

Games Workshop

Rounding off a stellar year

FY21 trading update

Consumer goods

Games Workshop's (GAW's) year-end trading update highlights higher revenue and a more significant increase in operating profit and licensing income, versus our expectations. FY21 has been very strong despite COVID-19 restrictions on retail, likely incremental costs due to Brexit and recent currency headwinds. Management's new estimates for FY21 imply year-on-year growth for revenue and PBT of at least c 30% and c 68% respectively and limited underlying cost growth of c 4%. The strong performance has led to higher year-on-year rewards for staff (profit-related pay increased fivefold) and shareholders (total dividend of 235p versus 145p). We increase our forecasts for FY21 to be consistent with the new estimates and make a modest upgrade to FY22. Our DCF-based valuation increases to 12,000p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/19	256.6	81.3	200.8	155.0	55.7	1.4
05/20	269.7	89.4	217.8	145.0	51.4	1.3
05/21e	350.5	152.1	367.6	235.0	30.4	2.1
05/22e	375.5	158.1	380.9	250.0	29.4	2.2

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

FY21: Higher profitability than expected

Management's new estimates for FY21 of sales not less than £350m and PBT not less than £150m indicate a better profit performance than our prior forecasts of £349.1m and £140.4m respectively. With marginally lower licensing income year-on-year of £15m (FY20 £16.8m) ahead of our estimate of £13m, the profit performance is even more impressive as operating costs include an incremental £10m profit share versus FY20 to reward staff for an exceptional year. Using the low end of management's estimates for the year versus FY20, GAW generated incremental revenue of at least c £80m on a total cost (COGS and operating costs) increase of c £18m, including the above-bonus increase, or c 4% excluding the bonus increase. The operating margin pre-royalties of at least 38.8% compares with FY20's 27.1%, implying an H221 margin of at least 32.1% (H121 44.6%), highlighting the influence of major product launches on margin as per our [recent note](#). The further dividend of 50p takes the cumulative total for the year to 235p.

Forecasts: FY21 and FY22 upgraded

We increase our FY21 forecasts to be consistent with management's new estimates. Our FY22 PBT forecast increases by c 1% to £158.1m, reflecting more forex headwinds for revenue, a lower year-on-year gross margin given the success of the major launch in FY21 and lower growth in operating expenses.

Valuation: DCF valuation increased to 12,000p

Our DCF-based valuation increases 3% to 12,000p from 11,613p. The 29.4x FY22 P/E is at a premium to recent previous peak multiples in non-COVID-19-affected years, which reflects GAW's higher profitability.

20 May 2021

Price 11,190p
Market cap £3,667m

Net cash (£m) at 30 November 2020 (excluding lease liabilities)	96.5
Shares in issue	32.7m
Free float	97%
Code	GAW
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.6	11.4	77.9
Rel (local)	3.4	5.9	48.1
52-week high/low	11,730p	6,420p	

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

FY21 results	27 July 2021
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Exhibit 1: Financial summary

