

# Walker Greenbank

End H120 update

Maintained expectations, awaiting strategy update

Positive steps have been taken in the UK and US that will benefit Walker Greenbank in future periods and although the domestic market remains challenging, management's full year expectations are unchanged. The upcoming strategic update may bring the prospects for re-building earnings and associated valuation metrics into sharper focus for investors.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/18**	112.2	12.7	14.7	4.4	5.7	5.3
01/19	113.3	9.5	10.8	3.2	7.7	3.8
01/20e	109.3	7.3	8.4	2.5	9.9	3.0
01/21e	111.8	7.8	9.0	2.7	9.3	3.2

Note: \*PBT and EPS (fully diluted) are normalised, excluding exceptional items and LTIP charges. \*\*Restated for IFRS 15.

## UK market soft, international improving

H120 revenue looks to have been at a broadly similar level to the prior year on a reported basis. Core UK sales are still tracking below prior year levels in both Brands (products -3.1%) and Manufacturing (Edison estimates UK third-party sales down c 10%). In the former case, this represents the net effect of lower heritage brand sales partly offset by growth at Clarke & Clarke and in ancillary lines and the overall rate of decline is lower than seen in FY19 as a whole. There has been progress in international markets for manufactured products (sales +17.2%) though LFL Brands export turnover was modestly down. US channel disruption makes the underlying trend here difficult to interpret but migrating distribution arrangements to Kravet Inc (announced 1 July) should result in improved momentum in that market. Lastly, non-apparel licence income is growing with existing licensees, though of course the significant apparel licence income seen in FY19 will not recur this year.

## Cost reduction, cash control and strategy update

Management maintained existing full year expectations though no specific comments were made on H120 profitability. Consolidating Clarke & Clarke infrastructure with Style Library/heritage Brands is substantially complete and accounts for the majority of an anticipated £2m annualised cost savings, £1m of which is set to accrue in the current year underpinning our existing estimates, which are unchanged. End July net cash is likely to be similar to, and possibly slightly better than, the year end £0.4m. This provides a flexible backdrop for the expected strategic update from new management accompanying the interim results announcement in October.

## Valuation: Single-digit rating on trough earnings

After a dip following the February trading update, Walker Greenbank's share price has regained levels seen earlier in the year. However, some of the recent gains have been given up in the last week and the company's rating remains in single digits for this year (ie P/E 9.7x and EV/EBITDA, adjusted for pensions cash of 6.1x) on what we believe might be trough earnings.

Care &amp; household goods

9 August 2019

**Price** **83.5p**
**Market cap** **£59m**

Net cash (£m) at end-January 2019 0.4

Shares in issue 70.9m

Free float 92%

Code WGB

Primary exchange AIM

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	1.2	17.8	8.4
Rel (local)	4.6	18.1	16.1

52-week high/low	92.0p	56.2p
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### Business description

Walker Greenbank is a luxury interior furnishings group combining specialist design skills with high-quality upstream UK manufacturing facilities. Leading brands include Harlequin, Sanderson, Morris & Co, Scion, Anthology, Zoffany and Clarke & Clarke. FY18 revenue was split UK 58%, international 39% and licence income 3%.

### Next events

FY19 final DPS of 2.55p to be paid 9 August

H120 results October tbc

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**Exhibit 1: Financial summary**

