

## Williams Grand Prix

### Changing gear

In terms of the Formula One racing performance, 2019 was another challenging year on the track as well as financially. Williams also disposed of a majority stake in Williams Advanced Engineering (WAE) on 31 December 2019 for £37.8m. The 2020 racing season is being severely disrupted by COVID-19, the relationship with the ROK Group of companies is being terminated early and new bank facilities have been secured. On 29 May 2020, the company started a strategic review and entered a formal sale process under the UK's Takeover Code.

### 2019 was financially challenged

Financially 2019 was always going to be a difficult year due to the lower finishing position in the 2018 Formula One Constructors' Championship, which affects revenues from commercial rights. The drop in Formula One revenues to £95.4m (FY18 £130.7m) reflected this, with the continuing operations recording a £20.4m EBITDA loss compared to a profit of £7.8m in the previous year.

### Disposal of WAE stake shifts direction

In contrast, WAE continued to make strong progress in FY19, increasing sales by 42% to £63.7m (FY18 £44.8m) and generating EBITDA of £7.5m (FY18 £5.1m). A majority stake in WAE was sold at the end of FY19 and Williams now holds a 25% minority stake in the new ultimate parent company, Joule Jersey Holdco. An exceptional profit of £35.8m was generated by the disposal. Williams received a considerable cash consideration that enabled the continuing operations focused on the racing team to prepare for the 2020 season, with a net cash balance of £15.5m at the end of FY19 (FY18 net debt of £11.9m).

### Strategic review to address challenges

Clearly the company is having to adjust to the impact of COVID-19, which has led to a delayed start to the 2020 racing season and has had a direct impact on operations. Mitigating measures such as temporary pay cuts, furloughing of staff and other discretionary cash and spending controls have been implemented. Williams is working with other teams and the governing authorities of Formula One to chart a path forward. Refinancing was concluded on 3 April 2020, retaining longstanding partner HSBC and the group received net additional funding of £28m. Alongside the FY19 results and publication of the 2019 report and accounts, on 29 May 2020 the company also [announced the start of the strategic review](#).

#### Historical financials

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	167.4	5.9	59.5	0.0	22.1	N/A
12/17	166.2	14.1	141.8	0.0	9.3	N/A
12/18	176.5	3.4	34.0	0.0	38.8	N/A
12/19	160.2	19.2	193.1	0.0	6.8	N/A

Source: Company reports

#### Industrials

16 June 2020

**Price** €13.2  
**Market cap** €132m

#### Share price graph



#### Share details

Code	WGF1
Listing	Deutsche Börse Scale
Shares in issue	10.0m
Net cash (£m) at 31 December 2019	15.5

#### Business description

The group is now focused on its Formula One racing team following the disposal of a majority stake in Williams Advanced Engineering on 31 December 2019. The Formula One racing team placed 10th in the 2019 FIA Formula One Constructors' Championship.

#### Bull

- Liberty Media's ownership of Formula One Group should lead to higher publicity for the sport and therefore higher prize funds.
- Balance sheet strengthened through Williams Advanced Engineering disposal.
- In the medium term the potential for a more equitable distribution of commercial rights in F1 should benefit teams such as Williams.

#### Bear

- Increased focus on F1 performance following the disposal of majority WAE stake
- Commercial rights income to remain low due to failure to improve 2019 F1 championship position.
- COVID-19 has delayed 2020 season and could affect timing of regulation changes.

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## Another challenging year

The FY19 trading performance reflected full-year contributions from the Formula One activity and WAE. A sale of a majority stake in WAE was completed on 31 December 2019 and was reflected in the year-end balance sheet. The disposal generated an exceptional profit of £35.8m in the income statement. As a result of the transaction, Williams retains a 25% stake in the new ultimate parent company of WAE, Joule Jersey Holdco, and from FY20 it should be accounted for as an associate with income from preference shares shown in finance income. The core ongoing business of Williams is the Formula One racing team.

Williams' financial performance in 2019 reflected the anticipated impact of the poor on-track performance in the 2018 Formula One Constructors' Championship, where it finished tenth compared to fifth in the prior year. As a result, the Formula One business received a lower share of commercial rights and a likely reduction in sponsorship income as an H218 payment from a partner of £8m did not recur in FY19. Formula One revenues declined by 27% to £95.4m (FY18 £130.7m).