Year-end May	£'m	2015	2016	2017	2018	2019	2020	2021e	2022e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Total revenues		119.1	118.1	158.1	221.3	256.6	269.7	350.5	375.5
Cost of sales		(37.0)	(37.4)	(43.7)	(64.2)	(83.3)	(89.1)	(94.6)	(112.6)
Gross profit		82.1	80.6	114.4	157.1	173.3	180.6	255.9	262.8
SG&A (expenses)		(67.2)	(69.7)	(83.6)	(92.4)	(103.4)	(107.4)	(118.0)	(121.0)
Other operating income/(expense)		1.5	5.9	7.5	9.6	11.4	16.8	15.0	17.0
EBITDA (excl royalties)		26.0	21.3	41.8	76.8	85.7	98.8	164.9	170.1
EBITDA		27.5	27.3	49.3	86.5	97.1	115.6	179.9	187.1
Depreciation and amortisation		(11.1)	(10.4)	(11.0)	(12.1)	(15.9)	(25.6)	(27.1)	(28.2)
Operating profit (before royalties and exceptionals)		14.9	10.9	30.8	64.7	69.8	73.2	137.9	141.8
Reported operating profit		16.5	16.9	38.3	74.3	81.2	90.0	152.9	158.8
Finance income/(expense)		0.1	0.1	0.1	(0.0)	0.1	(0.6)	(0.7)	(0.7)
Reported PBT		16.6	16.9	38.4	74.3	81.3	89.4	152.1	158.1
Income tax expense (includes exceptionals)		(4.3)	(3.5)	(7.9)	(14.8)	(15.5)	(18.1)	(30.7)	(31.9)
Adjusted net income		12.2	13.5	30.5	59.5	65.8	71.3	121.4	126.2
Reported net income		12.3	13.5	30.5	59.5	65.8	71.3	121.4	126.2
WASC (m)		31.975	32.093	32.126	32.258	32.438	32.602	32.724	32.822
Diluted average number of shares (m)		32.025	32.150	32.325	32.732	32.785	32.736	33.021	33.119
Reported EPS (p)		38.3	42.1	95.1	184.3	202.9	218.7	370.9	384.4
Reported diluted EPS (p)		38.3	42.0	94.5	181.6	200.8	217.8	367.6	380.9
Adjusted diluted EPS (p)		38.1	42.0	94.5	181.6	200.8	217.8	367.6	380.9
DPS (p)		52.0	40.0	74.0	126.0	155.0	145.0	235.0	250.0
Gross margin		69.0%	68.3%	72.4%	71.0%	67.5%	67.0%	73.0%	70.0%
EBITDA margin (excl royalties)		21.8%	18.1%	26.5%	34.7%	33.4%	36.6%	47.1%	45.3%
EBITDA margin (incl royalties)		23.1%	23.1%	31.2%	39.1%	37.8%	42.9%	51.3%	49.8%
Operating margin (before royalties and exceptionals)		12.5%	9.2%	19.5%	29.2%	27.2%	27.1%	39.3%	37.8%
BALANCE SHEET									
Property, plant and equipment		22.7	22.6	22.1	30.1	35.3	42.0	53.4	59.8
Right-of-use assets							31.9	40.2	39.4
Goodwill		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	20.7	23.4
Other non-current assets		4.8	4.1	6.5	7.8	11.7	16.4	16.4	16.4
Total non-current assets		37.2	38.7	43.0	53.5	64.4	109.3	132.1	140.4
Cash and equivalents		12.6	11.8	17.9	28.5	29.4	52.9	66.1	98.3
Inventories		7.6	8.5	12.4	20.2	24.2	20.7	22.0	26.2
Trade and other receivables		9.4	10.1	13.0	15.5	18.8	19.6	25.5	27.3
Other current assets		0.6	0.7	0.6	0.5	0.8	0.2	0.2	0.2
Total current assets		30.2	31.2	43.9	64.7	73.2	93.4	113.8	152.0
Trade and other payables		(13.1)	(12.8)	(16.5)	(20.3)	(19.2)	(30.3)	(20.0)	(22.5)
Borrowings		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)	(8.3)	(8.3)
Other current liabilities		(2.0)	(2.7)	(6.5)	(7.3)	(10.1)	(4.5)	(4.5)	(4.5)
Total current liabilities		(15.1)	(15.6)	(23.0)	(27.6)	(29.3)	(43.1)	(32.8)	(35.3)
Borrowings		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)	(32.3)	(31.7)
Other non-current liabilities		(0.8)	(1.1)	(1.0)	(1.2)	(1.9)	(2.1)	(2.1)	(2.1)
Total non-current liabilities		(0.8)	(1.1)	(1.0)	(1.2)	(1.9)	(25.9)	(34.4)	(33.8)
Net assets		51.5	53.2	62.8	89.3	106.5	133.7	178.7	223.3
CASH FLOW STATEMENT									
EBIT		16.5	16.9	38.3	74.3	81.2	90.0	152.9	158.8
Depreciation and amortisation		11.1	10.4	10.2	12.2	15.9	25.0	27.1	28.2
Impairments		0.0	0.0	0.8	(0.0)	0.0	0.6	0.0	0.0
Share-based payments		0.2	0.2	0.2	0.2	0.3	0.5	0.5	0.5
Other adjustments		0.1	0.1	0.1	0.1	0.3	0.3	0.0	0.0
Movements in working capital		(2.3)	(0.8)	(0.2)	(4.4)	(9.0)	10.8	(17.5)	(3.5)
Income taxes paid		(2.3)	(2.6)	(5.5)	(12.2)	(16.3)	(22.7)	(30.7)	(31.9)
Operating cash flow		23.3	24.2	43.9	70.1	72.5	104.5	132.2	152.1
Net capex and intangibles		(12.3)	(12.7)	(12.8)	(21.6)	(22.5)	(24.6)	(30.8)	(26.6)
Net interest		0.1	0.1	0.1	(0.0)	0.1	0.1	(0.7)	(0.7)
Net proceeds from issue of shares		0.7	0.3	0.1	0.9	0.7	0.8	0.0	0.0
Dividends paid		(16.6)	(12.8)	(23.8)	(38.7)	(50.3)	(47.3)	(76.9)	(82.1)
Other financing activities		0.0	0.0	(1.9)	0.0	0.0	(10.3)	(10.6)	(10.6)
Net cash flow		(4.8)	(0.9)	5.5	10.7	0.5	23.2	13.2	32.2
Opening cash and cash equivalents		17.6	12.6	11.8	17.9	28.5	29.4	52.9	66.1
Currency translation differences and other		(0.2)	0.1	0.6	(0.1)	0.3	0.3	0.0	0.0
Closing cash and cash equivalents		12.6	11.8	17.9	28.5	29.4	52.9	66.1	98.3
Closing net cash (including leases)		12.6	11.8	17.9	28.5	29.4	20.8	25.5	58.3

Source: Company data, Edison Investment Research

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