

Games Workshop Group

H122 results

Forecasts maintained for FY22 and FY23

Consumer goods

17 January 2022

Price 8,550p
Market cap £2,808m

Net cash (£m) at 28 November 2021 (excluding lease liabilities) 88.6

Shares in issue 32.8m

Free float 100%

Code GAW

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (10.0) (16.4) (24.3)

Rel (local) (13.3) (19.3) (31.8)

52-week high/low 12,220p 8,695p

Business description

Games Workshop Group 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

FY22 trading update May/June 2022

FY22 results August 2022

Analysts

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Games Workshop Group's (GAW's) H122 results reflect lower year-on-year revenue growth after a very strong FY21, as expected, with positive comments on new launches, specifically the third edition of Age of Sigmar. Ongoing internal investment to support future growth and new external cost pressures led to a reduction in operating profit pre-royalties, which was more than offset by the notable increase in royalty income. As **previously flagged**, the shape of our FY22 forecasts has changed to reflect the above dynamics, but our FY22 and FY23 PBT forecasts are broadly unchanged. Our DCF-based valuation increases by c 3% to £134/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	39.3	1.7
05/21	353.2	150.9	370.5	235.0	23.1	2.7
05/22e	377.8	158.2	386.5	220.0	22.1	2.6
05/23e	403.7	163.5	398.3	275.0	21.5	3.2

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles and exceptional items.

H122 results: Supported by licensing income

On a constant currency basis, GAW's revenue grew by c 6% to £191.5m, with a welcome return to growth for Retail, and operating profit post royalties grew by c 2% to £88.5m. Operating profit before royalties declined by c 11% as internal investment in staff and facilities and external pressures (raw materials and freight) increased. The lower profit was more than offset by a significant improvement in royalty income to £20.1m, higher than any prior full financial year, testimony to GAW's ability to leverage its intellectual property. Foreign currency changes led to a reduction in reported operating profit post royalties of c 4%. Free cash flow generation deteriorated by c 39% to £45.2m due to the lower profitability and temporary delays to VAT refunds post Brexit. The period end net cash position increased to £88.6m. The declaration of a further dividend of 65p/share takes the year-to-date total to 165p/share versus 140p/share at the same stage in FY21.

Forecasts: FY22 and FY23 PBT unchanged

Our PBT estimates for FY22 and FY23 are broadly unchanged, but the drivers of our FY22 forecasts have changed. For FY22e, we now assume a lower gross margin 69% (from 70% previously) and higher growth in operating costs, leading to a downgrade to operating pre royalties of c 7%, offset by an increase in our estimate for royalty income to £27m (£17m previously). We reduce the FY22 dividend estimate to 220p/share (250p) to reflect potential delays in VAT refunds.

Valuation: DCF-based valuation £134/share

Our DCF based valuation increases to £134/share (£129 previously) to reflect GAW's improved financial position and the time value of money on our unchanged forecasts. Following the recent underperformance, the P/E multiples for FY22e and FY23e have reduced to 22.1x and 21.5x, a discount to the more recent average multiples of 24.6x in FY20 and 26.6x in FY21.

H122 results: Lower 'core' profit, higher royalty income

On a constant currency basis, GAW's revenue grew by c 6%, gross profit declined by c 2%, operating profit pre royalties declined by c 11%, and operating profit post royalties grew by c 2% in H122.

With c 78% of revenue earned overseas in FY21, the c 5% y-o-y appreciation of sterling versus the euro (from €1.11/£ to €1.17/£) and US dollar (from US\$1.30/£ to US\$1.37/£) in H122 negatively affected the translation of GAW's underlying results. On a reported basis GAW's H122 revenue grew by c 3% to £191.5m, gross profit declined by c 7% to £131.3m, operating profit pre royalties declined by c 18% to £68.4m, and profit post royalties declined by c 4% to £88.5m. With minimal interest expense (IFRS 16 interest and interest income on GAW's net cash position) and a consistent tax charge (tax rate of 19.3%), the lower operating profit translated to a decline in fully diluted EPS of c 3% to 216.6p. We note the current exchange rates of US\$1.37/£ and €1.20/£ imply less of a potential negative forex translational effect for the remainder of the financial year, specifically the US dollar.