### Exhibit 1: Williams Grand Prix Holdings income statement

12 months to December (£m)	H118	H218	FY18	H119	H219	FY19	FY change
<b>Revenue</b>							
Formula One	60.7	70.0	130.7	46.3	49.2	95.4	-27.0%
Other	0.5	0.5	1.0	0.5	0.6	1.1	15.0%
<b>Continuing</b>	<b>61.2</b>	<b>70.6</b>	<b>131.7</b>	<b>46.8</b>	<b>49.8</b>	<b>96.6</b>	<b>-26.7%</b>
WAE (discontinued)	21.5	23.3	44.8	31.0	32.7	63.7	42.2%
<b>Group total</b>	<b>82.6</b>	<b>93.9</b>	<b>176.5</b>	<b>77.8</b>	<b>82.5</b>	<b>160.2</b>	<b>-9.2%</b>
Gross profit	43.0	62.4	105.4	37.8	31.3	69.1	-34.4%
Gross margin	52.0%	66.5%	59.7%	48.6%	37.9%	43.1%	-27.8%
Other operating costs	(49.5)	(51.6)	(101.1)	(61.1)	(32.6)	(93.7)	-7.3%
Other operating income	3.9	4.8	8.7	4.6	7.1	11.7	34.4%
<b>EBITDA</b>							
Formula One	0.2	15.8	16.0	(16.8)	6.6	(10.1)	n.m.
Other	(5.1)	(3.1)	(8.2)	(4.4)	(5.8)	(10.3)	25.8%
<b>EBITDA continuing</b>	<b>(4.9)</b>	<b>12.7</b>	<b>7.8</b>	<b>(21.2)</b>	<b>0.8</b>	<b>(20.4)</b>	<b>n.m.</b>
WAE (discontinued)	2.3	2.9	5.1	2.5	5.0	7.5	45.6%
<b>Group EBITDA</b>	<b>(2.7)</b>	<b>15.6</b>	<b>12.9</b>	<b>(18.8)</b>	<b>5.8</b>	<b>(13.0)</b>	<b>n.m.</b>
Depreciation	(2.8)	(2.9)	(5.7)	(2.7)	(1.9)	(4.5)	-20.5%
Amortisation	(0.5)	(0.6)	(1.1)	(0.6)	(0.6)	(1.2)	13.3%
<b>EBIT</b>	<b>(6.0)</b>	<b>12.1</b>	<b>6.1</b>	<b>(22.1)</b>	<b>3.3</b>	<b>(18.8)</b>	<b>270.5%</b>
Share-based payments	(0.4)	(0.9)	(1.4)	1.3	0.2	1.5	n.m.
Movement in derivative financial instruments	(1.3)	0.8	(0.6)	0.2	1.2	1.5	n.m.
Exceptional item	(0.4)	0.4	0.0	0.0	35.8	35.8	
Net interest	(0.3)	(0.4)	(0.7)	(0.4)	(0.5)	(0.8)	6.7%
<b>Profit before tax (as reported)</b>	<b>(8.4)</b>	<b>11.8</b>	<b>3.4</b>	<b>(20.9)</b>	<b>40.1</b>	<b>19.2</b>	<b>462.2%</b>
Net Income (as reported)	(8.4)	11.8	3.4	(20.9)	40.1	19.2	462.2%
Net income continuing			4.1			(17.1)	
<b>EPS (as reported - diluted) (p)</b>	<b>(87.2)</b>	<b>121.2</b>	<b>34.0</b>	<b>(216.0)</b>	<b>409.1</b>	<b>193.1</b>	<b>468.6%</b>
EPS (continuing - diluted) (p)			40.3			(172.0)	n.m.

Source: Company reports

In FY19 revenues continued to grow strongly at WAE, increasing by 42% to £63.7m (FY18 £44.8m) maintaining its growth track record of recent years. WAE has almost trebled sales from £21.3m in FY15. Sales relate to engineering consultancy projects as well as low-volume manufacturing of bespoke products and some royalty income.

