturers at UK locations. Boards must also be foldable so that they can fit easily into a box. Boxes are made to standard industry sizes so that they fit on retailers' shelves (and also on pallets for distribution). Each box contains a tray, which may have several compartments of different sizes to accommodate all the various pieces. The assembly takes place manually: for a complex game with many separate elements, this can be a labour-intensive task.

Jigsaw puzzles – the manufacturing process

Design depends on the type of artwork and style desired. Specialist puzzle artists control the puzzle's skill level by varying the number of pieces and complexity of the cuts. Typically, the more pieces, the harder it is to make (and solve!)

Printing and production

FFL puzzles are printed using the common technique of lithography (litho). This uses a plate specially treated to absorb either water or oil. After printing, the litho sheets are laminated onto thick cardboard and left to dry for several days before being sent for a process known as die-cutting, in which a sharp, flat metal ribbon is used to stamp out the individual pieces.

3D puzzles are more complex, involving different equipment and materials from those used for 2D jigsaws. In some cases, special features may be incorporated (for example, a light to illuminate a structure such as the Eiffel Tower), which adds significantly to the production time, cost and sales price.

Box assembly

After leaving the press, the sheets go through a breaker, which separates the puzzle pieces into a box, on the cover of which is a picture of the completed puzzle as a guide.

Packaging and distribution

The final part of the assembly process for all products is packaging. This is undertaken by machine and comprises shrink-wrapping around the box.

Once completed, boxed and packaged, products are uploaded onto pallets and transported from the manufacturer's site by lorry in bulk to FFL's warehouses, where they are sorted, organised and securely stored, ready for onward distribution by FFL's fleet of vehicles to retailers or to FFL's online customers.

Production costs

In common with other manufacturers, FFL incurs many costs in bringing a game or puzzle to market. FFL normally expects to start generating profits from the first production run of a new game. For subsequent runs, the manufacturer's cost per unit is usually higher because of the lower volume, but this is offset by savings on costs that do not have to be incurred again (design, artwork, tools, etc).

FFL's manufacturers

FFL has signed contracts with all three of its manufacturers setting out the agreed level of service and other key terms, including payment arrangements. All are for three years, expiring in 2023 or 2024.

Approximate share of FFL production (by cost)	2021	2020	2019
Orvan (board games and jigsaws)	59%	53%	52%
Grand Games (board games only)	26%	30%	34%
PZ (jigsaws only)	15%	17%	14%
	100%	100%	100%

All products are required to be made to exact specifications, using only the materials chosen by FFL, and to flexible timetables so that large and/or short-notice orders can be met. This is particularly important in the period leading to Christmas, when production may be required on a 24/7 basis.

Orvan

Orvan is FFL's main manufacturer and FFL is Orvan's biggest client. Orvan has five factories within an area of 200 square kilometres within the UK: three are used for board games, the other two for jigsaws. It subcontracts some production to suppliers in China and Germany that specialise in the components that are essential for several of FFL's games. Orvan bears some of the foreign exchange risk in relation to these subcontractors. Under the terms of its arrangement with FFL, the underlying cost rises (whether caused by currency movements or otherwise) that it can pass on to FFL are capped. Orvan has its own separate payment arrangements with subcontractors: FFL simply pays Orvan for the final product.

As the process for all board games is broadly similar, and likewise for jigsaws, the same machinery at each site is used on a largely continuing basis, with limited downtime being required. Major repairs and maintenance work is typically scheduled for January and February each year, when production is at its quietest. However, sometimes this work has to be carried out without notice, in which case Orvan can rearrange production shifts between sites.

Orvan's factories operate to the highest standards of safety and efficiency. Its stringent internal quality assurance processes ensure that any products not meeting these standards at any stage of production are rejected. FFL undertakes twice-yearly inspections of the five sites on a rotational basis and to date it has not found any matters of concern.

Grand Games

Grand Games (GG) is one of the UK's best-known manufacturers of board games. It operates from a single factory just outside Cambridge. Its clients include FFL and several other leading board games companies. GG is mainly involved in producing FFL's licensed games. As well as collaboration with FFL itself, this entails working closely with FFL's licensors, from the prototype stage all the way through to final production. Each game must meet the licensor's requirements.

