

Game Digital

Good seasonal trading

23-week trading update

Retail

11 January 2018

Price **60.40p**
Market cap **£103m**

Net cash* (£m) at end July 2017 59.7
 *Adjusted for £17.1m completion proceeds of Multiplay Digital disposal

Shares in issue 170.9m

Free float 25%

Code GMD

Primary exchange LSE

Secondary exchange N/A

Game Digital (GMD) has posted good sales growth over its first 23 weeks and even better results over the Christmas peak. While sales have been led by hardware, management is confident of covering any mix issue through cost savings, and we retain our forecast. With net cash at 35p, the market is valuing this business at 3.5x FY18e EBITDA, which looks misplaced.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
07/16*	821.9	26.4	14.8	10.7	3.4	5.6	2.4	5.7
07/17e	782.9	8.0	(4.3)	(3.7)	1.0	N/A	5.4	1.7
07/18e	793.2	12.3	0.2	0.1	0.0	648.0	3.5	N/A
07/19e	796.3	15.0	1.9	0.9	0.0	69.1	2.8	N/A

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

Strong headline trading for 23 weeks

Group GTV for the 9.5-week peak trading period (1 November to 6 January) was up by 5.2%, and for the full 23-week period 3.8%. That is a good result in the context of the current retail landscape, and consistent with our forecast GTV growth total for FY18. It also indicates that trading was strong for the period as a whole, as the earlier period averages growth close to 3%, we estimate. Growth was driven by hardware, particularly the Nintendo Switch and the Xbox One X, where GMD has been stocked to satisfy demand throughout the year to date, unlike FY17.

Forecast unchanged despite mix

GMD reports that the mix bias to hardware has a negative margin effect of c 1%. Although new models attract the best hardware margins, these are lower than GMD's overall margin. The company expects to cover the mix issue through further cost savings. It is extending its existing FY18 cost savings programme of c £4m, and plans additional savings. We retain our forecast.

Experiential progress

The experiential change strategy is on track. BELONG gaming arenas have grown utilisation levels from 21.3% in Q4 last year to 28.2%. There were no redevelopments over the busy Christmas period, but further openings are planned from February. In addition, the latest gaming festival, Insomnia 62, is scheduled for the Easter weekend, to include Call of Duty World League: Birmingham Open, GMD's largest esports event to date. Insomnia attracts audiences of up to 155,000.

Valuation: 3.5x EBITDA looks wrong

Cash benefited from the £17m (90%) completion proceeds from the November sale of the Multiplay Digital business, which is the main factor in a £24m year-on-year increase in cash to £67m at end December 2017. Net cash at year end plus the full proceeds of Multiplay Digital is 35p per share. On this basis the market values the business at only 3.5x FY18e EBITDA, which we feel is misplaced, even taking into account the execution risks ahead. As we are not changing our forecast, we retain our 80p valuation, which is a blend of DCF, peer comparison and sum-of-the-parts.

Share price performance



%	1m	3m	12m
Abs	11.9	67.8	4.1
Rel (local)	6.9	63.1	(3.4)
52-week high/low	61.5p	19.2p	

Business description

Game Digital is the leading omni-channel specialist retailer of video games in the UK and Spain, with 304 stores in the UK, 268 stores in Spain and over 30% market share.

Next events

Interim results 27 March 2018

Analysts

Paul Hickman +44 (0)20 3681 2501
 Neil Shah +44 (0)20 3077 5715

consumer@edisongroup.com

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Game Digital is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

