EDISON

Walker Greenbank

FY19 results

Tough FY19, dividends rebased

Care & household goods

A new CEO appointment follows other board changes; with tough UK conditions set to persist, operational improvements, international growth and brand development are all firmly on the agenda and a refreshed strategic update will come from the new team later in the year. With a broadly maintained payout ratio in FY19, lower earnings drove a similar reduction in dividends. With lower earnings anticipated in FY20, the company is trading on a prospective 3.8% dividend yield and a 7.8x P/E.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/18**	112.2	12.7	14.7	4.4	4.5	6.7
01/19	113.3	9.5	10.8	3.2	6.1	4.9
01/20e	109.3	7.3	8.4	2.5	7.8	3.8
01/21e	111.8	7.8	9.0	2.7	7.2	4.1

Note: *PBT and EPS (fully diluted) are normalised, excluding exceptional items and LTIP charges. **Restated for IFRS15.

Lower earnings and dividends in challenging FY19

The headline FY19 revenue drivers were well trailed with the pre-close statement with normalised PBT (-25% y-o-y) and EPS (-27% y-o-y) in line with our revised estimates at that time. Higher licence and international revenues were bright spots but weak UK demand proved to be a significant headwind, most visibly affecting Brands' profitability. Free cash flow improved significantly against the prior period and contributed to a modest net funds position at the end of the year. Our flat DPS expectation proved to be too optimistic; management elected to maintain the dividend payout ratio so lower earnings led to a full-year DPS reduction of 26%.

New team to refresh strategic focus

We expect to see similar market demand trends and a reversion to more normal core licence income levels driving a further step down in earnings and dividends in FY20. While our earnings estimates are effectively unchanged, we have now brought our projected dividend payout down to c 30% of earnings in line with the FY19 payout. Increased focus in developing individual brands and international markets has been highlighted previously by management. We expect board changes to result in further refinements to strategy, led by new CEO Lisa Montague, who brings experience in premium consumer brands backed by manufacturing operations. Three years on from the initial acquisition of Clarke & Clarke, and hence at the end of its earn-out period, its warehousing function is being consolidated into the group. We expect additional group operational actions and investment to follow subject to review by the refreshed management team.

Valuation: Several deep value flags

Some recovery from the recent 56.5p low means that the share price is now down c 25% ytd triggered by the February/year-end update. The discount to NAV now stands at c 25%, while the current year P/E and EV/EBITDA (adjusted for pensions cash) are now just 7.8x and 4.9x, respectively. On our reduced dividend expectation, Walker Greenbank is still offering a 3.8% prospective yield.

18 April 2019

Price	**65.5p**
Market cap	**£46m**

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	4.8	(26.4)	(45.4)
Rel (local)	1.6	(32.2)	(47.0)
52-week high/low		122.5p	56.2p

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: UK 58%, International 39% and Licence income 3%.

Next events

AGM	June
FY19 final DPS of 2.55p to be paid	9 August

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Edison profile page

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FY19 results overview

In a difficult trading year, Walker Greenbank maintained revenues but experienced a step down in profitability due to lower volumes in premium product brands. Despite this, a strong cash flow performance resulted in a modest net cash position at the year end. With a subdued trading outlook, dividends were reduced in FY19 and we now expect the full adjustment to come through from FY20.

Exhibit 1: Walker Greenbank divisional and interim splits

Year end January £m	H1R*	H2R*	2018R*	H1	H2	2019	Headline % chg y-o-y H1	Headline % chg y-o-y FY	CER % chg y-o-y H1	CER % chg y-o-y FY
Group revenue	**55.5**	**56.7**	**112.2**	**54.7**	**58.6**	**113.3**	**-1.5%**	**1.0%**	**N/A**	
Brands	46.4	47.4	**93.8**	44.6	48.6	**93.3**	-3.9%	**-0.5%**	-3.3%	**-0.3%**
UK	24.6	24.9	**49.5**	23.1	23.2	**46.3**	-5.9%	**-6.5%**	-5.9%	**-6.5%**
International	20.4	20.7	**41.1**	19.5	21.0	**40.5**	-4.3%	**-1.5%**	-2.9%	**-1.0%**
Licence income	1.5	1.8	**3.2**	2.0	4.5	**6.5**	35.4%	**103.1%**	37.4%	**103.1%**
Manufacturing – gross	16.1	17.3	**33.4**	16.3	16.6	**32.9**	1.4%	**-1.3%**		
UK	7.3	7.1	**14.4**	7.5	6.8	**14.3**	3.0%	**-0.8%**		
International	1.8	2.1	**3.9**	2.6	3.2	**5.7**	41.5%	**45.5%**		
Inter company	(7.0)	(8.0)	**(15.0)**	(6.2)	(6.7)	**(12.9)**	-10.6%	**-14.1%**		
Group operating profit	5.6	6.9	**12.6**	4.4	6.1	**10.4**	-22.4%	**-17.1%**		
Brands	6.1	6.4	**12.5**	4.8	6.0	**10.8**	-21.4%	**-13.7%**		
Manufacturing	0.5	0.3	**0.8**	0.6	0.2	**0.8**	28.7%	**3.8%**		
Central items	(1.0)	0.3	**(0.7)**	(1.1)	(0.1)	**(1.2)**	10.1%	**66.2%**		

Source: Walker Greenbank, Edison Investment Research. Note: 2018 results restated for IFRS 15. *Manufacturing – gross includes intercompany transfers to Brands, which is netted out on consolidation.

