Williams Grand Prix

Industrials

17 May 2018

Price	€17.5
Market cap	€175m
	£1/€1.14

Ambition for competition

Performance in 2017 was one of progress at the core accompanied by a sharp reduction in net debt, aided by significant property sales proceeds. Progress is apparent in Williams Advanced Engineering (WAE) but the Formula One (F1) racing team remains the heart of the business. Performance on the track is a key determinant of group financial returns, but the changes to produce a more equal distribution of commercial rights are only likely in the medium term. Until then, progress will probably remain volatile, especially as competition on the track has intensified.

FY17 delivered good core progress

Williams delivered a robust 2017 at its core. However, EBITDA fell 30% to £10.8m on a flat sales performance due to the non-recurrence of a highly profitable one-off project that added £14m to other revenues in 2016. A property disposal delivered a £7.3m exceptional profit that boosted profit before tax and reduced net debt to £17.5m at the year end. Maintaining fifth place in the 2017 F1 Constructors' Championship was an important achievement, although points became harder to win as competitors improved during the year. Nevertheless, both the F1 operations and WAE grew revenues by over 7% with strong EBITDA increases.

A tough racing season in prospect

After just a few races of the 2018 F1 season, it is apparent the intensity of competition has increased, especially in the midfield where Williams has been positioned in recent years. As the main sponsorship deal finishes at the end of the season, track performance this year has added significance as the group looks for a new title sponsor. WAE should make good progress as it continues to seek to develop and exploit innovative technologies in its domain. These include projects for vehicle electrification and hybrid propulsion systems that are gaining relevance.

Would benefit from a more even F1 financial structure

As we have stated previously, the potential volatility of revenues and earnings and the nature of Williams business continue to represent a challenge to valuation from both a cash perspective or peer comparisons. Stripping out the exceptional profit from the land disposal, we estimate the shares are trading on an underlying historic FY17 P/E multiple of 10.8x. The company's prospects still appear heavily dependent on racing performance. Should WAE grow significantly with a more level F1 playing field, a more consistent recurring income and cash flow may develop.

Historic financial data

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/14	90.2	(34.5)	(391.2)	0.0	N/A	N/A
12/15	125.6	(11.2)	(116.2)	0.0	N/A	N/A
12/16	167.4	5.9	59.5	0.0	25.8	N/A
12/17	166.2	14.1	141.8	0.0	10.8	N/A

Source: Company reports

Share price graph

Share details

Code	WGF1
Listing	Deutsche Börse Scale
Shares in issue	10.0m
Net debt (£m) at 31 December 2017	17.5

Business description

The group comprises a Formula One racing team (76% revenues) and Williams Advanced Engineering (WAE, 24% revenues). The Formula One racing team placed fifth in the 2017 FIA Formula One Constructors' Championship. WAE specialises in the commercial application of aerodynamics, materials and battery technologies.

Bull

- Liberty Media's ownership of Formula One Group should lead to higher publicity for the sport and therefore higher prize funds.
- WAE is a growing business with a high-end product offering.
- If spending caps are introduced, it will be to the benefit of smaller teams such as Williams.

Bear

- Management focused on track performance over shareholder return.
- Financial performance is heavily dependent on track performance, which is highly competitive and unpredictable.
- Higher profits at WAE are likely to be reinvested into the Formula One business.

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Edison profile page

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A year of progress: 2017

Williams delivered a robust performance in 2017, with both the core operations making progress.

The F1 operation increased revenues by 7.6% to £125.6m. Increased sponsorship receipts more than offset reduced commercial rights income, reflecting the fifth-place finish in the 2016 Constructors' Championship compared to third in 2015. Other operating income also increased 72.4% to £16.0m, as a one-off payment relating to a driver was received.

Revenues grew by 7.0% at WAE to £39.5m continuing the track record of growth in recent years. Sales relate to engineering consultancy projects as well as low-volume manufacturing of bespoke products and some royalty income.

Other revenue fell £12.7m to £1.1m in the absence of income from a major one-off project in 2016.

Overall group revenues were down just 0.7% to £166.2m.

