

Games Workshop

Exceptional start to FY21

Games Workshop's (GAW) Q121 trading update was well ahead of expectations, indicating that the previously flagged strong post-lockdown demand has continued, helped by a major product re-release in the period. We upgrade our FY21e PBT forecast by 37% to £115.9m, reflecting higher revenue growth, c 12% versus 2% previously, and a higher operating margin pre-royalties of c 35% versus 27% previously. On our new forecasts the P/E for FY21 is 35.2x. The EV/sales multiple of 10.6x is a premium to GAW's previous highest multiple.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/19	256.6	81.3	200.8	155	49.5	1.6
05/20	269.7	89.4	217.8	145	45.6	1.5
05/21e	302.5	115.9	282.4	200	35.2	2.0
05/22e	322.2	125.1	304.9	220	32.6	2.2

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

Q121: Demand continues unabated

GAW's Q121 revenue growth of 15% y-o-y to c £90m was driven by Trade and Online, while Retail (40% of revenue) declined given the gradual re-opening of locations post COVID-19 and lower footfall. Demand was helped by the new Warhammer 40,000 release, Indomitux, in July. Gross margin improvements, helped by channel mix and phasing of product releases fed through to a much-improved operating profit pre-royalties, which increased by c 60% to c £45m, a margin of c 50%. The quarterly figures highlight the variability in operating margin due the phasing of releases etc (Q120 36%, Q220 29%). Royalty income of £3m grew from £2m in the comparative period. We believe that cash flow generation improved as evidenced by the 50p dividend declared.

FY21: PBT estimate increased by 37%

We increase our FY21 estimates for revenue by c 10% to £302.5m (y-o-y growth of 12%) and PBT by 37% to £115.9m (growth of 30%). We assume higher growth for Trade of c 15% and Online c 30%, and a lower decline for Retail of 8%. Our assumption for the gross margin increases to 72.7% (67.0% in FY20) and the operating margin pre-royalties increases to 34.8% (27.1% in FY20). We retain our assumption for royalty income of £11m in FY21.

Valuation: Looking for further upgrades

The share price has performed strongly in 2020 as the company has traded through COVID-19 much better than expected. On our updated forecast the P/E multiple for FY21 is 35.2x. The EV/sales multiple for FY21 is 10.6x, a premium to the previous high achieved in FY20 of 9.5x, which could suggest that the current share price is discounting further upgrades in market estimates.

Q121 trading statement

Consumer goods

11 September 2020

Price 9,930p
Market cap £3,245m

Net cash (£m) at May 2020 (excluding lease liabilities)	52.9
Shares in issue	32.7m
Free float	95%
Code	GAW
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	6.6	29.0	117.9
Rel (local)	7.3	34.6	159.4
52-week high/low	9,750p	3,590p	

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

H121 trading update	December 2020
Interim results	January 2021

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Exhibit 1: Financial summary