Exhibit 1: Summary income statement

£m	H121	H221	FY21	H122
Revenue	186.8	166.4	353.2	191.5
Growth y-o-y	25.9%	37.1%	31.0%	2.5%
Forex	(0.9%)		(2.9%)	(3.9%)
Constant currency	26.8%		33.9%	6.4%
- Trade	104.0	90.8	194.8	108.1
Growth y-o-y	33.2%	46.7%	39.1%	3.9%
Forex	(1.1%)		(4.1%)	(4.5%)
Constant currency	34.3%		43.3%	8.5%
- Retail	36.9	33.8	70.7	41.9
Growth y-o-y	(19.4%)	5.0%	(9.4%)	13.6%
Forex	(0.9%)		(1.7%)	(3.8%)
Constant currency	(18.6%)		(7.7%)	17.3%
- Online	45.9	41.8	87.7	41.5
Growth y-o-y	87.7%	53.4%	69.6%	(9.6%)
Forex	(0.0%)		(1.4%)	(2.6%)
Constant currency	87.8%		71.0%	(7.0%)
Gross profit	141.1	115.8	256.9	131.3
Margin	75.5%	69.6%	72.7%	68.6%
Growth y-o-y	36.9%	49.3%	42.2%	(6.9%)
Forex	N/D		N/D	(4.9%)
Constant currency	N/D		N/D	(2.1%)
Operating costs	(57.8)	(63.7)	(121.5)	(62.9)
EBIT pre-royalties	83.3	52.1	135.4	68.4
Margin	44.6%	31.3%	38.3%	35.7%
Growth y-o-y	71.8%	110.8%	85.0%	(17.9%)
Forex	N/D		(4.8%)	(6.7%)
Constant currency	N/D		89.8%	(11.2%)
Royalties	8.7	7.6	16.3	20.1
EBIT post royalties	92.0	59.7	151.7	88.5
Margin	49.3%	35.9%	43.0%	46.2%
Growth y-o-y	55.5%	93.6%	68.6%	(3.8%)
Forex	(1.9%)		(4.4%)	(6.2%)
Constant currency	57.4%		73.0%	2.4%
EPS fully diluted (p)	224.0	146.5	370.5	216.6
Growth y-o-y	54.9%	100.2%	70.1%	(3.3%)
DPS (p)	80.0	155.0	235.0	100.0
Growth y-o-y	(20.0%)	244.4%	62.1%	25.0%

Source: Games Workshop

From a product perspective, the June 2021 launch of *Dominium*, the third edition of *Age of Sigmar*, is described by management as its 'best fantasy launch to date by a considerable margin', and H122 revenue benefited from new models for the ninth edition of 40k, in the second year following its launch in the prior financial year. However, shipping issues have led to a delay of some new product launches, which should reverse in H222. And with respect to GAW's media and community, the subscription service Warhammer+ has 'got off to a great start'.

With fewer COVID-19 related operating restrictions than the prior year there was a return to growth for Retail revenue (c 17% growth at constant currency), offset by a decline for Online (7% at constant currency) against a very tough comparative. Trade revenue continued with better than average growth (c 9% at constant currency) due to strong growth in the number of net new accounts, 500 in the period, which compares favourably with recent history when 500–600 net new accounts have been added in full financial years. With a net four fewer stores by the end of the period, Retail revenue of £41.9m is c 9% below pre-COVID-19 levels (£45.8m in H120), given differing rates of recovery by geography following, and ongoing disruption from, COVID-19 related restrictions, notably Australia where stores remained closed during the period but began to re-open in December 2021. At £41.5m in H122, Online revenue is c 70% higher than reported in H120, pre COVID-19.

The key features of GAW's profitability in H122 are the decline in gross margin from 75.5% in H121 to 68.6%, which along with growth in operating costs fed through to a reduction in the EBIT pre-royalties margin of 890bps to 35.7%, offset by the significant increase in royalty income to £20.1m (H121: £8.7m).

With respect to cost of goods sold, the previously flagged cost pressures of freight (additional £2m) and input costs (we estimate additional £3.6m), a combined £5.6m, represented a drag of 2.9 gross margin points. In addition, management continued to invest for future growth with incremental staff costs (higher pay grades and headcount) of £3.0m (1.6 margin points), new facilities £0.7m (0.4 margin points) and a higher inventory provision £2.9m (1.5 margin points). Staff numbers increased in the factories (+9%) to increase capacity and in the United States (+11%). Our [March 2021 note](#) highlighted the historical effect of the inventory provision on GAW's gross profit. From FY15 to FY21 the provision has represented 0.3% (FY21) to 2.4% (FY20) of sales, therefore the H122 provision appears within the range of prior years.

Operating costs increased by c 9% (c 11% at constant currency) to £62.9m including c 2% growth in headcount coupled with the annual 3% pay increase, as well as a c 10% increase in the profit share and discretionary payment (to £6.9m from £6.3m in H121) to staff in recognition of their performance.

The H122 royalty income of £20.1m is significantly higher than GAW has reported in any prior full financial year – the previous peak was £16.8m in FY20 – and is testimony to the attractiveness of the intellectual property and GAW's ability to attract new licensing partners. As indicated, this income stream is difficult to predict as it depends on the timing of new contracts, and accounting standards require the recognition of the minimum guarantee of the contract on signing.

