

Game Digital

Trading update

Resilience over the peak trading period

Against a challenging retail landscape, Game Digital (GMD) delivered a solid sales performance and growth in higher-margin categories over the peak trading period, alongside ongoing cost efficiencies, which continue to counter trading pressures. Momentum in the BELONG roll-out, which accounts for a significant part of our 67p valuation, remains crucial.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
07/17	782.9	8.0	(4.3)	(3.7)	1.0	N/A	N/A	4.3
07/18	782.3	10.1	(3.5)	(3.7)	0.0	N/A	N/A	N/A
07/19e	778.4	12.2	(2.2)	(2.8)	0.0	N/A	N/A	N/A
07/20e	813.8	16.6	(1.2)	(2.1)	0.0	N/A	N/A	N/A

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

Peak trading: Solid sales and margin performance

Despite UK retail market headwinds, GMD delivered a solid performance over the peak seven weeks to 5 January. Group I-f-I sales strengthened to +2%, largely driven by +4.8% I-f-I in Spain, while the UK remained broadly flat. Group sales (GTV) declined by c 0.5% over the peak period and year to date, in line with our expectations for FY19. This reflects the cyclical nature of the games market, with a strong pipeline of new console launches expected in 2020. A cornerstone of GMD's success is its relationships with the major publishers and exclusive content in the new software releases. Robust demand for this higher-margin content and licensed merchandise and accessories, alongside a disciplined approach to discounting resulted in an improved trading margin over the peak period.

BELONG: Roll-out pace expected to accelerate in H2

Almost a year into GMD's collaboration with Sports Direct, the roll-out of BELONG remains a key strategic objective for both parties. In the year to date, two arenas have opened and are trading well compared to similar arenas. We continue to assume 20 openings in FY19, significantly weighted towards H2.

Forecasts unchanged, further cost savings targeted

Taking into account the solid UK performance plus robust sales growth in Spain, growth in higher-margin categories and ongoing cost savings over the peak period, we leave our forecasts unchanged. GMD has made significant inroads into its cost transformation programme. FY19 will benefit from annualised cost savings of £6m delivered in H218, in addition to lease renegotiations, payroll and other efficiencies.

Valuation: 190% valuation upside

Our blended peer group (including GameStop and UK specialist interest operators) and DCF valuation of GMD is unchanged at 67p. This represents a c 190% premium to the current share price, which is less than its net cash of 33p per share.

Retail

17 January 2019

Price 23p
Market cap £40m

Net cash (£m), net of financial liabilities, at 29 July 2018 56.8

Shares in issue 172.9m

Free float 73%

Code GMD

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.4) (23.4) (52.9)

Rel (local) (7.3) (21.0) (46.8)

52-week high/low 48.1p 21.9p

Business description

Game Digital is the leading multichannel specialist retailer of video games in the UK and Spain, with 276 stores in the UK, 267 stores in Spain and over 30% market share.

Next events

Interim results March 2019

Analysts

Kate Heseltine +44 (0)20 3077 5700

Paul Hickman +44 (0)20 3681 2501

consumer@edisongroup.com

[Edison profile page](#)