Exhibit 1: Williams Grand Prix Holdings income statement

12 months to December	H116	H216	FY16	H117	H217	FY17	FY change
Revenue							
Formula One	51.4	65.3	116.7	65.5	60.1	125.6	7.6%
WAE	20.6	16.4	36.9	19.9	19.7	39.5	7.0%
Other	8.1	5.7	13.8	0.5	0.6	1.1	-92.0%
Group total	**80.0**	**87.4**	**167.4**	**85.9**	**80.4**	**166.2**	**-0.7%**
Gross profit	51.1	58.3	109.4	53.9	45.9	99.8	-8.8%
Gross margin	*63.8%*	*66.7%*	*65.3%*	*62.7%*	*57.1%*	*60.0%*	*-8.1%*
EBITDA							
Formula One	4.1	8.3	12.4	10.1	5.9	16.0	29.4%
WAE	3.5	0.7	4.2	3.4	1.6	5.0	19.2%
Other	0.1	-1.2	-1.1	-3.1	-7.1	-10.2	824.5%
EBITDA	**7.7**	**7.8**	**15.5**	**10.4**	**0.4**	**10.8**	**-30.2%**
Depreciation	-1.7	-2.4	-4.1	-2.7	-2.8	-5.5	34.1%
Amortisation	-0.1	-0.2	-0.3	-0.2	-0.3	-0.6	123.4%
EBIT	**5.9**	**5.2**	**11.2**	**7.4**	**-2.7**	**4.8**	**-57.2%**
Share based payments	-0.5	-0.1	-0.6	-0.4	-0.8	-1.2	92.1%
Movement in derivative financial instruments	-2.7	-1.0	-3.7	2.6	1.4	4.0	n.m.
Exceptional item					7.3	7.3	
Net interest	-0.5	-0.4	-0.9	-0.4	-0.4	-0.8	-10.9%
Profit before tax (as reported)	2.2	3.7	5.9	9.3	4.8	14.1	138.1%
Net income (as reported)	2.2	3.7	5.9	9.3	4.8	14.1	138.1%
EPS (as reported) (p)	22.1	37.4	59.5	94.0	47.7	141.8	138.4%

Source: Company reports

Gross profit fell by almost £10m to £99.8m largely reflecting the reduced project work in the Other segment. The gross margin was 60.0% compared to 65.3% in 2016.

Group EBITDA fell 30% to £10.8m (FY16 £15.5m) but was up strongly in both F1 (up 29.4% at £16.0m) and WAE (up 19.2% at £5.0m). The shortfall came in the other segment, which includes Heritage and conference centre activities but also benefited in 2016 from delivery of a highly profitable project that did not recur. As a result, the EBITDA loss in other increased from £1.1m to £10.2m.

At the PBT level the group benefited from the property disposal profit which combined with the non-cash mark-to-market reversal of derivative financial instruments from a £3.7m loss in 2016 to a credit of £4.0m in 2017. Overall reported group PBT rose 138.1%, and with no tax payable in either year, so did net income. Due to a slightly lower average share count the EPS rose 138.4% to 141.8p (FY16 59.5p).

If we calculate an adjusted EPS figure excluding the derivatives movement, share-based payments and the exceptional items, the adjusted EPS figure for 2017 was 39.7p compared to 103.0p in 2016. We felt this gives a better reflection of the underlying operational performance of the group during the year although 2016 was affected by the one-off project receipts.

As expected, no dividend was declared; this remains a low priority in the capital allocation policy at present. Investment is targeted at making the racing team more competitive and successful, as well as improving and exploiting the technical capabilities of WAE to organically grow the business.

In terms of balance sheet development, the most notable aspect during 2017 was the sharp reduction in net debt, which fell from £36.1m at the start of the year to just £17.5m at the year end. This was largely due to an improved operational cash performance but was also enhanced by the property disposal. The net asset value at the year end was £46.6m

Exhibit 2: Williams Grand Prix Holdings summary balance sheet summary

Year end Dec (£m)	2012	2013	2014	2015	2016	2017
Fixed assets	40.3	66.1	66.6	64.1	67.1	65.3
Current assets	57.5	31.8	30.5	40.6	61.7	59.4
Total assets	97.8	97.8	97.1	104.7	128.8	124.7
Total non-current liabilities	(3.2)	0.0	(20.0)	(13.1)	(10.7)	(11.4)
Total current liabilities	(57.4)	(25.7)	(41.6)	(66.5)	(86.7)	(66.7)
Total liabilities	(60.6)	(25.7)	(61.6)	(79.7)	(97.3)	(78.1)
Net assets	37.2	72.1	35.6	25,0	31.5	46.6

Source: Company reports

Outlook

Williams Grand Prix Holdings remains unique as the only F1 racing team to be quoted. The performance of the team is thus very high profile and visible to investors. With the strategy unchanged to pursue further FIA Constructors' Championship titles in the future, the importance of developing the growing and recurring profitability of WAE remains undiminished. However, in the near term, the share of commercial rights determined by racing performance remains the largest determinant of financial performance. With the competition clearly intensifying this year, maintaining a fifth-place position seems likely to be challenging, which could affect FY19 performance. In addition, as the main sponsorship deal with Bacardi comes to a conclusion at the end of the season and the group is looking for a new sponsor, this adds another element of uncertainty to the mix. A favourable resolution of this issue would be a welcome factor for investors.

While the pot may get bigger under Liberty Media's control, ultimately a rebalancing of the distribution amongst the teams in the medium term would provide a sounder footing for investors. Achievement of this while maintaining the structure of the competition is still far from a given, as the commercial power of the leading teams is significant.

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