Brands

Internationally recognised heritage and contemporary, premium and mid-market, wall covering and furnishing brands (Sanderson, Morris & Co, Harlequin, Zoffany, Scion, Anthology, Clarke & Clarke, Studio G).

Revenue year-on-year performances were as outlined in the pre-close statement with a slightly different base year due to IFRS 15 related restatement. The story of the second half was an improvement in international sales and a significant uplift in licence income, while the UK continued to experience demand weakness as seen in H1. While Brands product sales were down in the year, the licence income contribution resulted in a flat divisional revenue outturn overall in constant currency terms. While improved licence revenue did restrict the operating profit decline in H2, it was not sufficient to offset the operational gearing effect of lower volumes and an adverse product mix; reported operating profit was c 14% below the prior year and divisional margin reduced by 180bp to 11.5% for the year as a whole. We believe that there was some stock clearance activity in the year, chiefly at Clarke & Clarke, which would have contributed to margin dilution.

Among the **brand product** portfolio, apart from Morris & Co (where sales rose by 12.5% in constant currency, following a good FY18, the premium brands all experienced high single-digit/low double-digit revenue declines in FY19. No specific sub sectors were highlighted by management; rather, generally weak consumer confidence appears to have negatively affected both commercial and domestic demand. The exceptions were, as already mentioned, Morris & Co (due to the continued success of the Pure ranges) and the more mid-market positioned Clarke & Clarke/Studio G brands (+10.9% in constant currency, including new homewares ranges). Within international markets, sales into western Europe were stable year-on-year in H2 after small dip in H1, while a more noticeable pick up in momentum occurred in the US building on modest progress at the interim stage.

Core **Licensing** revenues (mainly derived from third-party agreements to use archive designs in soft furnishings, stationery and giftware) were stable compared to the prior year at c £3m. Apparel and accessory income contributed an additional c 10% to FY18 licence revenue, which leapt to c £3.5m in FY19. The major component of this was an autumn collection with H&M using Morris & Co designs, supplemented by agreements with Radley and Uniqlo incorporating Sanderson designs. The challenge in this business segment is to grow its core recurring income stream and also develop a pipeline of fashion/garment-related projects to either sustain or grow the overall licensing contribution. The latter sub sector tends to be relatively short-visibility, seasonal and one-off in nature, so annual income here is typically unrelated to the prior year. To achieve progress in either aspect suggests that a more intensive marketing and collaboration push is required, and the division is continuing to add resource in this area and building team capability.

Manufacturing

Two locations, Anstey (wallcoverings) and Standfast & Barracks (fabrics), produce high-end printed furnishings with third-party output now larger than that servicing the group Brands division.

Third-party revenues continued to grow well in FY19 (being up 9.1% y-o-y following +10.7% in H1) and accounted for just over 60% of gross revenue generated by the division; international sales grew strongly (+ c 43% to almost 30% of the total) while those in the UK were broadly flat by the year end. In contrast, materials produced for the group's Brand division declined by 14.1% (following -10.6% at the interim stage). Underlying profitability declined but under statutory reporting (as seen in Exhibit 1), a small improvement in operating profitability was recorded for the year.

At **Anstey** gross revenues nudged ahead slightly in FY19 (to £18.3m). The year started with momentum partly supported by catch-up activity following a single machine fire at the end of FY17 but the overall rate of progress slowed into H2 reflecting divergent underlying subsector demand. Indeed, the headline performance itself was the net result of a good increase in third-party sales substantially offset by a similar decline in internal Brand product sales. Although comparatively small, external export sales were strongly positive throughout the year. External UK sales also started the year strongly and, despite flattening out in H2, the full year was still high single-digit percentage points ahead year-on-year, which is clearly better than the wider market. A combination of repeat runs and new collections with existing customers and new business wins contributed here. The switch to the supply of group-tinted and co-ordinated paint ranges had a modestly dampening effect on revenues but may have enhanced margin. Internal group sales declined by c 14%, mirroring the premium product Brands sales performance described earlier.