Accounts: IFRS, Year-end: July, £m	2015	2016*	2017e	2018e	2019e	2020e
Profit and Loss statement						
Total revenues	866.6	821.9	782.9	793.2	796.3	920.4
Cost of sales	(652.9)	(612.7)	(577.8)	(586.8)	(589.1)	(691.2)
Gross profit	213.7	209.2	205.1	206.4	207.2	229.2
Other income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals and adjustments	(12.2)	(12.9)	(5.7)	(9.6)	(9.6)	(9.6)
Depreciation and amortisation	(8.5)	(10.5)	(11.0)	(11.4)	(12.5)	(14.6)
Reported EBIT	26.2	3.0	(8.7)	(8.8)	(7.0)	8.9
Finance income/(expense)	(0.4)	(1.1)	(1.3)	(0.6)	(0.6)	(0.8)
Exceptionals and adjustments	(3.7)	(3.8)	3.9	7.0	0.0	0.0
Reported PBT	25.8	1.9	(10.0)	(2.4)	(7.7)	8.1
Income tax expense (includes exceptionals)	(4.4)	1.3	(2.1)	(0.0)	(0.4)	(3.9)
Reported net income	21.4	3.2	(12.1)	(2.4)	(8.1)	4.2
Basic average number of shares, m	168.3	168.9	169.7	170.9	170.9	170.9
Basic EPS, p	12.7	1.9	(7.1)	(1.4)	(4.7)	2.4
Dividend per share, p	14.7	3.4	1.0	0.0	0.0	4.0
Adjusted metrics						
Adjusted EBITDA	46.9	26.4	8.0	12.3	15.0	33.1
Adjusted EBIT	38.4	15.9	(3.0)	0.8	2.6	18.5
Adjusted PBT	38.0	14.8	(4.3)	0.2	1.9	17.7
Adjusted diluted EPS, p	18.5	10.7	(3.7)	0.1	0.9	7.9
Balance sheet						
Property, plant and equipment	19.2	16.8	17.2	21.5	30.7	38.2
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	61.0	56.7	47.5	29.3	15.6	1.9
Other non-current assets	0.2	2.2	2.5	2.5	2.5	2.5
Total non-current assets	80.4	75.7	67.2	53.3	48.8	42.6
Cash and equivalents	63.1	48.8	47.2	66.5	68.1	77.9
Inventories	66.8	76.1	81.2	75.1	75.4	88.5
Trade and other receivables	17.8	20.4	23.5	19.9	20.0	23.1
Other current assets	0.9	8.8	1.7	3.6	1.7	1.7
Total current assets	148.6	154.1	153.6	165.2	165.2	191.2
Non-current loans and borrowings	0.1	3.1	2.6	2.6	2.6	2.6
Other non-current liabilities	5.7	4.4	2.8	2.8	2.8	2.8
Total non-current liabilities	5.8	7.5	5.4	5.4	5.4	5.4
Trade and other payables	93.8	90.7	101.6	89.5	89.9	105.5
Current loans and borrowings	0.0	7.2	2.0	7.7	7.7	7.7
Other current liabilities	3.2	1.3	2.6	2.6	2.6	2.6
Total current liabilities	97.0	99.2	106.2	99.8	100.2	115.8
Equity attributable to company	126.2	126.9	109.2	113.2	108.5	112.7
Cash flow statement						
Cash from operations (CFO)	44.1	3.2	9.1	13.1	16.9	30.9
Capex	(11.3)	(13.3)	(11.6)	(16.0)	(16.6)	(16.9)
Acquisitions & disposals net	(12.4)	(1.5)	13.3	17.1	1.9	0.0
Other investing activities	(0.2)	0.0	0.0	0.0	0.0	0.0
Cash used in investing activities (CFIA)	(23.9)	(14.8)	1.7	1.1	(14.7)	(16.9)
Net proceeds from issue of shares	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
Other financing activities	(37.8)	(13.9)	(4.3)	(0.6)	(0.6)	(4.2)
Cash from financing activities (CFF)	(39.3)	(12.4)	(4.3)	(0.6)	(0.6)	(4.2)
Increase/(decrease) in cash and equivalents	(19.1)	(24.0)	6.5	13.6	1.6	9.8
Currency translation differences and other	(3.1)	1.0	0.6	0.0	0.0	0.0
Cash and equivalents at end of period	63.1	40.1	47.2	60.8	62.4	72.2
Net (debt) cash	63.0	38.5	42.6	56.2	57.8	67.6
Movement in net (debt) cash over period	63.0	(24.5)	4.1	13.6	1.6	9.8

Source: Game Digital accounts, Edison Investment Research. Note: *Restated.

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