Cash flow and balance sheet

The lower operating profit, higher working capital outflow (£28.4m versus £5.2m) and higher capital investment led to a c 39% decline in GAW's free cash flow pre-interest to £45.2m from £73.6m in H121. The period end debtors increased by £22.9m, of which £15m is due to temporary administrative delays by the local authorities in repaying the new import VAT that is paid post Brexit by GAW as goods enter the EU. Management hopes this will normalise by the end of the current financial year, but it is dependent on the expediency of those local authorities.

Exhibit 2: Summary cash flow

£m	H121	H221	FY21	H122
Operating profit	92.0	59.7	151.7	88.5
Depreciation and amortisation	12.7	14.0	26.7	15.8
Working capital	(5.2)	(9.6)	(14.8)	(28.4)
Tax paid	(15.7)	(16.4)	(32.1)	(15.8)
Operating cash flow	84.3	48.4	132.7	60.7
Capex and intangibles	(10.7)	(19.3)	(30.0)	(15.5)
Free cash flow pre-interest	73.6	29.1	102.7	45.2
Dividends paid	(26.1)	(34.4)	(60.5)	(37.7)
Net cash flow	43.7	(10.8)	32.9	3.7
Cash at end	96.5	85.2	85.2	88.6
Net debt/(cash) excluding leases	(96.5)	(85.2)	(85.2)	(88.6)
Net debt/(cash) including leases	(51.2)	(38.2)	(38.2)	(41.0)
Relative to sales:				
Operating profit	49.3%	35.9%	43.0%	46.2%
Depreciation and amortisation	6.8%	8.4%	7.6%	8.3%
Working capital	(2.8%)	(5.8%)	(4.2%)	(14.8%)
Tax paid	(8.4%)	(9.9%)	(9.1%)	(8.3%)
Operating cash flow	45.1%	29.1%	37.6%	31.7%
Capex and intangibles	(5.7%)	(11.6%)	(8.5%)	(8.1%)
Free cash flow pre-interest	39.4%	17.5%	29.1%	23.6%

Source: Games Workshop

The period end net cash position pre IFRS 16 increased to £88.6m from £85.2m, following the payment of dividends of £37.7m during H122. Despite the lower free cash flow generation during the period, management declared three dividends totalling 100p/share versus two dividends totalling 80p/share in H121 following the outbreak of the COVID-19 pandemic. A further dividend of 65p/share has been declared with the results announcement, taking the total for the financial year to date to 165p/share versus 140p/share at this stage 12 months ago, and 235p/share for the whole of FY21. Our dividend forecast for FY22 reduces to 220p/share (250p/share previously) to allow for potential delays in the £15m VAT refunds from the EU, while we maintain our forecast of 275p/share for FY23. These are equivalent to our estimate of truly surplus cash, calculated as the estimated closing cash position less a buffer of £50m, the estimated cash tax payment and the estimated capex spend.

Including IFRS 16 liabilities of £47.6m, the net cash position reduced to £41m.

Forecasts: PBT for FY22 and FY23 unchanged

Our PBT forecasts for FY22 (c 5% y-o-y growth to £158.2m) and FY23 (c 3% y-o-y growth to £163.5m) are broadly unchanged. However, the drivers of the forecasts have changed given the dynamics of the H122 performance (ie lower profit pre royalties and significant growth in royalty income).

For FY22, we forecast a lower gross margin (69% versus 70% previously) and 6% growth in operating costs, leading to a downgrade to operating profit pre royalties of 7% to £131.9m (from £141.8m previously) taking the margin to 34.9% versus FY21's 38.3%. We upgrade our forecast for royalty income to £27m (from £17m previously), which implies a further £6.9m of income in H222, consistent with levels achieved in the majority of more recent six-monthly results.

For FY23, our PBT forecast of £163.5m includes a stable gross margin versus FY22, lower operating cost growth of c 2%, leading to a higher operating margin pre royalties of 36.5%, and lower royalty income of £17m as per our previous forecast.

Valuation: DCF based valuation increases to £134/share

Our DCF-based valuation increases to £134/share (£129/share previously) to reflect the improved net debt position at the end of H122, and the time value of money of our unchanged forecasts, with



the same discount rate (6.5%) and terminal growth rate (2%) assumptions as included in our March 2021 update note.