	£m	2013	2014	2015	2016	2017	2018	2018R	2019	2020e	2021e	2022e
Year end January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>												
Revenue		75.7	78.4	83.4	87.8	92.4	108.8	112.2	113.3	109.3	111.8	114.5
Cost of Sales		(30.2)	(30.3)	(32.7)	(35.9)	(36.2)	(43.3)	(44.0)	(45.3)	(44.8)	(45.9)	(46.9)
Gross Profit		45.5	48.1	50.7	52.0	56.2	65.5	68.2	68.0	64.5	66.0	67.5
EBITDA		8.6	9.7	10.7	11.8	13.4	15.9	16.1	13.3	11.3	11.8	12.0
Operating Profit (before GW, except. & LTIP)		6.6	7.5	8.3	9.1	10.6	12.8	13.0	9.8	7.6	8.0	8.1
Operating Profit (before GW and except.) - reported		5.8	6.5	7.3	8.2	9.8	12.4	12.6	10.4	7.6	7.4	7.5
Net Interest		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)
Intangible Amort – acquired		0	0	0	0	(0.3)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Pension net finance charge		(0.7)	(0.9)	(0.8)	(0.7)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)
Exceptionals		0	0	0	0	(1.8)	2.3	2.3	(2.2)	(0.5)	0.0	0.0
Other		0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		6.4	7.3	8.1	8.9	10.4	12.5	12.7	9.5	7.3	7.8	7.9
Profit Before Tax (statutory)		4.9	5.5	6.3	7.3	7.0	12.8	13.0	6.3	5.1	5.5	5.6
Tax		(1.0)	(0.5)	(1.2)	(1.5)	(1.6)	(1.0)	(1.1)	(1.2)	(1.4)	(1.4)	(1.4)
Profit After Tax (norm)		5.4	6.6	6.9	7.5	8.6	11.5	10.4	7.7	6.0	6.4	6.5
Profit After Tax (statutory)		4.0	5.0	5.1	5.9	5.4	11.8	11.9	5.1	3.7	4.1	4.2
<b>Average number of shares outstanding (m)</b>												
EPS - normalised (p) FD		9.4	10.7	11.2	11.6	12.9	14.43	14.68	10.8	8.4	9.0	9.2
EPS - statutory (p)		6.9	8.6	8.6	9.8	8.6	16.70	16.95	7.2	5.3	5.8	5.9
Dividend per share (p)		1.5	1.9	2.3	2.9	3.6	4.4	4.4	3.2	2.5	2.7	2.8
<b>Gross Margin (%)</b>												
Gross Margin (%)		60.1	61.3	60.8	59.2	60.8	60.2	60.8	60.0	59.0	59.0	59.0
<b>EBITDA Margin (%)</b>												
EBITDA Margin (%)		11.4	12.4	12.8	13.4	14.6	14.6	14.3	11.7	10.3	10.5	10.5
<b>Operating Margin (before GW and except.) (%)</b>												
Operating Margin (before GW and except.) (%)		7.7	8.3	8.8	9.3	10.7	11.4	11.2	9.2	7.0	6.6	6.6
<b>BALANCE SHEET</b>												
Fixed Assets		18.5	21.1	21.5	18.9	47.5	47.7	47.7	46.0	44.4	42.6	40.7
Intangible Assets		6.7	7.3	7.2	7.1	31.6	31.8	31.8	30.8	29.6	28.5	27.3
Tangible Assets		9.8	11.7	12.7	11.7	15.8	16.0	16.0	15.2	14.7	14.1	13.5
Investments		2.0	2.2	1.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		32.6	35.3	37.1	40.3	51.3	51.9	52.1	49.3	50.9	53.7	56.6
Stocks		16.8	18.4	22.0	18.1	30.3	29.4	29.5	28.0	27.7	28.4	29.0
Debtors		12.8	13.9	14.1	19.3	19.5	21.2	21.3	18.9	19.3	19.6	19.9
Cash		2.9	2.8	1.0	2.9	1.5	1.3	1.3	2.4	3.9	5.8	7.6
Other		0.1	0.2	0.0	0.0							
Current Liabilities		(17.3)	(19.4)	(20.7)	(19.4)	(34.8)	(28.9)	(28.9)	(23.8)	(24.4)	(25.3)	(26.3)
Creditors		(16.9)	(19.0)	(20.3)	(19.0)	(28.0)	(22.4)	(22.4)	(21.8)	(22.4)	(23.3)	(24.3)
Short term borrowings		(0.4)	(0.4)	(0.4)	(0.4)	(6.8)	(6.6)	(6.6)	(2.0)	(2.0)	(2.0)	(2.0)
Long Term Liabilities		(9.6)	(10.2)	(10.9)	(4.5)	(12.7)	(9.1)	(9.1)	(10.6)	(8.5)	(6.3)	(4.0)
Long term borrowings		(1.4)	(0.9)	(0.6)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(8.2)	(9.2)	(10.4)	(4.3)	(12.7)	(9.1)	(9.1)	(10.6)	(8.5)	(6.3)	(4.0)
Net Assets		24.2	26.9	26.9	35.3	51.3	61.6	61.8	60.9	62.4	64.7	67.0
<b>CASH FLOW</b>												
Operating Cash Flow		6.0	6.2	3.5	7.1	12.4	7.0	7.0	12.6	8.3	8.3	8.4
Net Interest		(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.2)	(0.2)
Tax		(0.0)	(0.0)	(0.0)	(0.6)	(2.3)	(2.2)	(2.2)	(0.8)	(1.4)	(1.4)	(1.4)
Capex		(3.1)	(4.7)	(3.2)	(2.5)	(6.7)	(3.5)	(3.5)	(2.8)	(3.0)	(3.0)	(3.0)
Acquisitions/disposals		0.0	0.0	0.0	0.0	(27.1)	0.0	0.0	0.0	0.0	0.0	0.0
Financing		(0.1)	(0.0)	(0.4)	(0.1)	18.3	1.8	1.8	0.0	0.0	0.0	0.0
Dividends		(0.7)	(0.9)	(1.1)	(1.4)	(1.8)	(2.7)	(2.7)	(3.1)	(2.2)	(1.8)	(1.9)
Net Cash Flow		1.8	0.3	(1.5)	2.3	(7.4)	0.1	0.1	5.7	1.5	1.9	1.8
Opening net debt/(cash)		0.7	(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	5.3	(0.4)	(1.9)	(3.8)
HP finance leases initiated		0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	(0.2)	(0.1)	(0.1)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(1.2)	(1.5)	(0.0)	(2.3)	5.3	5.3	5.3	(0.4)	(1.9)	(3.8)	(5.7)

Source: Walker Greenbank, Edison Investment Research. Note: 2018 results restated for IFRS 15 'Revenue from Contracts with Customers'; the primary P&L effects were to reclassify some marketing materials/services as net other income and carriage recoveries to revenue and, as they were previously netted out of distribution costs previously, increase this cost line.

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