Year-end 31 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	302.5	322.2
Cost of sales		(37.0)	(37.4)	(43.7)	(64.2)	(83.3)	(89.1)	(82.7)	(87.3)
Gross profit		82.1	80.6	114.4	157.1	173.3	180.6	219.8	234.9
SG&A (expenses)		(67.2)	(69.7)	(83.6)	(92.4)	(103.4)	(107.4)	(114.4)	(121.4)
Other operating income/(expense)		1.5	5.9	7.5	9.6	11.4	16.8	11.0	12.1
Exceptionals and adjustments		0	0	0	0	0	0	0	0
EBITDA (excl royalties)		26.0	21.3	41.8	76.8	85.7	98.8	132.7	142.4
EBITDA		27.5	27.3	49.3	86.5	97.1	115.6	143.7	154.5
Depreciation and amortisation		(11.1)	(10.4)	(11.0)	(12.1)	(15.9)	(25.6)	(27.3)	(28.9)
Operating profit (before royalties and exceptionals)		14.9	10.9	30.8	64.7	69.8	73.2	105.4	113.4
Reported operating profit		16.5	16.9	38.3	74.3	81.2	90.0	116.4	125.5
Finance income/(expense)		0.1	0.1	0.1	(0.0)	0.1	(0.6)	(0.5)	(0.4)
Reported PBT		16.6	16.9	38.4	74.3	81.3	89.4	115.9	125.1
Income tax expense (includes exceptionals)		(4.3)	(3.5)	(7.9)	(14.8)	(15.5)	(18.1)	(23.5)	(25.3)
Adjusted net income		12.2	13.5	30.5	59.5	65.8	71.3	92.4	99.8
Reported net income		12.3	13.5	30.5	59.5	65.8	71.3	92.4	99.8
WASC (m)		31.975	32.093	32.126	32.258	32.438	32.602	32.602	32.602
Diluted average number of shares (m)		32.025	32.150	32.325	32.732	32.785	32.736	32.736	32.736
Reported EPS (p)		38.3	42.1	95.1	184.3	202.9	218.7	283.6	306.1
Reported diluted EPS (p)		38.3	42.0	94.5	181.6	200.8	217.8	282.4	304.9
Adjusted diluted EPS (p)		38.1	42.0	94.5	181.6	200.8	217.8	282.4	304.9
DPS (p)		52.0	40.0	74.0	126.0	155.0	145.0	200.0	220.0
Gross margin		69.0%	68.3%	72.4%	71.0%	67.5%	67.0%	72.7%	72.9%
EBITDA margin (excl royalties)		21.8%	18.1%	26.5%	34.7%	33.4%	36.6%	43.9%	44.2%
EBITDA margin (incl royalties)		23.1%	23.1%	31.2%	39.1%	37.8%	42.9%	47.5%	48.0%
Operating margin (before royalties and exceptionals)		12.5%	9.2%	19.5%	29.2%	27.2%	27.1%	34.8%	35.2%
BALANCE SHEET									
Property, plant and equipment		22.7	22.6	22.1	30.1	35.3	42.0	34.8	26.8
Right-of-use assets							31.9	31.9	31.9
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	19.4	20.8
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	103.9	97.4
Cash and equivalents		12.6	11.8	17.9	28.5	29.4	52.9	74.9	108.6
Inventories		7.6	8.5	12.4	20.2	24.2	20.7	19.2	20.3
Trade and other receivables		9.4	10.1	13.0	15.5	18.8	19.6	22.0	23.4
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	116.3	152.5
Trade and other payables		(13.1)	(12.8)	(16.5)	(20.3)	(19.2)	(30.3)	(20.0)	(21.1)
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)	(33.9)
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)	(23.6)	(23.6)
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)	(25.7)	(25.7)
Net assets		51.5	53.2	62.8	89.3	106.5	133.7	161.7	190.3
CASH FLOW STATEMENT									
EBIT		16.5	16.9	38.3	74.3	81.2	90.0	116.4	125.5
Depreciation and amortisation		11.1	10.4	10.2	12.2	15.9	25.0	27.3	28.9
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	(11.2)	(1.4)
Income taxes paid		(2.3)	(2.6)	(5.5)	(12.2)	(16.3)	(22.7)	(23.5)	(25.3)
Operating cash flow		23.3	24.2	43.9	70.1	72.5	104.5	109.5	128.3
Net capex and intangibles		(12.3)	(12.7)	(12.8)	(21.6)	(22.5)	(24.6)	(21.8)	(22.4)
Net interest		0.1	0.1	0.1	(0.0)	0.1	0.1	(0.5)	(0.4)
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)	(65.2)	(71.7)
Other financing activities		0.0	0.0	(1.9)	0.0	0.0	(10.3)	0.0	0.0
Net cash flow		(4.8)	(0.9)	5.5	10.7	0.5	23.2	22.0	33.7
Opening cash and cash equivalents		17.6	12.6	11.8	17.9	28.5	29.4	52.9	74.9
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	74.9	108.6
Closing net cash (including leases)		12.6	11.8	17.9	28.5	29.4	20.8	43.0	76.7

Source: Company accounts, Edison Investment Research

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