27 March 2018

GAME DIGITAL PLC

Interim results for the 26 weeks ended 27 January 2018

GAME Digital plc ("GAME" or the "Group") today announces its interim results for the 26 week period ended 27 January 2018 (the "period"). All comparator periods are for the 26 weeks ended 28 January 2017 unless otherwise stated.

All figures in £m (unless stated)	**26 weeks ended 27 January 2018**	26 weeks ended 28 January 2017 (Restated[6])	*% Change*
Statutory measures			
Revenue	**517.4**	498.1	3.9
Gross profit	**123.1**	127.1	(3.1)
Profit before tax	**12.3**	16.5	(25.5)
Profit before tax – Core Retail	**9.7**	22.1	(56.1)
Profit/(loss) before tax – Events, Esports & Digital	**2.6**	(5.6)	-
Net cash from operating activities	**32.2**	25.7	25.3
Basic earnings per share	**5.4p**	7.7p	(29.9)
Selected non-IFRS measures			
Gross Transaction Value (GTV)[1]	**586.8**	565.4	3.8
GTV - Total UK (including Retail and E,E&D)	**374.0**	373.9	-
GTV - Events & Esports (excluding Digital)	**7.1**	5.4	31.5
GTV - Total Spain	**212.8**	191.5	11.1
Gross profit rate[2]	**21.0%**	22.5%	(150 bps)
Adjusted EBITDA[3] - Group	**21.2**	23.3	(9.0)
Adjusted EBITDA - Core Retail	**22.3**	26.1	(14.6)
Adjusted EBITDA - Events, Esports & Digital	**(1.1)**	(2.8)	60.7
Adjusted profit before tax[4]	**14.2**	16.9	(16.0)
Adjusted (basic) earnings per share (EPS)[5]	**6.4p**	7.9p	(19.0)
Cash and cash equivalents	**84.9**	73.0	16.3

Strategic, operational and financial headlines

- Important strategic progress achieved towards repositioning and right sizing the retail business and moving from lower margin retail sales to high margin gaming experiences through BELONG™
- Entered into the collaboration agreement with Sports Direct, including plans to roll-out the BELONG gaming proposition across a significant number of new locations, including Sports Direct stores
    - New facilities allow for approximately 100 BELONG arenas within 3 years
    - £3.2 million cash proceeds received for 50% of the BELONG IP from Sports Direct and sharing of 50% of profits from new and existing locations with a BELONG concept
    - Entered into new borrowing arrangements with Sports Direct to fund all planned new openings and systems development
- Group GTV of £586.8 million, up 3.8% year on year
    - GTV improvement of +24.7% in hardware
    - GTV increased by +3.3% in physical software
    - GTV in Events and Esports (excluding Digital) up +31.5%
    - GTV in preowned down 8.6%
- Group gross profit rate declined by 150 basis points to 21.0%. Improved trading margin rates on hardware, physical software and accessories & other were more than offset by a higher mix of low margin hardware and a lower mix of sales in high margin categories, particularly preowned
- Group Adjusted EBITDA of £21.2 million (2017: £23.3 million)
    - Core UK Retail performance impacted in part by the margin decline resulting from the change in mix of product, and significantly mitigated by the delivery of further operational efficiencies and cost savings of c.£5 million

- Core Spanish Retail performance reflects a record GTV of £212.4 million, up 11.2% and Adjusted EBITDA of £12.4 million, broadly in line with last year
- Strong Events, Esports & Digital performance: GTV up 18.1%; gross margin up 123.1% and Adjusted EBITDA improvement of 60.7%

- Sale of Multiplay Digital completed in November 2017 for cash consideration of £19.0 million
- Continued strong liquidity with Group cash of £84.9 million as at 27 January 2018 (2017: £73.0 million) and access to aggregated facilities of up to £130 million across the UK and Spain (2017: c.£80 million) following the signing of the Sports Direct financing facilities agreement on 12 February 2018
  - Long-term asset-backed revolving loan facility in the UK of up to £50 million, increasing to up to £75 million over the peak season
  - New two-year facilities signed in Spain on 19 January 2018 for €28 million and increasing to €44 million over the peak season
  - Sports Direct facilities of £55 million signed on 12 February 2018, comprising a short-term £20 million working capital facility and a long-term capital expenditure facility of £35 million
- The Group has continued its commitment to increase investment in its new gaming concepts and the UK store optimisation programme and as a result no interim dividend has been proposed
- Appointment of Martin Hopcroft as Interim Chief Financial Officer with immediate effect