In February 2019, GG's factory was flooded during heavy storms. The factory was closed for two weeks while the damage was repaired. Some of FFL's scheduled jobs could not take place, meaning a shortage of certain products and a failure to meet some orders from established customers. FFL was able to explain the issue without losing any goodwill and, since this minor disruption, the arrangements with GG have continued without any further problems.

PZ

PZ produces jigsaw puzzles of all kinds from its premises in London. It is a family-run business that has been handed down to successive generations of the Travers family since the 1950s. The current management team pride themselves on being at the forefront of the debate on 'green' (environmental) issues, and the finance director stood unsuccessfully as a candidate for the Green Party at the UK General Election in 2019. FFL's first association with PZ was in 2018 when PZ's CEO, Kylie Travers, met Raj Kambli at a climate change conference where there was an exhibition of toys and games made from sustainable materials. Raj was keen to work with a company that shared its ecological values and the two businesses began working together soon after.

The puzzles that PZ produces are partly hand-made and partly machine-made. PZ is known for its reluctance to invest significant amounts in new equipment and, as a result, its production processes are becoming increasingly inefficient. This has led to a decline in quality and a series of missed deadlines, with FFL in a few instances having to give unplanned reductions to some customers. FFL has tried to be understanding but Raj has made it clear to Kylie that the situation cannot continue and has threatened to withdraw FFL's business when the current agreement expires if standards do not improve.

FFL: Licensing arrangements

An introduction to licensing in the toys and games industry

Licensing enables the owner of an entertainment brand to earn additional income from the brand by attaching it to toys, games and other products. The brand will generally be protected by patents, copyright or design registration. By entering into a licensing agreement with another party, the brand owner can protect its interests while granting the distribution and marketing rights to that other party, in return for a licence fee, in order for the brand to reach new markets.

Licensing of entertainment brands is a natural fit for board games since they are themselves a form of entertainment, so it is not surprising that licensed products form a major part of the overall toys and games market. For example, many of the hundreds of versions of Monopoly are licensed, in areas including sport (eg, Barcelona Football Club), films (eg, Frozen) and television (eg, Peppa Pig).

When an entertainment brand owner (the ‘licensor’) grants a licence to another party (the ‘licensee’), the licensor retains control over where and how its products are sold, allowing the licensee to sell them with the logos, packaging design, graphics and other associated features of the brand. The licensor gains access to other markets through the licensee, without needing a physical presence of its own. Ideally, both parties benefit from the arrangement: the licensor receives a steady stream of fees without spending time, energy and funds on product development, marketing and selling; while the licensee can use existing relationships with retailers to take the products to established markets quickly and efficiently. However, mutual success is by no means certain; without proper planning, market research or collaboration, mutual failure – as well as reputational damage – can result.

FFL’s licensing agreements

FFL’s three main licences are summarised below:

Licensor	Brand details	Start date of current licence	End date of current licence	Licence fee %
Ringover	Alien Overflow, a well-established science fiction phenomenon launched in the 1990s and acquired by Ringover in 2011; eight films have been made and it is likely that others will be released in future years	1 Jan 2020	31 Dec 2022	10% of annual gross revenue up to £4 million; 8% on gross revenue above £4 million
Clown House (CH)	Jack the Jackal, a popular children’s cartoon character originally seen on television and subsequently the subject of a film, as well as a quarterly magazine; licensed to a range of toy and clothing companies; FFL has had exclusive rights to produce CH branded board games since 2018	1 Oct 2020	30 Sept 2022	9% of annual gross revenue
Mondo	UK sports team launched in 2015 by an international billionaire; rapidly achieved success and now a well-known brand; FFL has had the rights to produce Mondo board games from 1 July 2020 but the arrangement is not exclusive: another licensee produces other leisure items as well as board games with Mondo branding	1 July 2020	30 June 2023	7% of annual gross revenue

FFL has agreements with its licensors setting out the rules covering use of the relevant brand. Among other clauses, they typically include:

- Period of agreement
- Product(s) included
- Other terms of use or restrictions
- Territories included
- Basis of fee calculation
- Payment arrangements

To ensure a smooth relationship and to avoid future disputes, the agreement must be worded clearly and unambiguously. An area that is often contentious, since it has a direct financial impact on both parties, is the definition of 'revenue' for the purposes of calculating the fee. There are two possibilities for games licences. The standard terms and their specific definitions as used in the industry are:

- **Gross revenue:** Total revenue before discounts to retailer customers.
- **Net revenue:** Total revenue adjusted for discounts to retailer customers.

