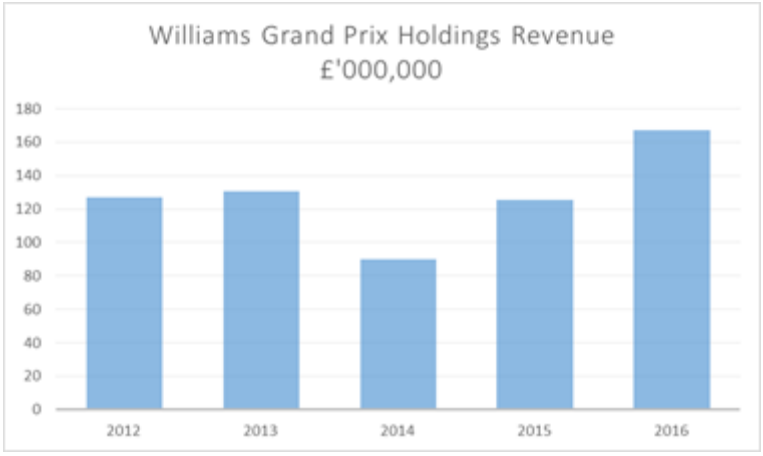
Williams Grand Prix Holdings PLC

Williams Grand Prix Holdings PLC is a British racing team and engineering firm based in Oxfordshire comprised of two main divisions. Williams Advanced Engineering (WAE) is one arm of the Williams group whose main aim is to provide industry-leading innovation and manufacturing to key sectors including defence, motorsport, healthcare and automotive. The other arm of Williams is the Formula One racing team. Since its establishment in 1977, Williams Formula One has had great success, achieving 16 FIA (Federation Internationale de l'Automobile) Formula One World Championship titles and currently being the third most successful team on the grid. It must be noted that Williams is unique in Formula One as it is the only publicly traded team. The reason being that F1 teams rarely generate sufficient revenues to cover their costs and have a surplus large enough to justify paying out dividends, as any surplus is usually plowed back into the team in the form of research and development.

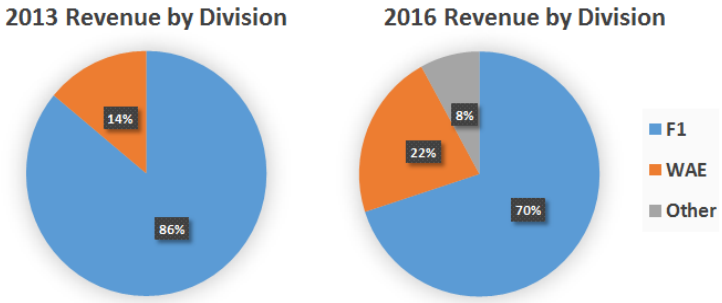
Following an IPO in March 2011, Williams' revenue has averaged £128 million in the 5 following fiscal years. Operating a Formula One team has allowed and continues to allow Williams to increase its brand awareness, whilst also generating significant revenue for the firm. Overall in 2013, F1 generated around £1.2 billion in commercial revenues, of which £520 million was distributed to the teams. Roughly half of this cash fund is shared equally, while the other half is allocated according to where the team finished in the championship. On top of these commercial revenues, individual teams can bring in their own sponsorship, merchandising, and corporate revenues. One significant sponsor for Williams, is Martini - whose contribution to the team is estimated at £11 million annually.



In 2014 there was a 35% drop in revenue to £90 million, this was mainly due to a deterioration in performance by the Formula One team throughout 2013, which resulted in 9th place in the Constructors Championship. The Constructors Championship is where the points from each driver are added together to give a season-long running total, and is the best indicator of a team's racing success for that season. Following Williams' 9th place in 2013, 2014's revenue declined due to lower commercial rights and partnership income. Williams, however, bounced back in the following two years, with two consecutive 3rd place-rankings followed by three 5th place-rankings in 2015, 2016, and 2017 as well.

Williams Advanced Engineering

Williams Advanced Engineering division, (WAE), is becoming an increasingly important contributor to Williams revenue. In 2016, WAE saw a 74% growth in divisional revenue. Williams' key infrastructure investments in 2014 have been the main driver of this change. The investments included relocating to a new facility, as well as moving into new industries such as defense, aerospace and energy. WAE's value looks set to further increase given Williams' key engineering expertise lies in energy and lightweight composite materials. The IEA (International Energy Agency) estimates that there will be 140m electric cars by 2030 globally, given current trends. Notably, Williams has recently been awarded a £100m contract by the Advanced Propulsion Centre to build a factory in the UK and create a battery production system for electric vehicles. This places WAE in a highly advantageous position to become a key player of the electrification of the automobile market, seeing as they can distribute their intellectual property and seize new opportunities.