At a share price of £85.50 the EV/sales multiples for FY22e and FY23e of 7.2x and 6.8x are at a premium to the long run average (since FY17) of 4.7x under the current management team, which reflects the improved long-term outlook for revenue growth and profitability, but below more recent average annual multiples, for example 8.9x in FY21. Similarly, the P/E multiples for FY22e and FY23e of 22.1x and 21.5x are at a premium to the average of 17.2x since FY17, but below more recent average multiples of 24.6x in FY20 and 26.6x in FY21.

Exhibit 3: 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	377.8	403.7
Cost of sales		(37.0)	(37.4)	(43.7)	(64.2)	(83.3)	(89.1)	(96.3)	(117.1)	(125.1)
Gross profit		82.1	80.6	114.4	157.1	173.3	180.6	256.9	260.7	278.5
SG&A (expenses)		(67.2)	(69.7)	(83.6)	(92.4)	(103.4)	(107.4)	(121.5)	(128.8)	(131.4)
Other operating income/(expense)		1.5	5.9	7.5	9.6	11.4	16.8	16.3	27.0	17.0
Exceptionals and adjustments		0	0	0	0	0	0	0	0	0
EBITDA (excl royalties)		26.0	21.3	41.8	76.8	85.7	98.8	162.0	159.0	175.6
EBITDA		27.5	27.3	49.3	86.5	97.1	115.6	178.3	186.0	192.6
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	131.9	147.1
Reported operating profit		16.5	16.9	38.3	74.3	81.2	90.0	151.7	158.9	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	158.2	163.5
Income tax expense (includes exceptionals)		(4.3)	(3.5)	(7.9)	(14.8)	(15.5)	(18.1)	(28.9)	(30.5)	(31.5)
Adjusted net income		12.2	13.5	30.5	59.5	65.8	71.3	122.0	127.6	131.9
Reported net income		12.3	13.5	30.5	59.5	65.8	71.3	122.0	127.6	131.9
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	388.8	400.6
Reported diluted EPS (p)		38.3	42.0	94.5	181.6	200.8	217.8	370.5	386.5	398.3
Adjusted diluted EPS (p)		38.1	42.0	94.5	181.6	200.8	217.8	370.5	386.5	398.3
DPS (p)		52.0	40.0	74.0	126.0	155.0	145.0	235.0	220.0	275.0
Gross margin		69.0%	68.3%	72.4%	71.0%	67.5%	67.0%	72.7%	69.0%	69.0%
EBITDA margin (excl royalties)		21.8%	18.1%	26.5%	34.7%	33.4%	36.6%	45.9%	42.1%	43.5%
EBITDA margin (incl royalties)		23.1%	23.1%	31.2%	39.1%	37.8%	42.9%	50.5%	49.2%	47.7%
Operating margin (before royalties and exceptionals)		12.5%	9.2%	19.5%	29.2%	27.2%	27.1%	38.3%	34.9%	36.5%
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	29.8	35.5
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	151.3	164.9
Cash and equivalents		12.6	11.8	17.9	28.5	29.4	52.9	85.2	123.7	148.5
Inventories		7.6	8.5	12.4	20.2	24.2	20.7	27.5	33.4	35.7
Trade and other receivables		9.4	10.1	13.0	15.5	18.8	19.6	30.6	32.7	35.0
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	191.0	220.3
Trade and other payables		(13.1)	(12.8)	(16.5)	(20.3)	(19.2)	(30.3)	(35.4)	(40.8)	(42.5)
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)	(50.1)	(51.8)
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)	(37.0)	(35.6)
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)	(39.3)	(37.9)
Net assets		51.5	53.2	62.8	89.3	106.5	133.7	196.3	252.9	295.5
CASH FLOW STATEMENT										
EBIT		16.5	16.9	38.3	74.3	81.2	90.0	151.7	158.9	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)	(2.7)	(2.8)
Income taxes paid		(2.3)	(2.6)	(5.5)	(12.2)	(16.3)	(22.7)	(32.1)	(30.5)	(31.5)
Operating cash flow		23.3	24.2	43.9	70.1	72.5	104.5	132.7	154.0	159.4
Net capex and intangibles		(12.3)	(12.7)	(12.8)	(21.6)	(22.5)	(24.6)	(30.0)	(31.1)	(32.0)
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)	(72.2)	(90.6)
Other financing activities		0.0	0.0	(1.9)	0.0	0.0	(10.3)	(10.9)	(11.4)	(11.4)
Net cash flow		(4.8)	(0.9)	5.5	10.7	0.5	23.2	32.9	38.5	24.8
Opening cash and cash equivalents		17.6	12.6	11.8	17.9	28.5	29.4	52.9	85.2	123.7
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	123.7	148.5
Closing net cash (including leases)		12.6	11.8	17.9	28.5	29.4	20.8	38.2	78.1	104.3

Source: Company accounts, Edison Investment Research

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