Game Digital is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

Accounts: IFRS, Year-end: July, £m	2015	2016	2017	2018	2019e	2020e	2021e
PROFIT AND LOSS STATEMENT							
Total revenues	866.6	821.9	782.9	782.3	778.4	813.8	828.0
Cost of sales	(652.9)	(612.7)	(577.8)	(586.1)	(577.9)	(605.7)	(612.8)
Gross profit	213.7	209.2	205.1	196.2	200.5	208.0	215.2
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals and adjustments	(12.2)	(12.9)	(5.7)	(3.9)	(9.2)	(9.2)	(1.9)
Depreciation and amortisation	(8.5)	(10.5)	(11.0)	(12.3)	(13.5)	(16.5)	(19.4)
Reported EBIT	26.2	3.0	(8.7)	(6.1)	(10.5)	(9.0)	(3.5)
Finance income/(expense)	(0.4)	(1.1)	(1.3)	(1.3)	(0.9)	(1.4)	(2.1)
Exceptionals and adjustments	(3.7)	(3.8)	3.9	5.3	0.0	0.0	0.0
Reported PBT	25.8	1.9	(10.0)	(7.4)	(11.4)	(10.4)	(5.6)
Income tax expense (includes exceptionals)	(4.4)	1.3	(2.1)	(2.8)	(2.5)	(2.5)	(1.6)
Reported net income	21.4	3.2	(12.1)	(10.2)	(14.0)	(12.9)	(7.2)
Basic average number of shares, m	168.3	168.9	169.7	170.8	172.9	172.9	172.9
Basic EPS (p)	12.7	1.9	(7.1)	(6.0)	(8.1)	(7.5)	(4.2)
Dividend per share (p)	14.7	3.4	1.0	0.0	0.0	0.0	0.0
Adjusted EBITDA	46.9	26.4	8.0	10.1	12.2	16.6	17.8
Adjusted EBIT	38.4	15.9	(3.0)	(2.2)	(1.3)	0.2	(1.6)
Adjusted PBT	38.0	14.8	(4.3)	(3.5)	(2.2)	(1.2)	(3.7)
Adjusted diluted EPS, p	18.5	10.7	(3.7)	(3.7)	(2.8)	(2.1)	(3.1)
BALANCE SHEET							
Property, plant and equipment	19.2	16.8	17.2	16.1	20.6	21.3	19.3
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	61.0	56.7	47.5	24.0	15.6	1.9	0.0
Other non-current assets	0.2	2.2	2.5	1.7	1.7	1.7	1.7
Total non-current assets	80.4	75.7	67.2	41.8	37.9	24.9	21.0
Cash and equivalents	63.1	48.8	47.2	58.7	64.2	73.0	81.4
Inventories	66.8	76.1	81.2	78.0	76.9	79.0	79.9
Trade and other receivables	17.8	20.4	23.5	20.0	19.9	20.8	21.2
Other current assets	0.9	8.8	1.7	0.9	0.0	0.0	0.0
Total current assets	148.6	154.1	153.6	157.6	161.0	172.8	182.4
Non-current loans and borrowings	0.1	3.1	2.6	1.1	12.1	22.2	32.4
Other non-current liabilities	5.7	4.4	2.8	1.9	1.9	1.9	1.9
Total non-current liabilities	5.8	7.5	5.4	3.0	14.0	24.1	34.3
Trade and other payables	93.8	90.7	101.6	96.1	93.2	97.7	98.8
Current loans and borrowings	0.0	7.2	2.0	0.8	0.0	0.0	0.0
Other current liabilities	3.2	1.3	2.6	1.0	1.0	1.0	1.0
Total current liabilities	97.0	99.2	106.2	97.9	94.2	98.7	99.8
Equity attributable to company	126.2	123.1	109.2	98.5	90.8	75.0	69.4
CASH FLOW STATEMENT							
Cash from operations (CFO)	44.1	3.2	9.1	7.9	9.5	17.3	17.6
Capex	(11.3)	(13.3)	(11.6)	(6.9)	(17.0)	(17.2)	(17.3)
Acquisitions & disposals net	(12.4)	(1.5)	13.3	12.5	1.9	0.0	0.0
Other investing activities	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Cash used in investing activities (CFIA)	(23.9)	(14.8)	1.7	5.6	(15.1)	(17.2)	(17.3)
Net proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Movements in debt	(1.5)	1.5	0.0	0.0	0.0	0.0	0.0
Other financing activities	(37.8)	(13.9)	(4.3)	(1.8)	(0.9)	(1.4)	(2.1)
Cash from financing activities (CFF)	(39.3)	(12.4)	(4.3)	(1.8)	(0.9)	(1.4)	(2.1)
Increase/(decrease) in cash and equivalents	(19.1)	(24.0)	6.5	11.7	(6.5)	(1.3)	(1.8)
Currency translation differences and other	(3.1)	1.0	0.6	(0.2)	0.0	0.0	0.0
Cash and equivalents at end of period	63.1	40.1	47.2	58.7	52.1	50.8	49.1
Net (debt) cash	63.0	38.5	42.6	56.8	52.1	50.8	49.1
Movement in net (debt) cash over period	63.0	(24.5)	4.1	14.2	(4.7)	(1.3)	(1.8)

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Game Digital and prepared and issued by Edison, in consideration of a fee payable by Game Digital. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia