

Game Digital

Agreement accelerates experiential strategy

The agreement to roll out BELONG gaming arenas and retail concessions in Sports Direct's (SD) nationwide estate accelerates Game Digital's (GMD) strategy to move from a seller of games to a provider of gaming services. This capitalises on the move in consumer spend from products towards experiences and positions the company more strongly in the high-growth e-sports market. A high level of control retained by GMD indicates that the relationship should be positive for all shareholders.

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	3.5	1.0	9.0
07/17	782.9	8.0	(4.3)	(3.7)	1.0	N/A	0.7	2.6
07/18e	793.2	12.3	0.2	0.1	0.0	407.7	0.4	N/A
07/19e	796.3	15.0	1.9	0.9	0.0	43.5	0.3	N/A

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

BELONG arenas and GAME retail in SD stores...

GMD has signed a collaboration agreement with SD to roll out both BELONG gaming arenas and GAME retail units in SD stores. SD is paying £3.2m for 50% of the existing BELONG business, comprising 19 units within GMD stores.

...funded by £55m financing agreement

SD is extending unsecured loan facilities of £55m at 2.5% over base to GMD. These comprise a £20m one-year extendable working capital facility and a £35m five-year capex facility, with drawdowns repayable over five years after the first two.

Acceleration of a key strategy

BELONG arenas, where customers experience the latest hardware and game releases, are key to GMD's strategy of widening its reach into experiential areas and engaging with customers more fully. The roll-out to date demonstrates average payback of 16 months, but also that optimum scale is formats above 24 playing positions. Despite c 221 lease events in 2018, GMD has limited numbers of larger sites. SD contributes its retail presence and fast-developing estate with increasing numbers of larger stores. Management expects JV sites will have 40-60 positions.

Extension of retail reach under GMD's control

The creation of concessions in selected SD stores responds to GMD's and SD's common customer base. It leverages SD's UK retail presence of c 500 stores and accords with its property 'elevation' strategy of connecting with the consumer through multi-channel experiences and of developing leading flagship stores. But GMD will have full control of sites selected, terms and unit management.

Strategic benefit lies ahead

This move supports GMD's strategy of becoming a provider of gaming services, and also positions it more significantly in the strongly growing e-sports market. Following the signing, the first BELONG units and concessions will shortly be agreed between the companies. We do not expect material change to short-term forecasts but await more specific roll-out details at interim results on 27 March.

Collaboration agreement

Retail

12 February 2018

Price 38p
Market cap £65m

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

Share price performance



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.

Analysts

Paul Hickman +44 (0)20 3681 2501

Neil Shah +44 (0)20 3077 5715

consumer@edisongroup.com

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