

Games Workshop Group

Trading update

Marching on up

As outlined in our recent initiation note, 'On a mission', Games Workshop's (GAW) focus on international multi-channel expansion, customer engagement and product innovation, alongside its openness to exploring ways in which to leverage its rich intellectual property (IP) to generate royalty income, is continuing to deliver outstanding results. Strong trading since the half year, and new licensing agreements, lead us to upgrade our FY19 and FY20 earnings forecasts by c 14%.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/17	158.1	38.4	95.1	74	41.8	1.9
05/18	221.3**	74.3	184.3	126	21.6	3.2
05/19e	255.3	80.8	198.6	155	20.0	3.9
05/20e	266.2	84.4	207.7	162	19.1	4.1

Note: *PBT and EPS are normalised, excluding exceptional items. **Restated at H119 to reflect IFRS 15: Revenue from contracts with customers.

Trading update: strong performance, special dividend

Games Workshop has delivered a strong trading performance, across all regions and via all sales channels (trade, retail and online) since the H1 results in January. Royalties receivable are also ahead year-on-year, following the signing of new licensing agreements with the major digital games publishers. As a result, the company has stated that it expects pre-tax profit for FY19 to be c £80m. In line with company policy to distribute excess cash, a dividend of 35p has been declared, taking the total dividend this year to £1.55.

Forecasts: 14% upgrade

We upgrade our FY19 and FY20 PBT forecasts by c 14%. We expect trade to remain the dominant channel and anticipate FY19 sales growth of 27%, comparable to that of H1, while retail and online are expected to grow at c 7%. We have raised our FY19 gross margin assumption by 100bp as the company progresses with infrastructure projects (as outlined in our recent [initiation note](#)). We leave our conservative assumptions for FY20 sales growth and margin progression unchanged, but increase royalty income by c £2.5m to reflect the recently signed agreements. We believe there may be further opportunities to leverage GAW's rich IP via its existing relationships with the major publishers.

Valuation: c 10% upside; attractive yield prospects

The shares have risen by c 18% since the upgrade but still trade at a discount to our new DCF valuation of 4,167p, which assumes revenue growth beyond FY20 of 4.2% fading to 2% and a perpetuity EBITDA margin of 39% (FY20e: 37.5%). Our peer group, comprising specialist interest operators and the 'mainstream' multinational toy/game companies, suggests a valuation broadly in line with the current share price, of 3,703p, leading to a blended valuation of 3,935p. We forecast FY20 net cash of £49m, underpinning a healthy c 4% yield and scope for further distributions.

Consumer goods

17 April 2019

Price **3,974p**
Market cap **£1bn**

Net cash (£m) at 30 November 2018 25.3

Shares in issue 32.6m

Free float 95%

Code GAW

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	32.3	26.2	64.2
Rel (local)	28.3	16.2	59.3

52-week high/low 4015p 2390p

Business description

Games Workshop is a leading international specialist designer, manufacturer and multi-channel retailer of miniatures, scenery, artwork and fiction for tabletop miniature games set in its fantasy Warhammer worlds.

Next events

Pre-close update June 2019

Full-year results July 2019

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Exhibit 1: Financial summary

