

# Games Workshop Group

Trading update

## Strong five-month trading update

Games Workshop (GAW) has published a trading statement for the first five months of FY20, highlighting an acceleration in revenue growth to c 12% (versus our previous forecast for the year of c 4%), strong margin growth and encouraging signs with respect to its ability to leverage its intellectual property through royalty income. Our PBT estimates increase by c 9% for FY20 and FY21, and our DCF-based valuation increases by 10% to 5,176p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
05/18	221.3	74.3	181.6	126	28.0	2.5
05/19	256.6	81.3	200.8	155	25.3	3.0
05/20e	278.5	92.7	228.8	177	22.2	3.5
05/21e	292.5	98.2	242.5	187	21.0	3.7

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

## Five-month trading update: A strong start

GAW has published a trading statement for the five-month period ending 3 November 2019. Sales for H120 will be not less than £140m and profit before tax will be not less than £55m. This implies revenue growth of c 12% (from £125.2m in H119) and PBT growth of c 35% (from £40.8m in H119). There is no detail on the relative performance of the three reportable segments: Trade, Retail and Online. Royalty income is 'significantly ahead' of the prior year; we assume this means being just less than double the £5.5m of H119 at c £10.5m in H120, representing £5.0m of the incremental c £14.5m of PBT. This is due to the timing of signing licences and the change in accounting standard, making income more lumpy. Therefore, the incremental sales of at least £14.8m (£140m - £125.2m) generated an incremental PBT (ex-royalty income) of £9.5m (£14.5m - 5.0m). This implies better than average growth for the higher-margin segments, Trade and Online.

## Forecasts: Upgraded by 9% for FY20 and FY21

In the absence of detailed disclosure until the interim results, we assume that all three segments grow by c 12% in H120. We continue to assume similar revenue growth in H220 to previously, ie underlying growth of c 5% for Trade and Retail. Our gross margin assumption increases to 69.4% for FY20 versus 68% previously. We cautiously assume lower royalty income year-on-year in H220 than H219 given the strong performance in H120, ie FY20 increases to £13.4m from £11.4m previously. As a result, our PBT forecast for FY20 increases from £85.2m to £92.7m, and for FY21 from £89.8m to £98.2m, increases of c 9%. EPS in FY20 increases from 210.3p to 228.8p, and in FY21 increases from 221.7p to 242.5p.

## Valuation: DCF-based valuation increases by 10%

The shares had marginally underperformed the wider market over the last three months, having performed strongly earlier in the year. At 5,085p, the P/E is 22.2x for FY20e and 21.0x for FY21e. Our DCF-based valuation increases to 5,176p from 4,703p. We forecast FY20 net cash of £41.5m, supporting the 3.5% dividend yield.

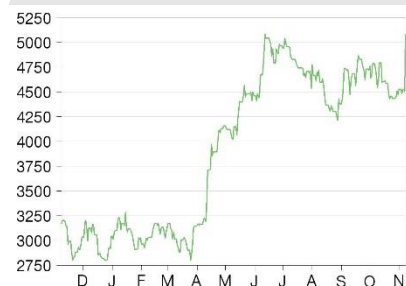
Consumer goods

8 November 2019

**Price** **5,085p**  
**Market cap** **£1,649m**

Net cash (£m) at 2 June 2019	29.4
Shares in issue	32.4m
Free float	95%
Code	GAW
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(5.0)	(3.4)	43.7
Rel (local)	(8.0)	(6.8)	37.8
52-week high/low		5,085p	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

Interim results	January 2020
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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	278,472	292,503
Cost of sales	(37,438)	(43,691)	(64,219)	(83,306)	(85,147)	(87,975)
Gross profit	80,631	114,423	157,085	173,268	193,324	204,528
Gross profit margin	68.3%	72.4%	71.0%	67.5%	69.4%	69.9%
SG&A (expenses)	(69,710)	(83,591)	(92,383)	(103,434)	(114,173)	(119,926)
Other income/(expense)	5,939	7,491	9,617	11,365	13,369	13,369
Exceptionals and adjustments	0	0	0	0	0	0
Reported EBIT	16,860	38,323	74,319	81,199	92,519	97,970
Report EBIT margin	14.3%	24.2%	33.6%	31.6%	33.2%	33.5%
Finance income/(expense)	88	80	(49)	97	139	234
Reported PBT	16,948	38,403	74,270	81,296	92,658	98,204
Income tax expense (includes exceptionals)	(3,452)	(7,856)	(14,815)	(15,475)	(17,638)	(18,694)
Reported net income	13,496	30,547	59,455	65,821	75,020	79,511
Basic average number of shares, m	32,093	32,126	32,258	32,438	32,438	32,438
Basic EPS (p)	42.1	95.1	184.3	202.9	231.3	245.1
Adjusted EBITDA	27,250	48,547	86,482	97,089	110,850	116,986
Adjusted EBIT	16,860	38,323	74,319	81,199	92,519	97,970
Adjusted PBT	16,948	38,403	74,270	81,296	92,658	98,204
Adjusted EPS (p)	42	95	184	203	231	245
Adjusted diluted EPS (p)	42	94	182	201	229	243
<b>BALANCE SHEET</b>						
Property, plant and equipment	22,621	22,132	30,072	35,303	39,807	37,971
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	67,576	65,060
Cash and equivalents	11,775	17,910	28,545	29,371	41,467	61,867
Inventories	8,540	12,421	20,159	24,192	25,802	26,659
Trade and other receivables	10,120	12,976	15,502	18,796	20,400	21,428
Other current assets	725	596	457	814	814	814
Total current assets	31,160	43,903	64,663	73,173	88,484	110,768
Other non-current liabilities	1,109	989	1,204	1,854	1,854	1,854
Total non-current liabilities	1,109	989	1,204	1,854	1,854	1,854
Trade and other payables	12,844	16,515	20,298	19,199	19,623	20,275
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	29,677	30,329
Equity attributable to company	53,163	62,832	88,122	106,473	124,528	143,644
<b>CASH FLOW STATEMENT</b>						
EBIT	16,860	38,323	74,319	81,199	92,519	97,970
Depreciation and amortisation	10,457	11,016	12,155	16,086	18,331	19,017
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)	(2,790)	(1,233)
Interest paid / received	83	83	(39)	97	139	234
Income taxes paid	(2,552)	(5,482)	(12,227)	(16,296)	(17,638)	(18,694)
Cash from operations (CFO)	24,313	43,971	70,066	72,577	90,900	97,633
Capex	(12,663)	(12,844)	(21,580)	(22,488)	(21,500)	(16,500)
FCF	11,650	31,127	48,486	50,089	69,400	81,133
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)	(57,304)	(60,734)
Other financing activities	0	(1,901)	0	0	0	0
Cash from financing activities (CFF)	(12,533)	(25,621)	(37,719)	(49,559)	(57,304)	(60,734)
Increase/(decrease) in cash and equivalents	(883)	5,506	10,767	540	12,096	20,399
Cash and equivalents at end of period	11,775	17,910	28,545	29,371	41,467	61,867
Net (debt)/cash	11,775	17,910	28,545	29,371	41,467	61,867
Movement in net (debt)/cash over period	(786)	6,135	10,635	826	12,096	20,399

Source: Company accounts, Edison Investment Research

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