The choice of definition can greatly affect the fees. The licensor wants to use the gross revenue basis to maximise the payment; while the licensee, who has agreed trading arrangements with retailers, wants to pay fees based on net revenue – the amount that it actually receives from them. All existing FFL licences are determined on a gross revenue basis.

FFL's fee rates vary between 5% and 12% of gross revenue. For some agreements, such as that with Ringover, the rate is stepped: the percentage reduces once a specified sales level has been reached.

The rate also varies depending on whether the licensor grants FFL exclusive use of its brand or also (as with Mondo) licenses it to one or more other games companies.

Some of FFL's licence agreements include minimum fee clauses. In such cases, the licensor requires an upfront lump sum, rather than a periodic payment (every month or quarter) once the underlying sales figures are known. This can have important consequences for cashflow.

A further issue arises if FFL introduces an app of the game. Most FFL apps are free to download but where FFL charges for downloads, the agreement will need to be adapted so that the licensor is remunerated on an appropriate basis, eg, number of downloads. To ensure that the brand is not tarnished in any way, the licensor may wish to be involved in developing the app. This happened recently: FFL consulted Mondo when creating the app for its football game in conjunction with FFL's external specialist developer, Gamu.

FFL works closely with its licensors to combat activity by third parties that can compromise the licence agreements. A key problem is that of counterfeit products – items that look like the original but which have been made cheaply. This may damage the reputation of both FFL and the licensor, in addition to the loss of potential revenue for FFL. Where such activity is identified, FFL and the licensor work with each other and the relevant authorities to stop the fake goods from being manufactured or sold.

One overseas licensor asked FFL to introduce a clause into its agreement preventing retailers from selling the licensed products below a specified minimum price, so as not to taint the brand. However, such 'restrictive pricing' is not allowed under UK law and so FFL was unable to agree to this request.

A typical licence fee calculation – Ringover

Set out below is an illustration of a licence fee calculation with Ringover for the last completed contract period (year ended 31 December 2020).

Sales of Ringover licensed games	Gross revenue £000	Net revenue £000
Retailers	3,200	2,400
Online	1,227	1,227
	4,427	3,627

Net revenue is the revenue reported in the management accounts. Gross revenue is used purely for the purposes of calculating the licence fee. For online sales, because they are all at MSRP, there is no difference between gross and net revenue; but for sales to retailers, the two figures differ: gross revenue represents sales at MSRP for each product, on which FFL typically gives a 25% discount to retailers. This was the average discount given to retailers over the contract period, but it can vary.

As the contract year and FFL's financial year are not coterminous, the figures above represent the last six months of the year to 30 June 2020 and the first six months of the year to 30 June 2021.

Under the contract terms, FFL must pay a minimum fee of £450,000 per year: £225,000 in advance and the remainder (including any excess above the minimum) within a month of the contract year end. So, for the contract year to 31 December 2020, FFL paid one £225,000 instalment on 1 January 2020 and a second £225,000 on 31 January 2021. As the calculated fee was below the minimum, there was no excess; indeed, in view of the shortfall in revenue, FFL still had to pay the full £450,000. This is illustrated in the table below.

Licence fees for contract year ended 31 December 2020	Fee rate %	Fee £000	Paid on 1 January 2020 £000	Paid on 31 January 2021 £000
On annual gross sales ≤ £4.0 million	10%	400		
On annual gross sales > £4.0 million	8%	34		
		434		
Additional payment to achieve minimum		16		
Amount paid		450	225	225

Under the terms of the contract, the calculation of gross revenue was subject to an independent audit, by a firm agreed between the parties, and was shown to be correct.

