

Games Workshop Group

H122 trading update

H122 helped by licensing income

With profit in line with expectations, Games Workshop Group's (GAW) H122 trading update is reassuring. The previously flagged [forex and freight](#) cost pressures have negatively affected pre-licensing profit. This was partially offset by an exceptional level of licensing income versus GAW's trading history. Our FY22 forecasts are unchanged ahead of the publication of H122 results. The FY22e P/E of 25.0x is in line with GAW's recent average multiple. Our DCF-based valuation remains £129 per share.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/20	269.7	89.4	217.8	145.0	44.5	1.5
05/21	353.2	150.9	370.5	235.0	26.2	2.4
05/22e	376.9	158.1	387.1	250.0	25.0	2.6
05/23e	395.3	163.4	398.8	275.0	24.3	2.8

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H122: In line with management's expectations

Indicated H122 PBT of not less than £86m is at most 6% below H121's £91.6m, with a significant absolute y-o-y improvement of more than £10m in licensing income (typically quite lumpy) offset by an absolute c £15m decline in operating profit pre-licensing. Licensing income of £19m is higher than GAW has earned in any year previously (previous peak was £16.8m in FY20). The decline in operating profit pre-licensing is mainly due to forex, and higher carriage and staff costs (more people and costs per head). In addition, a marginally higher amount (£6.9m versus £6.2m in H121) has been awarded to staff profit share. We estimate that total costs (cost of goods and opex) increased y-o-y by a high-teens percentage. Reported revenue growth of at least c 2% to £190m+ includes a recovery in Retail (majority of shops now open) and ongoing strength in Trade, a negative forex effect of c 4%, and a strong H121 comparative. H121's 26% y-o-y revenue growth included Online (+88%) and Trade (+33%) offset by Retail (-19%). H122's declared dividends of 100p compare with H121's 80p, indicating management's comfort with cash generation.

FY22: Forecasts unchanged

We make no changes to our FY22 forecasts ahead of the H122 results in January 2022. However, the shape of forecasts may change with a greater contribution from licensing income (£17m previously forecast versus £19m in H121), to be offset by lower operating profit pre-licensing due to the increase in total costs. Our FY22 revenue forecast of c £377m requires a lower absolute H2 revenue contribution of c £187m than H121's £190m+, and operating income pre-licensing of c £142m requires a decline in absolute total costs (cost of goods and opex) versus H121.

Valuation: DCF-based valuation £129/share

With no change to our forecasts, we reiterate our DCF-based valuation of £129/share. The recent decline in the share price, 16% since our last update, has reduced the FY22e PE multiple to 25.0x, in line with the average multiple of recent years, but below its peak multiple of over 30x.

Consumer goods

9 December 2021

Price 9,690p
Market cap £3,178m

Net cash (£m) at 31 May 2021 (excluding lease liabilities)	85.2
Shares in issue	32.8m
Free float	97%
Code	GAW
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.3)	(19.1)	(0.7)
Rel (local)	(0.4)	(20.8)	(12.1)
52-week high/low	12,220p	8,975p	

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

H122 results	11 January 2022
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Exhibit 1: Financial summary

