

# Games Workshop Group

Interim results

‘Record sales and profit’ again

Games Workshop’s (GAW) interim results are ahead of expectations. The highest rates of revenue growth were achieved in the channels with the highest operating margins, ie Trade (40% margin) and Online (64% margin). This has produced a strong improvement in free cash flow generation and ROCE has improved from 96% to 111%. We upgrade our forecasts for FY20 and FY21 by a further 3% following the 9% upgrade in November. Our DCF-based valuation increases by 11% to 5,748p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/18	221.3	74.3	181.6	126	38.3	1.8
05/19	256.6	81.3	200.8	155	34.7	2.2
05/20e	286.4	95.6	235.8	182	29.5	2.6
05/21e	300.8	101.3	250.0	193	27.8	2.8

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## H120 results: Revenue growth & operational gearing

GAW’s interim results highlighted growth in revenue of c19%, operating profit pre-royalties of c 37%, and PBT growth of c 44%. Revenue of £148.4m and PBT of £58.6m compare to figures indicated for the interims, at the trading statement in November 2019, of not less than £140m and £55m, respectively. By channel, constant currency revenue growth was strongest in the highest-margin channels: Trade (revenue growth of c 24%) and Online (c 14% on an easy comparative of -3.6%) and was lowest in Retail (c 6%), giving a gross margin change y-o-y of 2.5pp to 69.5% and an operating margin change (pre-royalties) of 4.5pp to 32.7%. The drop-through of incremental revenue to gross profit was high at c 83%. Royalty income, likely to become a larger source of income over the longer term with the strategy of further exploiting brands, albeit likely to be lumpy and difficult to predict, grew by 94%. The higher operating margin, better control of working capital, and lower capex and investment (relative to sales) led to an improvement in free cash flow generation (relative to sales) of 19.6% in H120 versus 13.6% in H119. Cumulative dividend announcements so far in FY20 are 145p versus 155p for the whole of FY19.

## Forecasts: Upgraded by 3% for FY20 and FY21

Following upgrades of 9% after the [trading update](#) in November 2019, we upgrade our forecast PBT for FY20 and FY21 by 3% to reflect the H120 performance and now incorporate IFRS 16, which does not affect operating profit but adds a net interest charge of £1.2m in both years. IFRS 16 increases fixed assets and total liabilities by £29m.

## Valuation: DCF-based valuation increases by 11%

The shares have performed strongly since the last trading update in November. Our DCF-based share price target increases by 11% to 5,748p given the forecast upgrades, improved cash flow generation and rolling forward the DCF.

### Consumer goods

15 January 2020

**Price** 6,960p  
**Market cap** £2,262m

Net cash (£m) at 1 December 2019 (post IFRS 16) 4.5

Shares in issue 32.5m

Free float 95%

Code GAW

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	22.3	51.4	121.0
Rel (local)	18.4	42.3	96.7
52-week high/low	6,960p		2,800p

### 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

Full-year trading update	June 2020
Preliminary results	July 2020

### Analysts

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**Exhibit 1: Financial summary**