Martyn Gibbs, Chief Executive Officer, said:

“During the period important strategic progress was achieved, helping us to better position the Group for our development in the rapidly growing esports market with our unique and high margin concept traded under the BELONG banner. This is further facilitated by entering into a new and exciting collaboration with Sports Direct that will allow us to accelerate our expansion and help develop a larger scale experience based gaming business than previously planned and steadily reposition our retail offering. The traditional retail landscape is under increasing pressure and we have developed a strong growth strategy to utilise the valuable components of our core business in building our new experience based gaming offer.”

“We also delivered a strong sales performance in the first half of the financial year, driven by our ability to capitalise on strong customer demand for consoles (particularly Nintendo Switch™); a stronger line up of new software releases and the further development of the Group’s gaming experiences and events offering.

“Furthermore, during the period UK Retail delivered cost savings of c.£5 million as we continued to re-shape and right size the business. We continue to negotiate property savings and, where appropriate, close stores, rationalise retail working hours and deliver further operational and procurement benefits as well as focus on our core retail opportunities including a large array of new software releases particularly during the final quarter of the 2018 calendar year.”

Market Update and Outlook

The positive market trends seen in the second half of the last financial year in our core console categories have continued throughout the first half of the current financial year and cumulatively the UK and Spanish markets remain in strong growth so far this year. The annualisation of the highly successful initial launch of Nintendo Switch in March 2017 has created a short-term year-on-year impact on like-for-like performance. Nevertheless, the UK market was up 10.0% for the 33 weeks to 17 March and the Spanish market was up 8.3% over the same period. Strong demand for Nintendo Switch has continued to deliver growth to the overall market and consumer interest is expected to remain robust. Moreover, the expected future growth in the Nintendo software market should be supported by the expanding installed base and also by newly announced titles from established franchises including Super Smash Bros. and Pokémon. Together with other related opportunities through associated products, including the new LABO range, these developments suggest a strong year for the Nintendo Switch market.

The overall console market is expected to be more challenging in H2 given the strong comparatives in H2 2016/2017 including the initial success of Nintendo Switch following its launch in March last year. Given that the timing of the release of the new Nintendo games are still to be confirmed and other titles such as Red Dead Redemption 2 have moved into the first half of the next financial year, even greater priority has been placed on efficiency and cost saving actions that the directors believe will largely offset this impact. Furthermore, the Directors remain optimistic for FY18/19 given the stronger line up of games announced and anticipated, the expected benefits from the further development of the BELONG business and thereafter for the prospects and benefits from the potential launch of new consoles. The release schedule for H1 2018/2019 includes annual titles such as Call of Duty: Black Ops 4 as well as non-perennial titles including Red Dead Redemption 2, The Division 2 and Shadow of the Tomb Raider.

The Board was pleased with the continued development of the Group’s BELONG concept in the first half of the financial year and believe that the new collaboration with Sports Direct will allow a faster and larger scale development of this relatively new proposition. Whilst in discussion with Sports Direct to enter into this new partnership, the management team reviewed new standalone store opportunities as well as other opportunities and plans available under the new collaboration. The review highlighted the benefits of more gaming stations per arena and therefore the requirement for larger properties which lead to a deferral of new store openings in H1 compared to the original plans for the year and as a result there will be a small delay in the anticipated earnings growth. Nevertheless, the Group believes that the latest plans means it is better placed to provide more opportunities for gamers to experience BELONG, leading to a more successful performance in FY18/19 and beyond and the Board are positive about the overall benefits that will develop from the new Sports Direct relationship.