One more example of WAE's recent innovations comes from a business partnership with Sainsbury's, the second largest supermarket chain in the UK. Sainsbury's have incorporated the Aerofoil system, inspired by the aerodynamically efficient rear wing on their racecar. This is soon to be integrated in refrigerators across all of the 1400 Sainsbury stores in the UK. This will save 44 million kWh per annum. Another example of WAE's advancements has come in energy efficient transportation.

Williams has gained valuable knowledge and data from ventures in Formula 1 and Formula E, which it is now employing to solve challenges in racing and the development of road-car electric vehicle technology. Although WAE's involvement in the car arena is confidential, evidence of their impressive progress, however, can be found in pre-production vehicles such as the Aston Martin RapidE fully-electric concept car (set to enter production in 2019) and the Dendrobium hypercar. Both projects represent the strides Williams is making in road cars, thanks to their involvement in Formula E. Furthermore, independent of major automotive partnerships, WAE has introduced a lightweight EV platform concept, named the FW-EVX. This maximizes efficiency by 40% in comparison to conventional bodies and has the potential to be employed in various cars. This

major move towards supplying EV technologies for major manufacturers, such as Jaguar and Nissan, has driven the share price up by 1-2 % after press releases.

Risks

There are many market risks which Williams is prone to, including exchange risk, liquidity risk, interest rate risk and credit risk. In terms of firm-specific risk, the key driver in the Williams share price is sensitivity to earnings announcements. When expectations either fall short of or exceed realized earnings, this causes higher trade volumes than normal in response.

Williams has not paid dividends to date. This indicates the future stock price will be determined by Williams' capacity to start paying dividends. Currently Williams is heavily reinvesting their earnings into research and development. This is realising numerous innovations. This decision shows Williams is taking the necessary steps to increase shareholder returns in the near future, as WAE streams of revenue continue to increase. Williams may find themselves in a position to offer dividends from profits earned not only in F1, but from WAE as well.

Williams generates relatively consistent revenues from their involvement in F1, totaling approximately £100m each year. However, F1's ability to continue this should be questioned given its decrease in viewing figures. F1 viewing figures have decreased by 17% between 2011 and 2015. This poses significant risk to Williams as sponsorship revenue would decrease if this trend continues. However, Williams is heavily engaged in the new Formula E racing series. Williams has been manufacturing the 28kw lithium ion batteries that powered all 40 Formula E cars. With Williams rumoured to enter Formula E, a sport that has capped teams' operating budgets at £2.6m; compared with Williams' spend of £108 million to compete in Formula One in 2016, could serve as a hedge against the unpredictability of Formula 1.

Future Outlook

The FIA's proposed regulation changes for F1's power units, due to be implemented in 2021, present significant challenges for Williams. Mechanically, these will include the removal of the outdated turbo-based energy recovery system and in turn will place more emphasis on the kinetic energy recovery system. This is a profound change as the kinetic energy recovery system is similar to what is found in hybrid vehicles. Hybrid power systems are a key area of innovation for Williams and have been for over 2 years. This could be fundamental in improving Williams' current performance in F1 and also provide notable revenues for Williams Advanced Engineering.

Furthermore, the FIA has further plans to cut costs to benefit smaller teams including Williams. They are hoping to achieve this by standardizing components across all aspects of the car, such as engine specifications, energy storage systems and electronic controls. Customer-teams, who are teams that purchase and use engines from other manufacturers, are always marred by the additional expense of having to redesign the engine bay to accommodate the new manufacturers' engine. This, coupled with the standardization of external car measurements, could have a positive impact on Williams Formula One. The Formula One team should benefit from reduced costs. However, the new regulations stand to reduce the scope of innovative technical solutions, thus hampering the revenue generated by WAE. The management could potentially misinterpret regulations and put Williams behind their competitors. Although WAE might stand to lose revenue from reduced innovation in F1, WAE's divisional revenue is not solely reliant on F1. We believe the benefits from the standardization of components should outweigh any loss of revenue incurred by WAE and provide Williams overall with significant advantages.

Conclusion

As WAE continues to grow, this places Williams overall in a strong position going forward. This is supported by industry trends such as the increasing adoption of electric transportation. Williams also looks set to become more competitive in Formula One, given the reduction in costs that now allow mid-tier teams a fighting chance against the likes of Mercedes and Ferrari. Furthermore, Williams have a partial hedge against Formula One in Formula E which would provide a platform for innovation in WAE. We believe Formula E is primed for Williams to enter in an advantageous position. Given current projections, the Williams Group can be expected to derive sufficient revenue levels from all divisions to start paying dividends by 2021-2022. This would likely have a large positive impact on share prices. This puts investors in a favourable position in the midterm to BUY but based on recent prices no higher than 17.75.