

## Williams Grand Prix

### Determined to succeed

The challenges on the Formula One track are apparent in the H118 report, and investment is being stepped up. Meanwhile, Williams Advanced Engineering (WAE) is delivering top-line growth, with contributions from a broad range of projects and customers. Overall, Williams believes it has the technical know-how and determination to succeed in its field.

### H118 results

H118 group revenues declined by 4% to £82.6m (H117 £85.9m). WAE revenues grew 8%; however, Formula One revenues were negatively affected by challenging operating conditions. The group generated an EBITDA loss of £2.7m (H117 £10.4m profit), reflecting the impact of a non-recurring one-off item in H117. The group reported an H118 EPS loss of 87.1p (H117 96.1p gain).

### Road ahead

Williams is well placed to meet market challenges through world-class facilities and organisational strength. However, the requirement for additional investment in this year's Formula One car is followed in swift succession with a focus on next year's car. The team is currently 10<sup>th</sup> in the constructor standings, while there is some debate in the press about the influence of Lawrence Stroll on his son to move teams. However, off the track, the group is building industrial links, including the joint venture (JV) with Unipart (Hyperbat) to produce batteries for premium future hybrid and electric vehicles. This JV will operate from a high-tech facility based in the UK. Technology and capability are at the cornerstone of Williams' group future performance.

### Valuation: Level playing field preferred

We continue to believe the potential volatility of revenues and earnings and the nature of Williams' business continue to represent a challenge to valuation from both a cash perspective and peer comparisons. The share price has been under increasing pressure throughout the year and we estimate it is trading on a clean underlying historic FY17 P/E multiple of 10.3x. The company's prospects continue to be heavily dependent on racing performance. If WAE grows significantly with a more level Formula One playing field, a more consistent recurring income and cash flow may develop potentially benefiting valuation.

Historical financials						
Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/14	90.2	(34.5)	(391.2)	0.0	N/A	0.0
12/15	125.6	(11.2)	(116.2)	0.0	N/A	0.0
12/16	167.4	5.9	59.5	0.0	24.6	0.0
12/17	166.2	14.1	141.8	0.0	10.3	0.0

Source: Company reports

Industrials

8 October 2018

Price **€16.70**  
Market cap **€167m**

#### Share price graph



#### Share details

Code WGF1  
Listing Deutsche Börse Scale  
Shares in issue 10.0m  
Net debt as at 31 December 2018 £17.5m

#### Business description

The group comprises a Formula One racing team (76% revenues) and Williams Advanced Engineering (WAE, 24% revenues). The Formula One racing team placed fifth in the 2017 FIA Formula One Constructors' Championship. WAE specialises in the commercial application of aerodynamics, materials and battery technologies.

#### Bull

- Liberty Media's ownership of Formula One Group should lead to higher publicity for the sport and therefore higher prize funds.
- WAE is a growing business with a high-end product offering.
- If spending caps are introduced, it will be to the benefit of smaller teams such as Williams.

#### Bear

- Management is focused on track performance over shareholder return.
- Financial performance is heavily dependent on track performance, which is highly competitive and unpredictable.
- Higher profits at WAE are likely to be reinvested into the Formula One business.

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## H118 results review

The half-year figures reflected the challenging environment the Formula One business faces this year. Group revenues fell 4% to £82.6m, with Formula One revenues showing a £4.8m (-7%) decline partially offset by a £1.8m (8%) improvement at WAE. Gross margin fell to 52.0% (H117 62.7%), reflecting a sharp increase in cost of sales despite the lower revenues.

Other operating income in the Formula One business fell sharply to £3.1m from £12.1m in H117, while remaining almost unchanged in WAE and the 'other' category. The decline reflected the absence of specific project work undertaken by the operation in the prior period. It largely explained the decline to a close to break-even EBITDA of £0.2m for the Formula One operation, down from £10.1m in H117. WAE saw EBITDA fall to £2.3m from £3.4m in H117 and there was an increased EBITDA loss of £5.1m (H117 EBITDA loss £3.1m) in the 'other' category. Overall the group generated an EBITDA loss of £2.7m compared to an EBITDA profit of £10.4m in the prior year.

The company does not disclose net debt, but cash and cash equivalents fell by £2.3m in H118 to £2.2m. Net assets fell to £38.6m from £46.6m at the start of the year reflecting the net loss in H118.

Exhibit 1: Williams Grand Prix Holdings income statement (£m)								
12 months to December	H116	H216	FY16	H117	H217	FY17	H118	H118/H117 % change
<b>Revenue</b>								
Formula One	51.4	65.3	116.7	65.5	60.1	125.6	60.7	-7
WAE	20.6	16.4	36.9	19.9	19.7	39.5	21.5	8
Other	8.1	5.7	13.8	0.5	0.6	1.1	0.5	-9
Group total	80	87.4	167.4	85.9	80.4	166.2	82.6	-4
Gross profit	51.1	58.3	109.4	53.9	45.9	99.8	43.0	-20
Gross margin	63.8%	66.7%	65.3%	62.7%	57.1%	60.0%	52.0%	-17
<b>EBITDA</b>								
Formula One	4.1	8.3	12.4	10.1	5.9	16	0.2	-98
WAE	3.5	0.7	4.2	3.4	1.6	5	2.3	-34
Other	0.1	-1.2	-1.1	-3.1	-7.1	-10.2	-5.1	63
EBITDA	7.7	7.8	15.5	10.4	0.4	10.8	-2.7	N/A
Depreciation	-1.7	-2.4	-4.1	-2.7	-2.8	-5.5	-2.8	4
Amortisation	-0.1	-0.2	-0.3	-0.2	-0.3	-0.6	-0.5	149
EBIT	5.9	5.2	11.2	7.4	-2.7	4.8	-6.0	N/A
Share based payments	-0.5	-0.1	-0.6	-0.4	-0.8	-1.2	-0.4	10
Movement in derivative financial instruments	-2.7	-1	-3.7	2.6	1.4	4	-1.3	N/A
Exceptional item					7.3	7.3		
Net interest	-0.5	-0.4	-0.9	-0.4	-0.4	-0.8	-0.3	-14
Profit before tax (as reported)	2.2	3.7	5.9	9.3	4.8	14.1	-8.4	N/A
Net income (as reported)	2.2	3.7	5.9	9.3	4.8	14.1	-8.4	N/A
EPS (as reported) (p)	22.1	37.4	59.5	94	47.7	141.8	-87.2	N/A

Source: Company reports

## Outlook

Although some progress may be apparent for WAE in H218 given comments about project timing in the H118, this is not likely to compensate for the decline in performance elsewhere. In Formula One the investment in the 2019 car has begun and with sponsorship tending to be first-half weighted, we do not expect a stronger second half. On the track the company has been facing a challenging year, and is likely to see financial ramifications moving into FY19.

WAE continues to be positioned to grow and develop new IP-driven activities such as the potential opportunities in electrical vehicles and battery technology. If these factors are combined with a more equitable future Formula One commercial proposition arising from the control of Liberty Media, then prospects for a more sustainable and potentially less volatile level of profitability and cash flow could become more of a reality.

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