Accounts: IFRS, year-end: May, £000s	2016	2017	2018	2019	2020e	2021e
<b>INCOME STATEMENT</b>						
Total revenues	118,069	158,114	221,304	256,574	286,357	300,780
Cost of sales	(37,438)	(43,691)	(64,219)	(83,306)	(88,389)	(91,337)
Gross profit	80,631	114,423	157,085	173,268	197,968	209,443
Gross profit margin	68.3%	72.4%	71.0%	67.5%	69.1%	69.6%
SG&A (expenses)	(69,710)	(83,591)	(92,383)	(103,434)	(114,812)	(120,552)
Other income/(expense)	5,939	7,491	9,617	11,365	13,608	13,608
Exceptionals and adjustments	0	0	0	0	0	0
Reported EBIT	16,860	38,323	74,319	81,199	96,764	102,499
Report EBIT margin	14.3%	24.2%	33.6%	31.6%	33.8%	34.1%
Finance income/(expense)	88	80	(49)	97	(1,200)	(1,200)
Reported PBT	16,948	38,403	74,270	81,296	95,564	101,299
Income tax expense (includes exceptionals)	(3,452)	(7,856)	(14,815)	(15,475)	(18,191)	(19,283)
Reported net income	13,496	30,547	59,455	65,821	77,373	82,016
Diluted average number of shares, m	32,150	32,325	32,732	32,785	32,810	32,810
Adjusted diluted EPS (p)	42.0	94.5	181.6	200.8	235.8	250.0
Adjusted EBITDA	27,250	48,547	86,482	97,089	124,317	130,737
Adjusted EBIT	16,860	38,323	74,319	81,199	96,764	102,499
Adjusted PBT	16,948	38,403	74,270	81,296	95,564	101,299
Adjusted EPS (p)	42	95	184	203	239	253
Adjusted diluted EPS (p)	42	94	182	201	236	250
<b>BALANCE SHEET</b>						
Property, plant and equipment	22,621	22,132	30,072	35,303	30,585	19,528
Right-of-use assets				0	29,022	29,022
Goodwill	1,433	1,433	1,433	1,433	1,433	1,433
Intangible assets	10,501	12,917	14,195	16,004	14,669	13,988
Other non-current assets	4,148	6,480	7,780	11,667	11,667	11,667
Total non-current assets	38,703	42,962	53,480	64,407	57,354	46,616
Cash and equivalents	11,775	17,910	28,545	29,371	50,432	80,607
Inventories	8,540	12,421	20,159	24,192	26,784	27,678
Trade and other receivables	10,120	12,976	15,502	18,796	20,978	22,034
Other current assets	725	596	457	814	814	814
Total current assets	31,160	43,903	64,663	73,173	99,008	131,133
Other non-current liabilities	1,109	989	1,204	1,854	22,790	22,790
Total non-current liabilities	1,109	989	1,204	1,854	22,790	22,790
Trade and other payables	12,844	16,515	20,298	19,199	20,370	21,050
Other current liabilities	2,747	6,529	8,519	10,054	10,054	10,054
Total current liabilities	15,591	23,044	28,817	29,253	38,510	39,190
Equity attributable to company	53,163	62,832	88,122	106,473	125,084	144,792
<b>CASH FLOW STATEMENT</b>						
EBIT	16,860	38,323	74,319	81,199	96,764	102,499
Depreciation and amortisation	10,457	11,016	12,155	16,086	18,331	19,016
Share based payments	193	160	204	339	339	339
Other adjustments	28	111	40	144	0	0
Movements in working capital	(756)	(240)	(4,386)	(8,992)	(3,603)	(1,271)
Interest paid/received	83	83	(39)	97	(1,200)	(1,200)
Income taxes paid	(2,552)	(5,482)	(12,227)	(16,296)	(18,191)	(19,283)
Cash from operations (CFO)	24,313	43,971	70,066	72,577	101,662	109,323
Capex	(12,663)	(12,844)	(21,580)	(22,488)	(21,500)	(16,500)
FCF	11,650	31,127	48,486	50,089	80,162	92,823
Cash used in investing activities (CFIA)	(12,663)	(12,844)	(21,580)	(22,488)	(21,500)	(16,500)
Net proceeds from issue of shares	304	81	982	718	0	0
Dividends paid	(12,837)	(23,801)	(38,701)	(50,277)	(59,101)	(62,647)
Other financing activities	0	(1,901)	0	0	0	0
Cash from financing activities (CFF)	(12,533)	(25,621)	(37,719)	(49,559)	(59,101)	(62,647)
Increase/(decrease) in cash and equivalents	(883)	5,506	10,767	540	21,061	30,175
Cash and equivalents at end of period	11,775	17,910	28,545	29,371	50,432	80,607
Net (debt)/cash	11,775	17,910	28,545	29,371	21,410	51,585
Movement in net (debt)/cash over period	(786)	6,135	10,635	826	(7,961)	30,175

Source: Company accounts, Edison Investment Research

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