CHAIRMAN'S PREAMBLE

Most companies don't live for long. Leaving aside banks and finance houses that can continue doing pretty much the same thing year upon year there are only a handful of companies that were in the Fortune 500 in 1900 still going today. Looking at the sector weightings in the US for 1900 62.8% of value was generated by Railroads; in 2000 it was 0.2%. Other big players in 1900 were mining and iron, coal and steel. It is not easy to survive when your industry is collapsing around you. In 2000 the big sectors were IT, telecommunications and pharmaceuticals, non-existent (nearly) in 1900. It is no surprise that today's giants come from those industries.

If companies don't live for long, they don't grow for long either. The classic model is a start-up followed by rapid growth, then slower consolidating growth then a tail of gradual decline. Some flare and vanish like magnesium, others hang on in there grimly grinding out the years slowly rusting away like iron.

Investors have the job of buying shares just after the start-up, enjoying the rapid growth period and getting out before the decline. They like growth. Of course they do. How else can they guarantee to make their customers money? Their job is essentially about timing, although the time varies wildly from investor to investor. Some like to buy now and sell in a second when the share price has twitched. Some like to buy now and hold for years to give the shares chance to deliver their full value. I have often argued in the past that the first group are gamblers and not real investors, but both groups have the same need: growth.

This puts pressure on management. Grow dammit! Easier said than done. The demand for growth can lead to management making truly lamentable decisions for the long term health of their business in order to deliver now, this year, this quarter. It is no wonder that many businesses do not live long. Not only are they fighting in an uncertain world, they are having to force things at every turn to serve the god of growth. This same thirst for growth has also driven the LTIP craze whereby institutions think they have ticked the box labelled 'long-term value delivery' by allowing management to make up complex 'long-term' schemes that replace the short-term schemes that used to reward them so well and so much at the expense of future years. The LTIPs reward management even better, at an even more ruinous expense to the company. Of course they do; designed by managers for managers and cheered on by City institutions. So now maybe they aren't such a good idea after all. It would help if we could all agree that 'long-term' means 25 years, not three. (See below).

Investors also like dividends. At the start of a company's life there is an understood need for re-investment so dividends will be small or non-existent. As time goes on and the early growth rates slow, the expectation of dividends rises. An expectation of regular and ever growing payouts. A progressive dividend policy.

This puts pressure on management. Yield dammit! We don't care if the business isn't generating truly surplus cash, go out and borrow it so you can fulfil your commitments. Not only do businesses struggle to grow forever they are expected to do so under the burden of ever increasing debt.

Yes, I know, too gloomy and fatalistic. And yet these pressures are ever present in the lives of those of us who run public companies. Some resist and try to do what their companies need, and some give in and pursue unsustainable growth and borrow to pay uncovered dividends.

This has been our life here at Games Workshop these twenty-odd years. Sometimes growing, sometimes not. One time having a progressive dividend policy and, more recently, not.

Listening to the comments from investors both favourable (rarely) and critical (often) on how to keep growing and keep paying, it became clear that for a business to survive it needs to make its business just that: survival.

I realised many years ago that eternal growth, though sorely needed by some investors, was not sustainable. To begin with it was easy to see that compound growth was literally impossible in the long term, but then it became clear that promising growth at all was prejudicial to our ability to make good decisions that would keep the company alive and healthy. Yes we like growth. Yes we will try to get it. But, no, we will not make promises. Sometimes the head winds are too strong. Sometimes the need for re-structuring takes precedence. We will not do daft things to deliver artificial growth.

When survival becomes the mantra then the company needs to be built so it can live in the lean times as well as the fat. Many of the things we have done were done to ensure survival. We have investors and their needs are important, but we serve those needs by being honest with them and letting them know that we are aiming to survive and there will be good times when we grow and pay out dividends and there will be times when we don't. We also have staff. They like having jobs. There are seventeen hundred (or so) people all over the world whose livelihood depends on the company they work for surviving so it can carry on paying the money they earn. We also have customers, and they want us to survive so their hobby can be maintained and the fun can continue.

In the good years of course our stores can have several staff, but in the bad ones too many staff spells disaster. Losses. Death. One man stores are not a moral crusade, not a gouging exercise in profiteering, but a survival technique.

Many of you reading this have understood all along what we were doing and why we needed to do it. This year you get the rewards for your patience. Kevin and all the staff have delivered growth. Not just currency-based growth but real growth generated by great models, good supporting products, joined-up promotions, intelligent social media work, co-ordinated production schedules and just-in-time shipping around the world. This year the rewards, and, we hope, next year and many more after that.

At heart Games Workshop is a simple business. We make and sell toy soldiers. We do nearly all of it ourselves (because we haven't found people who can do any of it better than us; maybe one day we will, we keep on looking) and that makes it fiendishly complicated. Anyone can make a great miniature. No-one else can make 30 million of them a year and get them, on time, to our stores and trade partners all over the world and from there into the loving hands of our customers.

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This is my last preamble. I will not be seeking re-election at the AGM in September. Kevin Rountree has my full confidence and I could not be leaving the business in better hands. He has the same desire to see Games Workshop flourish as I do and the same determination to do it our way, the only way that works over the long term. He is better than me at detail, and he has a lot more energy. You can see that in this year's numbers. He has laboured at getting all the little things right and we are all benefitting. Little things that have to be got right every year.

There are many wonderful opportunities ahead for the Company and the Hobby. We have barely begun our 'Total Global Domination' (a mantra from years ago) – despite being at it for over 25 years – and the business is full of ideas about how to do better, everywhere.

Tom Kirby
Non-executive chairman
24 July 2017