The stepped nature of the fee arrangement is designed to incentivise FFL to maximise sales. When the licence was last renegotiated, FFL carried out a series of calculations using several different possible fee bases and sales forecasts before agreeing a fee arrangement that it felt would be the most beneficial financially. FFL also prepared simple cashflow projections to show the impact of the fee payments on its cash balances. In the event, FFL sales of Alien Overflow products were lower than FFL's worst-case forecasts, mainly because of an unforeseen delay in the release of a planned new game.

FFL: Strategic summary (prepared by the FFL board, August 2021)

Strategy

We invest time and effort in regularly reviewing our products to ensure that they remain appealing and relevant, blending the traditional with the innovative. Where a game ceases to fit this philosophy, or appears to be on a path of decline, we will consider discontinuing it or, if applicable, selling it to a third party. We are constantly seeking to expand and refresh our existing ranges and to build on these by designing and developing new products. In doing so, we assess the costs of creating a potentially lucrative new game against the costs of buying and nurturing an established game from a third party.

Our reputation for quality and high standards of service has been proved by continued strong demand for our products since the start of the new financial year, with several high-profile new products in the pipeline. Nevertheless, we recognise that we are in an increasingly challenging market with a variety of external pressures, and we have therefore set what we believe are modest financial targets for the year to 30 June 2022: revenue of £75 million and operating profit staying above the £2 million threshold. Sustainability will remain a key focus.

Business risks

The directors view the key risks facing the company as being in the following ten areas:

1. **Competition:** FFL faces constant pressure on prices and margins. It mitigates this through regular reviews of its pricing strategy in comparison with its competitors, underpinned by continuous product evaluation and development.
2. **Suppliers:** Outsourcing production brings with it potential management and quality assurance issues, as well as failure to meet customer requirements in terms of volume and timing of supply. FFL manages this risk by agreeing clear terms and through initial and ongoing financial and operational reviews of its manufacturers, including a programme of factory inspections.
3. **Inventory and returns:** FFL needs to maintain high levels of inventory. It manages the associated risk by regular discussions with customers, ongoing monitoring of all inventory, careful ordering, frequent reviews of slow-moving lines and acting on any quality issues, including returns. Returns of faulty/damaged goods typically run at 1-2% of sales volumes and have historically been resolved amicably between FFL's retailers and their customers. The change in revenue mix has increased the number of returns direct from online customers and triggered the need for FFL to have a more formal returns policy. This is currently being formulated.
4. **Licence fees:** Margins for licensed games are typically low. To ensure that they do not fall below acceptable levels, FFL must negotiate strongly with licensors and not be afraid to terminate agreements if they are unduly onerous in financial and/or other terms.
5. **Credit:** Before retailers can be accepted as customers, FFL undertakes both operational and financial due diligence, especially to assess their likely ability to settle debts promptly and in full. This includes consultation with, and references from, third parties. FFL imposes robust collection procedures and sets credit limits to help manage its cashflow.
6. **Liquidity and cashflow:** FFL's cashflow is seasonal and balances can fall sharply at certain points in the year. If required, it uses bank overdrafts to finance working capital requirements. It conducts daily reviews of its cash position and rolling cashflow forecasts to maintain liquidity, maximise interest and ensure sufficient headroom.

7. **Cybercrime:** Criminals can gain unauthorised access to systems, steal intellectual property and data on online customers and/or hold FFL to ransom. FFL manages this risk by employing qualified IT professionals; software protection (eg, anti-virus applications, filters); cloud back-ups of key data; staff training (including simulated cyber-attacks on its systems); and insurance cover.
8. **Safety:** Product safety is the subject of strict regulation and control in many of the territories where FFL sells its products. FFL works with trade bodies in the UK, such as the BTHA, enabling it to respond to proposed legislative changes. All FFL products are made to the highest standards but it has product liability and product recall insurance in the event of any unforeseen issues.
9. **Intellectual property rights (IPR):** Third parties counterfeiting FFL's products could significantly harm its competitive position. FFL works closely with its partners, and with the relevant regulatory authorities if required, to identify and stop such activity. In an extreme case, FFL may have to use litigation to protect its IPR, which could be costly in time and money.
10. **Currency:** FFL is indirectly exposed to foreign exchange risk if its manufacturers seek to pass on cost increases arising from currency variations in transactions with their own subcontractors based overseas. Where possible, FFL limits this risk by capping the cost increases that manufacturers can pass on. All of FFL's overseas sales are denominated in £.

