

Williams Grand Prix

Industrials

23 September 2019

Challenges on the track

H119 results inevitably reflected Williams' weak finishing position in the Formula One (F1) Constructors' Championship in 2018. The resultant lower income for the racing team significantly outweighed a continued strong performance by Williams Advanced Engineering (WAE). Unfortunately, the competitive situation has not improved in the current season and a further weak year for the F1 business is anticipated in 2020. The extension of the multi-year sponsor partnership with ROKiT to 2023 is encouraging and should hopefully dovetail with a more equitable distribution from F1.

H119 results

H119 group revenues fell 6% to £77.8m (H117 £82.6m), reflecting the divergent progress for the two main operating businesses. WAE revenues grew 44% while F1 segment (F1) revenues were adversely affected by reduced FY18 season performance payments and lower sponsorship income. The group's EBITDA loss expanded to £18.8m (H118 loss £2.7m) as the lower F1 segment revenues failed to be matched by reduced operating costs. WAE continued to deliver an improved EBITDA although timing limited the growth compared to the sharp rise in sales. The group reported an H119 loss per share of 216.0p (H118 87.2p loss).

Investing to improve racing performance

The major challenge for the group is likely to be maintaining funding levels during the current period of reduced returns due to weaker racing performance. Cash and cash equivalents were negative at the end of H119, reflecting the use of overdrafts. The statement indicates that other sources of funds may mitigate future funding requirements including further land disposals and heritage asset sales. As announced on 2 September 2019, Williams is in an early stage of exploring options for WAE to accelerate its growth and commercialisation opportunities.

Valuation: Challenges to persist

The weaker trading in H119 reinforces our view that earnings and revenue for the group remain volatile as the profit performance of the F1 segment continues to dominate. The options for WAE could include a partial equity sale, which could value a core element of the group but realistically such a move would have little effect on the group's overall rating as it remains unclear what value should be given to the cash outflows from F1. Current race results suggest little improvement in FY20 financial performance from F1, although adding sponsors may help. We are moving towards the hoped-for level playing field in the sport, which could lead to more competitive performance and better, more consistent financial returns.

Historical financials

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15	125.6	(11.2)	(116.2)	0.0	n.m.	0.0
12/16	167.4	5.9	59.5	0.0	19.3	0.0
12/17	166.2	14.1	141.8	0.0	8.1	0.0
12/18	176.5	3.4	34.0	0.0	33.8	0.0

Source: Company reports

Price **€13**
Market cap **€130m**

Share price graph



Share details

Code	WGF1
Listing	Deutsche Börse Scale
Shares in issue	10.0m
Net debt at 31 December 2018	£11.9m

Business description

The group comprises a Formula One (F1) racing team (76% FY18 revenues) and Williams Advanced Engineering (WAE; 24% revenues). The F1 racing team placed 10th in the 2018 FIA F1 Constructors' Championship. WAE specialises in the commercial application of aerodynamics, materials and battery technologies.

Bull

- Liberty Media's ownership of F1 Group should lead to higher publicity for the sport and therefore higher prize funds.
- WAE continues to grow with a high-end product offering, creating a positive track record.
- The potential for a more equitable distribution of commercial rights in F1 in the near future should benefit teams such as Williams.

Bear

- Continued underperformance on track adversely affects profitability and cash flows.
- No improvement in current year F1 Championship position is expected.
- Requirement to maintain investment in F1 racing team to improve competitiveness.

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H119 results review

Having finished last in the 2018 F1 Constructors' Championship, trading performance in the current year was always going to prove challenging, especially for the F1 racing activities, and group revenues fell 6% to £77.8m (H118 £82.6m). F1 segment revenues fell by 24% or £14.4m to £46.3m (H118 £60.7m), reflecting lower performance payments from the championship result as well as reduced sponsorship income. The decline in F1 income more than offset what was an extremely strong revenue performance by WAE where revenues increased by 44% or £9.5m to £31.0m (H118 £21.5m) as the business continued to diversify its project base.

Gross margin fell to 48.6% (H118 52.0%), reflecting the weaker F1 revenues that were not matched by a commensurate fall in cost of sales despite the lower revenues, as a result of the need to continue investment to improve current and future racing performance.