The Board will announce its full year results for the 52 weeks ending 28 July 2018 in November 2018.

Results Presentation

Management will be hosting a presentation for analysts and investors at 9.30 a.m. today at Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, EC2M 5SY. A live audio webcast of the presentation will be available via the Company's website at www.gamedigitalplc.com/investor-relations. A recording of the presentation will be made available on www.gamedigitalplc.com later today.

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). Upon the publication of this announcement this inside information is now considered to be in the public domain.

Enquiries

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Notes:

1. Gross Transaction Value is a non-IFRS measure defined as total retail receipts and all other Group revenue excluding VAT and before the deduction of revenue deferral relating to loyalty points and other accounting adjustments. Gross Transaction Value reflects the full retail sales value of digital sales, agency sales (including sales by business partners on GAME's Marketplace website), warranties and other similar arrangements and thereby includes the publishers' and sellers' shares of those transactions (see note 1 to the condensed financial statements). Gross Transaction Value provides the most reliable measure of activity in an environment where more sales are expected to move from physical to digital.
2. Gross profit rate calculated as statutory gross profit as a percentage of GTV
3. Adjusted EBITDA is a non-IFRS measure defined by the Group as operating profit before tax, depreciation, amortisation, net finance costs, exceptional and adjusting items (see note 1 to the condensed financial statements).
4. The calculation of Adjusted profit before tax excludes all exceptional and adjusting items (see note 3 to the condensed financial statements).
5. Adjusted basic earnings per share is calculated as set out in note 7 to the condensed financial statements.
6. The prior period has been restated to reflect the reclassification of marketing income from operating expenses to revenue or a deduction within cost of sales (see notes to the condensed financial statements).

Forward Looking Statements

This announcement contains certain forward-looking statements which have been made by the Directors in good faith using information available up until the date they approved the announcement. Forward-looking statements should be regarded with caution as by their nature such statements involve risk and uncertainties relating to events and circumstances that may occur in the future. Actual results may differ from those expressed in such statements, depending on the outcome of these uncertain future events.

Notification of Home Member State

Following changes made to the Disclosure Rules and Transparency Rules ("DTR") as a result of the Transparency Directive Amending Directive (2013/50/EU), the Company is required to disclose its Home State. Accordingly, pursuant to DTR 6.4.2, the Company announces that its Home State is the United Kingdom.

Notes to editors

Listed on the London Stock Exchange in June 2014, GAME Digital plc is dedicated to delivering an authoritative range of specialist gaming products and services to the gaming communities of the UK, Spain and beyond, providing more ways for gamers to enjoy more games and unique gaming experiences, more often. GAME's UK and Spanish retail businesses are the market leaders in those geographical areas, operating a total of over 560 stores across the two areas, a fully integrated omnichannel offer including the multi-award winning GAME App, and over 4.6 million active customers across its Reward programmes. GAME is developing its proposition with the continued expansion of BELONG, the Group's leisure experience, which brings video-gaming to high streets, shopping centres and communities nationwide. Through its esports and events activities the Group is delivering unparalleled consumer gaming experiences directly, and on behalf of third parties, including its flagship event, Insomnia, the UK's largest gaming festival. The Group's visual recognition and augmented reality business, Ads Reality, is pioneering the use of new technologies to reach gamers and business partners outside its main markets.

For more information please visit:

www.gamedigitalplc.com, www.game.co.uk, www.game.es, www.insomniagamingfestival.com or www.adsreality.com