Toy safety

In 1961, the British Standards Institute (BSI) introduced a simple code of requirements for children's toys. Since then, the rules have expanded significantly.

Nowadays, UK consumers are well protected by safety legislation and the British Standard (BS EN 71) that underpins it. All toys sold in the UK must comply with the Toys (Safety) Regulations 2011. They cover items designed or intended (whether or not exclusively) for use in play by children under 14 years old. BS EN 71 explains how manufacturers should meet the requirements, stating how toys should be manufactured and tested and the safety warnings that they must carry. If toys do not comply, they can be removed from sale, while manufacturers and their officials can face prosecution and possible imprisonment.

Before they reach shop shelves, toys must undergo rigorous testing to ensure that children are not at risk from toxic or hazardous elements if they put the toys or any components in their mouth.

BS EN 71 is continually being extended to cover a range of safety aspects, such as new specifications for board games involving smell and taste.

The European Toy Safety Directive (2013) strengthened the rules on toy safety and introduced significant changes:

- Manufacturers and importers face obligations to ensure that no unsafe toys enter the market
- Toys must no longer contain certain heavy metals such as lead, or chemicals that could cause cancer, change genetic information or harm reproduction (known as CMR substances).

All toys on sale in the UK must carry the Lion Mark. This tells users that the manufacturer follows the British Toy and Hobby Association (BTHA) code of practice and guarantees compliance with the requirements of BS EN 71.

The Directive also requires various other labels on certain toys. For example, toys that might be dangerous for very young children must state 'Warning. Not suitable for children under 36 months', together with an indication of the risks, such as choking on small parts or on plastic packaging.

The BTHA's role

The BTHA has long been active in promoting best practice and excellence in all areas of toy safety. Through its relationships with UK governmental bodies, it seeks to reduce the burden of detailed regulation on members. It has a key role in helping interpret new requirements and determining the impact of new legislation on members.

Recent media coverage

EXHIBIT 14a

Doing it right (Ethics Monthly, July 2021)

Board games company Yolki Games is being praised for adapting its products in reaction to popular sentiment.

Yolki has just announced that it is going to make its role-playing mystery game Gip more culturally diverse by incorporating characters of different backgrounds, in response to adverse comments on social media. It estimates that this change will add £1 to the production cost of each set sold. Yolki has stated publicly that it will not pass on this cost to customers.

EXHIBIT 14b

Grand Games announces big move (January 2022)

After recovering from the flood which badly damaged its premises in 2019, games manufacturer Grand Games is due to open a brand-new, state-of-the-art factory near Cambridge in January 2023. This will supplement the existing site and eventually replace it. The new factory will be highly automated, enabling many tasks previously carried out by hand, such as box assembly, to become fully mechanised.

EXHIBIT 14c

Hamlin wins major entertainment licence (Licensing News, June 2022)

Hamlin has won the rights to produce games and toys based on Veligo Entertainment's legendary fairies and goblins – characters known to children the world over from their ubiquitous presence on television and in films. Since 2019, Hamlin – which has a recent history of aggressive negotiations for licences – has made the Veligo licence a key target in its bid to build up a powerful portfolio.

The five-year licensing agreement will allow it to develop a wide range of games and toys. Sources suggest that the licence fees negotiated with Veligo are based on net revenue and set at a rate of 10%.

EXHIBIT 14d

Happy Holly sold for £5 million (Toy Trivia, April 2022)

UK toys and games company Bonanza has agreed to pay £5 million for Happy Holly, a board game that has entranced millions of players since its creation nearly 20 years ago. Of the £5 million, £1 million is contingent on the game achieving specified sales targets.

Analyst Sarah Coleman says that games such as Happy Holly have been experiencing a revival at a time when families have been spending more time together – though the electronic version has also become extremely popular. "It is both fun and educational – the perfect combination", she said, adding: "It's a game that has really sold itself through word-of-mouth recommendations and social media, but it is crucial that Bonanza sets aside a suitable marketing budget if it wants Happy Holly to retain its profile."

The Happy Holly purchase perhaps signals another change of strategy by Bonanza after its previous decision to focus more on the jigsaws market.