Year-end May	£m	2015	2016	2017	2018	2019	2020	2021	2022e	2023e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT										
Total revenues		119.1	118.1	158.1	221.3	256.6	269.7	353.2	376.9	395.3
Cost of sales		(37.0)	(37.4)	(43.7)	(64.2)	(83.3)	(89.1)	(96.3)	(113.1)	(122.5)
Gross profit		82.1	80.6	114.4	157.1	173.3	180.6	256.9	263.8	272.8
SG&A (expenses)		(67.2)	(69.7)	(83.6)	(92.4)	(103.4)	(107.4)	(121.5)	(122.0)	(125.7)
Other operating income/(expense)		1.5	5.9	7.5	9.6	11.4	16.8	16.3	17.0	17.0
Exceptionals and adjustments		0	0	0	0	0	0	0	0	0
EBITDA (excluding royalties)		26.0	21.3	41.8	76.8	85.7	98.8	162.0	168.9	175.5
EBITDA		27.5	27.3	49.3	86.5	97.1	115.6	178.3	185.9	192.5
Depreciation and amortisation		(11.1)	(10.4)	(11.0)	(12.1)	(15.9)	(25.6)	(26.6)	(27.1)	(28.4)
Operating profit (before royalties and exceptionals)		14.9	10.9	30.8	64.7	69.8	73.2	135.4	141.8	147.1
Reported operating profit		16.5	16.9	38.3	74.3	81.2	90.0	151.7	158.8	164.1
Finance income/(expense)		0.1	0.1	0.1	(0.0)	0.1	(0.6)	(0.8)	(0.7)	(0.7)
Reported PBT		16.6	16.9	38.4	74.3	81.3	89.4	150.9	158.1	163.4
Income tax expense (includes exceptionals)		(4.3)	(3.5)	(7.9)	(14.8)	(15.5)	(18.1)	(28.9)	(30.3)	(31.3)
Adjusted net income		12.2	13.5	30.5	59.5	65.8	71.3	122.0	127.8	132.1
Reported net income		12.3	13.5	30.5	59.5	65.8	71.3	122.0	127.8	132.1
WASC (m)		31.975	32.093	32.126	32.258	32.438	32.602	32.733	32.827	32.928
Diluted average number of shares (m)		32.025	32.150	32.325	32.732	32.785	32.736	32.927	33.021	33.122
Reported EPS (p)		38.3	42.1	95.1	184.3	202.9	218.7	372.7	389.4	401.2
Reported diluted EPS (p)		38.3	42.0	94.5	181.6	200.8	217.8	370.5	387.1	398.8
Adjusted diluted EPS (p)		38.1	42.0	94.5	181.6	200.8	217.8	370.5	387.1	398.8
DPS (p)		52.0	40.0	74.0	126.0	155.0	145.0	235.0	250.0	275.0
Gross margin		69.0%	68.3%	72.4%	71.0%	67.5%	67.0%	72.7%	70.0%	69.0%
EBITDA margin (excl royalties)		21.8%	18.1%	26.5%	34.7%	33.4%	36.6%	45.9%	44.8%	44.4%
EBITDA margin (incl royalties)		23.1%	23.1%	31.2%	39.1%	37.8%	42.9%	50.5%	49.3%	48.7%
Operating margin (before royalties and exceptionals)		12.5%	9.2%	19.5%	29.2%	27.2%	27.1%	38.3%	37.6%	37.2%
BALANCE SHEET										
Property, plant and equipment		22.7	22.6	22.1	30.1	35.3	42.0	49.8	58.7	67.6
Right-of-use assets							31.9	46.0	45.0	44.0
Goodwill		1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Intangible assets		8.3	10.5	12.9	14.2	16.0	17.6	23.7	29.7	35.2
Other non-current assets		4.8	4.1	6.5	7.8	11.7	16.4	16.4	16.4	16.4
Total non-current assets		37.2	38.7	43.0	53.5	64.4	109.3	137.3	151.2	164.6
Cash and equivalents		12.6	11.8	17.9	28.5	29.4	52.9	85.2	113.8	140.2
Inventories		7.6	8.5	12.4	20.2	24.2	20.7	27.5	32.3	35.0
Trade and other receivables		9.4	10.1	13.0	15.5	18.8	19.6	30.6	32.7	34.2
Other current assets		0.6	0.7	0.6	0.5	0.8	0.2	1.1	1.1	1.1
Total current assets		30.2	31.2	43.9	64.7	73.2	93.4	144.4	179.8	210.6
Trade and other payables		(13.1)	(12.8)	(16.5)	(20.3)	(19.2)	(30.3)	(35.4)	(38.7)	(40.9)
Borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leases		0.0	0.0	0.0	0.0	0.0	(8.3)	(8.6)	(8.6)	(8.6)
Other current liabilities		(2.0)	(2.7)	(6.5)	(7.3)	(10.1)	(4.5)	(0.7)	(0.7)	(0.7)
Total current liabilities		(15.1)	(15.6)	(23.0)	(27.6)	(29.3)	(43.1)	(44.7)	(48.0)	(50.2)
Borrowings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leases		0.0	0.0	0.0	0.0	0.0	(23.8)	(38.4)	(37.5)	(36.6)
Other non-current liabilities		(0.8)	(1.1)	(1.0)	(1.2)	(1.9)	(2.1)	(2.3)	(2.3)	(2.3)
Total non-current liabilities		(0.8)	(1.1)	(1.0)	(1.2)	(1.9)	(25.9)	(40.7)	(39.8)	(38.9)
Net assets		51.5	53.2	62.8	89.3	106.5	133.7	196.3	243.2	286.0
CASH FLOW STATEMENT										
EBIT		16.5	16.9	38.3	74.3	81.2	90.0	151.7	158.8	164.1
Depreciation and amortisation		11.1	10.4	10.2	12.2	15.9	25.0	26.2	27.1	28.4
Impairments		0.0	0.0	0.8	(0.0)	0.0	0.6	0.4	0.0	0.0
Share-based payments		0.2	0.2	0.2	0.2	0.3	0.5	1.2	1.2	1.2
Other adjustments		0.1	0.1	0.1	0.1	0.3	0.3	0.1	0.0	0.0
Movements in working capital		(2.3)	(0.8)	(0.2)	(4.4)	(9.0)	10.8	(14.8)	(3.5)	(2.1)
Income taxes paid		(2.3)	(2.6)	(5.5)	(12.2)	(16.3)	(22.7)	(32.1)	(30.3)	(31.3)
Operating cash flow		23.3	24.2	43.9	70.1	72.5	104.5	132.7	153.4	160.3
Net capex and intangibles		(12.3)	(12.7)	(12.8)	(21.6)	(22.5)	(24.6)	(30.0)	(31.1)	(31.7)
Net interest		0.1	0.1	0.1	(0.0)	0.1	0.1	0.2	(0.7)	(0.7)
Net proceeds from issue of shares		0.7	0.3	0.1	0.9	0.7	0.8	1.4	0.0	0.0
Dividends paid		(16.6)	(12.8)	(23.8)	(38.7)	(50.3)	(47.3)	(60.5)	(82.1)	(90.6)
Other financing activities		0.0	0.0	(1.9)	0.0	0.0	(10.3)	(10.9)	(10.9)	(10.9)
Net cash flow		(4.8)	(0.9)	5.5	10.7	0.5	23.2	32.9	28.6	26.4
Opening cash and cash equivalents		17.6	12.6	11.8	17.9	28.5	29.4	52.9	85.2	113.8
Currency translation differences and other		(0.2)	0.1	0.6	(0.1)	0.3	0.3	(0.6)	0.0	0.0
Closing cash and cash equivalents		12.6	11.8	17.9	28.5	29.4	52.9	85.2	113.8	140.2
Closing net cash (including leases)		12.6	11.8	17.9	28.5	29.4	20.8	38.2	67.7	95.0

Source: Games Workshop, Edison Investment Research

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