

Games Workshop share ownership

I recently received a question on the 'Ask Tom' part of our web site that throws up a whole range of interesting topics. It was:

I bought shares a few weeks ago at 735p on the basis that they would improve via The Lord of the Rings revenues over the Xmas period. Currently they have taken a dip but I assume / hope this is because YE2003 revenues have not yet hit the valuation process. How did 4Q 2003 revenues perform? What is your expectation re share price for the next few months?

The first topic is to do with what Games Workshop does for a living. This question seems to be suggesting that The Lord of the Rings product has a significance for Games Workshop that is far greater than it actually has. We had been in business for many successful years without LotR and we will continue successfully into the future with or without it. It's good product and we enjoy having it in our line, but the current levels of sales we are seeing in the UK are unsustainable. Over the next few months the proportion of sales we get from LotR will decline, but it will continue in our range introducing some people to our hobby that might otherwise have missed out. It's nice to have the extra revenue for this short period – but that is all it is: extra revenue for a short period.

The second is the expectation in this question that Christmas is important to us to the extent that a 'good' or 'bad' Christmas will be reflected immediately in our share price. Games Workshop services a hobby and is profitable every month of the year. Our turnover in December has usually been about twice a normal month. Christmas is therefore a good period for us but by no means critical. We are not a toy company that is utterly dependent upon its performance over Christmas. We are a year round hobby business, which is why we are such a great trading partner for the hundreds of independent retailers who carry our products. The better informed of our shareholders know this and do not worry themselves overmuch about our performance over Christmas.

Third, there is the implication that what happens in the UK is the only thing that matters. It isn't. We are a world-wide company with operations on continental Europe, in the UK and in the USA each of which generate approximately one third of our revenues. One of our great strengths is the balance this brings to our current and future revenues, and the concomitant balance to our exposure to currency fluctuations.

The fourth is to do with time scales. Our question refers to 'a few weeks'. Nothing we do is with the time scale of a few weeks in mind. Everything we do is for the long term. Our business decisions and our hobby decisions are always made with both eyes firmly on the long term health of both the business and the hobby (ultimately they are the same thing). Potential shareholders would therefore be making a big mistake if they are expecting management of this company to react to events or the share price in the short term. We only have the long term in mind. We believe shareholders who own shares for the long term will see a rise in the shares' value that reflects the improvement in the business. We neither know nor care what will happen over 'a few weeks'.

The fifth is to do with research. None of the statements I've made above are new. These are the long standing realities of this business. Nevertheless these points get raised time and again by potential, and existing, shareholders. (They also get raised

by analysts and journalists.) What happened to research? Isn't it just plain common sense to look carefully into something before committing yourself to it?

Sixth and finally – and this is a personal view – I have to question the wisdom of any share buying decision taken on such weak evidence and for such short time-scales. The very word 'investment' implies careful thought and the long term. Buying shares on the hopes that a good Christmas will be reflected in share price rises in a few weeks is gambling.

Tom