In printed fabrics, **Standfast & Barracks'** total revenues declined by c 5% with some of the sub sector themes seen at Anstey also evident here. Specifically, internal product sales were also down c 14% (though with a better H2), while external exports were again strongly ahead. Hence, the primary difference compared to Anstey was weaker external UK sales, which were down year-on-year in both half years, more so in H2. Following further investment in a digital pigment printer at this site (with additional capabilities and complementing two existing digital printers) process segment sales rose by 15% to £7.9m (ie 58% of the total). At the same time, conventionally printed fabric sales declined by over 20% and again this probably reflects weakness in premium brands' demand.

Strong FY19 cash inflow, net cash expected to build gradually

As flagged in its pre-close statement, Walker Greenbank ended FY19 with an ungeared balance sheet and a modest net funds position of £0.4m. This followed a net cash inflow approaching £6m, the result of a strongly positive free cash flow (FCF) performance less £3.1m cash dividend payments in the year.

Group EBITDA declined year-on-year to c £13.3m bringing an unfavourable comparative cash effect against the prior year. Pension scheme cash contributions were at a similar level to FY17, just below £2m, while net insurance effects moved from modestly negative to modestly positive in FY18 and no further impact is expected here. More positively, the reported £2.6m working capital inflow represented a significantly improved outcome (versus a £5.2m outflow last year) and all three line items contributed. The inventory inflow (£1.5m) is consistent with management's increased focus in this area and will have been partly boosted by selective finished goods line reductions related to warehouse consolidation as referenced earlier. Receivables swung to a £1.7m inflow in the year and we believe that licence income agreements and pattern book-related inflows will have contributed to this performance. Lastly, there was a creditor/payables inflow in H2 and a relatively small outflow for the year overall. After all of the above, operating cash flow came in at £12.6m and compared to £7m a year earlier.

The other notable items were a step down in cash tax payments consistent with lower profitability and c £3m gross capex in the year. The later included new digital printing machines at both Standfast & Barracks and Anstey and c £0.7m intangible spend, largely driven by design collection development activity.

Cash flow outlook: With lower expected profitability in FY20 and a reduced inflow from working capital we estimate that operating cash flow will be in the £8–9m range and for this to be seen in the following two years also. In the current year, this is after factoring in some cash costs for the consolidation of Clarke & Clarke warehousing with the rest of the group, a process that is already underway. Other FCF components are also expected to be broadly stable with net interest of £0.2–0.3m (nudging downwards), tax in line with the P&L (ie £1.3–1.4m) and capex sustained at c £3m. together, this delivers FCF approaching £4m and, once the FY19 final dividend has worked through, ongoing cash dividend cover is projected to be c 2x. Overall, we expect the net cash position to build gradually over our estimate horizon. The decision to rebase Walker Greenbank's dividend has to be seen in the light of subdued trading, some reorganisation activity and ongoing pension funding obligations.

Earnings expectations maintained, dividends reduced by c 40%

We revised our FY20 and FY21 estimates down at the time of the year end update in February, driven essentially by a weak UK demand environment. Our expected divisional profit contributions are unchanged from that time – though the absence of an LTIP charge add back in FY20 now reduces PBT – and interest costs have been trimmed modestly. Also, we have reset dividend payout expectations to c 30% of earnings, which, in absolute terms, represents c 40% reductions to FY20 and FY21 compared to our previously flat at FY18 level profile.

Exhibit 2: Walker Greenbank revised estimates

	EPS, fully diluted, normalised (p)			PBT, normalised (£m)			EBITDA* (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
FY19	10.8	10.8	0.2	9.5	9.5	-0.2	13.0	13.3	2.6
FY20e	8.6	8.4	-2.4	7.3	7.3	----	11.0	11.3	2.7
FY21e	9.0	9.0	0.8	7.7	7.8	1.1	11.4	11.8	3.3
FY22e	N/A	9.2	N/A	N/A	7.9	N/A	N/A	12.0	N/A

Source: Edison Investment Research. Note: 2019 old = estimate, new = actual. PBT and EPS (fully diluted) are normalised, excluding exceptional items and LTIP charges. *Pre-IFRS 16 effects.

Exhibit 3: Financial summary

£m	2013	2014	2015	2016	2017	2018	2018R	2019	2020e	2021e	2022e
January	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS											
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 (stautory)	4.0	5.0	5.1	5.9	5.4	11.8	11.9	5.1	3.7	4.1	4.2
Average Number of Shares Outstanding (m)	57.5	58.5	59.3	60.0	62.7	70.4	70.4	71.0	71.0	71.0	71.0
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
Gross Margin (%)	60.1	61.3	60.8	59.2	60.8	60.2	60.8	60.0	59.0	59.0	59.0
EBITDA Margin (%)	11.4	12.4	12.8	13.4	14.6	14.6	14.3	11.7	10.3	10.5	10.5
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
BALANCE SHEET											
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
CASH FLOW											
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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