Exhibit 1: Williams Grand Prix Holdings interim results summary

Income statement					
12 months to December	H118	H218	FY18	H119	H1 change
Revenue					
F1 revenue	60.7	70.0	130.7	46.3	-23.8%
WAE revenue	21.5	23.3	44.8	31.0	44.2%
Other	0.5	0.5	1.0	0.5	16.1%
Group total	82.6	93.9	176.5	77.8	-5.9%
Gross profit	43.0	62.4	105.4	37.8	-12.0%
<i>Gross margin</i>	52.0%	66.5%	59.7%	48.6%	-6.5%
Other operating costs	49.5	51.6	101.1	61.1	23.5%
Other operating income	3.9	4.8	8.7	4.6	18.1%
F1	0.2	15.8	16.0	-16.8	n.m.
WAE	2.3	2.9	5.1	2.5	9.2%
Other	-5.1	-3.1	-8.2	-4.4	-12.0%
EBITDA	-2.7	15.6	12.9	-18.8	607.7%
Depreciation	-2.8	-2.9	-5.7	-2.7	-5.0%
Amortisation	-0.5	-0.6	-1.1	-0.6	30.4%
EBIT	-6.0	12.1	6.1	-22.1	270.5%
Share based payments	-0.4	-0.9	-1.4	1.3	-402.5%
Movement in derivative financial instruments	-1.3	0.8	-0.6	0.2	-117.4%
Other non operating costs	-0.4	0.4	0.0		
Net interest	-0.3	-0.4	-0.7	-0.4	6.7%
Profit Before Tax (as reported)	-8.4	11.8	3.4	-20.9	147.9%
Net Income (as reported)	-8.4	11.8	3.4	-20.9	147.9%
EPS (as reported) (p)	-87.2	121.2	34.0	-216.0	147.7%

Source: Company reports

Other operating income in the F1 business was broadly unchanged at £3.2m from £3.1m in H118, with modest increases at WAE and the 'Other' category. Operating costs excluding depreciation and amortisation actually rose £11.6m to £61.1m although around £8m of the overall cost increase looks to have been due to timing of projects at WAE. Nevertheless, the EBITDA performance at F1 deteriorated sharply by £17.0m to a £16.8m loss (H118 EBITDA profit of £0.2m). WAE's EBITDA rose modestly to £2.5m from £2.3m in H118 and there was a reduced EBITDA loss of £4.4m (H118 EBITDA loss £5.1m) generated by the 'Other' category. Overall in H119 the group generated an EBITDA loss of £18.8m compared to an EBITDA loss of £2.7m in H118.

The company does not disclose net debt, but net cash and cash equivalents fell by £11.8m to a negative £2.3m in H119 (H118 positive net balance of £2.2m) reflecting the use of overdraft facilities and compared to a positive net cash and cash equivalents balance of £9.5m at the start of FY19. Net assets fell to £28.8m from £51.0m at the start of the year, largely reflecting the net loss in H119.

Outlook

Management indicated it believes the bulk of the EBITDA deterioration for FY19 had occurred in H119, which would imply a much improved H219 outturn. A good deal of the improvement is likely to come from WAE where the increasing revenues seem likely to be accompanied by a much-improved full-year margin improvement, reflecting the timing of risk retirement and profit recognition on projects. Whether this is sufficient to compensate for still challenging trading conditions for the F1 segment remains to be seen, as the company clearly needs to keep investing in FY20 race performance improvements. However, given that FY20 performance receipts relate to the current season's performance in the F1 Constructors' Championship, we do not expect any substantial improvement in FY20 revenues, although finding additional sponsorship could help. We would hope for an improved race performance in the 2020 season leading to a better revenue level for the F1 segment in 2021.

WAE continues to grow and develop new IP-driven activities such as the potential opportunities in electrical vehicles and battery technology. If these factors are combined with a more equitable future F1 commercial proposition arising from the control of Liberty Media, then prospects for a more sustainable and potentially less volatile level of profitability and cash flow could become more of a reality for the smaller independent racing teams such as Williams. However, it is still unclear whether the ambition to grow the prize pot as a result of increased global reach is being achieved. Clearly, dividing a larger total prize fund more equitably would likely not attract much resistance from the more affluent teams if their individual net prize revenues are not negatively affected, as opposed to getting a larger share of a smaller total fund.

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