Accounts: IFRS, year-end: May, £000s	2015	2016	2017	2018	2019e	2020e
INCOME STATEMENT						
Total revenues	119,132	118,069	158,114	221,304*	255,291	266,213
Cost of sales	(36,988)	(37,438)	(43,691)	(64,219)	(81,740)	(82,575)
Gross profit	82,144	80,631	114,423	157,085	173,551	183,638
Gross profit margin	69.0%	68.3%	72.4%	71.0%	68.0%	69.0%
SG&A (expenses)	(67,207)	(69,710)	(83,591)	(92,383)	(103,478)	(109,954)
Other income/(expense)	1,498	5,939	7,491	9,617	10,579	10,579
Exceptionals and adjustments	42	0	0	0	0	0
Reported EBIT	16,477	16,860	38,323	74,319	80,651	84,263
Report EBIT margin	13.8%	14.3%	24.2%	33.6%	31.6%	31.7%
Finance income/(expense)	108	88	80	(49)	127	184
Reported PBT	16,585	16,948	38,403	74,270	80,778	84,447
Income tax expense (includes exceptionals)	(4,328)	(3,452)	(7,856)	(14,815)	(16,113)	(16,845)
Reported net income	12,257	13,496	30,547	59,455	64,665	67,602
Basic average number of shares, m	31,975	32,093	32,126	32,258	32,553	32,553
Basic EPS (p)	38.3	42.1	95.1	184.3	198.6	207.7
Adjusted EBITDA	27,516	27,250	48,547	86,482	94,267	99,711
Adjusted EBIT	16,435	16,860	38,323	74,319	80,651	84,263
Adjusted PBT	16,543	16,948	38,403	74,270	80,778	84,447
Adjusted EPS (p)	38	42	95	184	199	208
Adjusted diluted EPS (p)	38	42	94	182	197	206
BALANCE SHEET						
Property, plant and equipment	22,719	22,621	22,132	30,072	35,554	37,021
Goodwill	1,433	1,433	1,433	1,433	1,433	1,433
Intangible assets	8,262	10,501	12,917	14,195	16,097	15,682
Other non-current assets	4,816	4,148	6,480	7,113	7,113	7,113
Total non-current assets	37,230	38,703	42,962	52,813	60,197	61,249
Cash and equivalents	12,561	11,775	17,910	28,545	34,051	48,729
Inventories	7,625	8,540	12,421	20,159	24,770	23,593
Trade and other receivables	9,425	10,120	12,976	16,169	18,652	19,450
Other current assets	600	725	596	457	457	457
Total current assets	30,211	31,160	43,903	65,330	77,929	92,229
Other non-current liabilities	822	1,109	989	1,204	1,204	1,204
Total non-current liabilities	822	1,109	989	1,204	1,204	1,204
Trade and other payables	13,131	12,844	16,515	20,298	25,836	26,100
Other current liabilities	1,963	2,747	6,529	8,519	8,519	8,519
Total current liabilities	15,094	15,591	23,044	28,817	34,355	34,619
Equity attributable to company	51,525	53,163	62,832	88,122	102,567	117,655
CASH FLOW STATEMENT						
EBIT	16,477	16,860	38,323	74,319	80,651	84,263
Depreciation and amortisation	11,114	10,457	11,016	12,155	13,616	15,448
Share based payments	232	193	160	204	300	300
Other adjustments	33	28	111	40	0	0
Movements in working capital	(2,277)	(756)	(240)	(4,386)	(1,556)	643
Interest paid/received	114	83	83	(39)	127	184
Income taxes paid	(2,305)	(2,552)	(5,482)	(12,227)	(16,113)	(16,845)
Cash from operations (CFO)	23,388	24,313	43,971	70,066	77,025	83,993
Capex	(12,348)	(12,663)	(12,844)	(21,580)	(21,000)	(16,500)
FCF	11,040	11,650	31,127	48,486	56,025	67,493
Cash used in investing activities (CFIA)	(12,348)	(12,663)	(12,844)	(21,580)	(21,000)	(16,500)
Net proceeds from issue of shares	738	304	81	982	0	0
Dividends paid	(16,601)	(12,837)	(23,801)	(38,701)	(50,519)	(52,814)
Other financing activities	0	0	(1,901)	0	0	0
Cash from financing activities (CFF)	(15,863)	(12,533)	(25,621)	(37,719)	(50,519)	(52,814)
Increase/(decrease) in cash and equivalents	(4,823)	(883)	5,506	10,767	5,506	14,679
Cash and equivalents at end of period	12,561	11,775	17,910	28,545	34,051	48,729
Net (debt)/cash	12,561	11,775	17,910	28,545	34,051	48,729
Movement in net (debt)/cash over period	(4,823)	(786)	6,135	10,635	5,506	14,679

Source: Games Workshop; Edison Investment Research. Note: *Restated at H119 to reflect IFRS 15: Revenue from contracts with customers.

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