Other revenue remained relatively stable at £1.1m compared to £1.0m in FY18. Overall group revenues fell 9% in FY19 to £160.2m (FY18 £176.5m).

Reported group gross profit fell sharply by 34% to £69.1m (FY18 £105.4m), of which continuing operations generated £57.8m (FY19 £96.5m) and the discontinued WAE £11.3m (FY18 £8.9m). The gross margin also showed a significant fall to 43.1% compared to 59.7% in 2018. Gross margin for the continuing operations fell to 59.8% from 73.3%. The gross margin at WAE also declined to 17.8% (FY18 19.8%) reflecting increased cost of sales in support of revenue growth.

Group other operating income rose 34% to £11.7m (FY18 £8.7m) with the increase split broadly evenly between the continuing Formula One activities (FY19 £8.5m vs FY18 £7.1m) and WAE (FY19 £3.2m vs FY18 £1.7m).

Group EBITDA reversed to a loss of £13.0m (FY18 profit £12.9m). The change was entirely a result of the weaker performance of the continuing businesses, which returned an EBITDA loss of £20.4m compared to a £7.8m EBITDA profit in the prior year, although in H219 there was a modest positive EBITDA of £0.8m. Within this the Formula One segment made an EBITDA loss of £10.1m (FY18 EBITDA profit £16.0m) reflecting the drop through of lower revenues partially mitigated by cost savings and a positive stock revaluation. The Other segment recorded an increased EBITDA loss of £10.3m (FY18 EBITDA loss £8.2m). WAE's final contribution to EBITDA showed a strong increase to £7.5m, up 46% from £5.1m in FY18.

Reported PBT for the group rose to £19.2m (FY18 £3.4m), including a combined trading and disposal profit before tax from WAE of £36.3m. The continuing businesses made a loss before tax of £17.1m. Adjusting for share-based payment credit of £1.5m (FY18 charge £1.4m) and the movement in non-cash mark-to-market reversal of derivative financial instruments (to a credit of £1.5m in 2019 from a £0.6m loss in 2018), underlying loss before tax for the continuing businesses was £20.1m (FY18 PBT £6.0m).

With no tax payable, reported diluted EPS increased to 193.1p (FY18 34.0p). If we calculate an EPS figure using the adjusted PBT, the adjusted continuing fully diluted loss per share figure for 2019 would be 202.0p compared with EPS of 60.0p in 2018.

The balance sheet developed positively, largely because of the £37.8m sale of WAE. The group ended the year with net cash of £15.5m (FY18 net debt £11.9m) with a £44.9m inflow relating to the disposal of WAE that included settlement of intercompany amounts owed by WAE to Williams and £6.2m deferred as rental income. The net asset value increased by 37% to £69.7m (FY18 £51.0m).

#### Exhibit 2: Williams Grand Prix Holdings balance sheet summary

As at 31 December (£m)	2012	2013	2014	2015	2016	2017	2018	2019
Fixed assets	40.3	66.1	66.6	64.1	67.1	65.3	61.7	70.3
Current assets	57.5	31.8	30.5	40.5	61.7	59.4	70.4	64.3
<b>Total assets</b>	<b>97.8</b>	<b>97.8</b>	<b>97.1</b>	<b>104.7</b>	<b>128.8</b>	<b>124.7</b>	<b>132.1</b>	<b>134.6</b>
Total non current liabilities	(3.1)	0.0	(20.0)	(13.1)	(10.6)	(11.4)	(8.8)	(12.8)
Total current liabilities	(57.4)	(25.7)	(41.6)	(66.5)	(86.6)	(66.7)	(72.2)	(52.1)
<b>Total liabilities</b>	<b>(60.6)</b>	<b>(25.7)</b>	<b>(61.6)</b>	<b>(79.7)</b>	<b>(97.3)</b>	<b>(78.1)</b>	<b>(81.0)</b>	<b>(64.9)</b>
<b>Net assets</b>	<b>37.2</b>	<b>72.1</b>	<b>35.6</b>	<b>25.0</b>	<b>31.5</b>	<b>46.6</b>	<b>51.0</b>	<b>69.7</b>

Source: Company reports

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