SUMMARY OF FINANCIAL RESULTS

Figures in £m unless indicated Includes non-IFRS measures	26 weeks ended 27 January 2018	26 weeks ended 28 January 2017 (Restated)	% Change
Gross Transaction Value (GTV)[1]			
UK Retail	**365.5**	366.7	(0.3)
Spain Retail	**212.4**	191.0	11.2
Events, Esports & Digital	**8.9**	7.7	15.6
Group	**586.8**	565.4	3.8
Revenue			
UK Retail	**320.0**	320.2	(0.1)
Spain Retail	**188.5**	170.2	10.8
Events, Esports & Digital	**8.9**	7.7	15.6
Group	**517.4**	498.1	3.9
Gross Profit	**123.1**	127.1	(3.1)
Gross Profit Rate[2]	**21.0%**	22.5%	(150 bps)
Operating Costs before depreciation, amortisation, exceptional and adjusting items			
UK Retail	**67.3**	71.3	5.6
Spain Retail	**30.6**	28.4	(7.7)
Events, Esports & Digital	**4.0**	4.1	2.4
Group	**101.9**	103.8	1.8
Depreciation and amortisation	**6.4**	5.6	(14.3)
Adjusted EBITDA[3]			
UK Retail	**9.9**	13.4	(26.1)
Spain Retail	**12.4**	12.7	(2.4)
Events, Esports & Digital	**(1.1)**	(2.8)	60.7
Group	**21.2**	23.3	(9.0)
Net Finance Costs	**0.6**	0.8	25.0
Adjusted Profit Before Tax[4]	**14.2**	16.9	(16.0)
Proposed Interim Dividend Per Share	**-**	1.0p	-
Adjusted Basic Earnings per Share[5]	**6.4p**	7.9p	(19.0)
Cash and cash equivalents	**84.9**	73.0	16.3

1. Gross Transaction Value is a non-IFRS measure defined as total retail receipts and all other Group revenue excluding VAT and before the deduction of revenue deferral relating to loyalty points and other accounting adjustments. Gross Transaction Value reflects the full retail sales value of digital sales, agency sales (including sales by business partners on GAME's Marketplace website), warranties and other similar arrangements and thereby includes the publishers' and sellers' shares of those transactions (see note 1). Gross Transaction Value provides the most reliable measure of activity in an environment where more sales are expected to move from physical to digital.
2. Gross profit rate calculated as statutory gross profit as a percentage of GTV
3. Adjusted EBITDA is a non-IFRS measure defined by the Group as profit before tax, depreciation, amortisation, net finance costs, exceptional and adjusting items (see note 1).
4. Adjusted profit before tax is a non-IFRS measure defined by the Group as profit before exceptional and adjusting items (see note 3).
5. Adjusted basic EPS is calculated as set out in note 7.

CHIEF EXECUTIVE'S STATEMENT

Review of Group results

During the period, the Group continued to develop its business and delivered a pleasing improvement in the sales performance from the UK business (including the Events & Esports division) and the Spanish business. The move from a seller of physical and digital products to one offering gaming services that translate positively into volume and margin continues at pace. Overall, the Group delivered revenue of £517.4 million (2017: £498.1 million), an increase of 3.9%. The Group's Gross Transaction Value (GTV), a better measure of underlying retail activity as it includes the gross value of digital receipts, was £586.8 million (2017: £565.4 million), up 3.8%. This was predominantly driven from the growth in console hardware, a higher level of physical software sales and the continued development of the Group's revenue from offering gaming experiences and events.

The trading margins across hardware, physical software and accessories & other were up year-on-year through improved terms and better commercial processes. However, Group gross profit rate (as a percentage of GTV) declined by 150 basis points to 21.0%, primarily from the increasing mix of hardware sales connected with the Nintendo Switch which launched in March 2017 and the Xbox One X which launched in November 2017, and the decline in higher margin core preowned sales.

Costs have remained a key focus for us and were well controlled in the period. We have continued to successfully negotiate significant property savings and where appropriate closed stores, rationalised retail working hours and delivered further efficiency and procurement benefits across the rest of the business. We have delivered savings in the underlying costs of the UK Retail business of approximately £5 million. Higher retail costs in Spain (up £2.2 million) were mainly a result of higher costs associated with higher sales. Overall, total underlying operating costs for the Group (excluding depreciation, amortisation, adjusting and exceptional items) were down by £1.9 million or 1.8% to £101.9 million.

Group Adjusted EBITDA in the half was £21.2 million (2017: £23.3 million), a decline of £2.1 million, with a Core Retail (UK & Spain) Adjusted EBITDA of £22.3 million (2017: £26.1 million) and an EBITDA loss of £1.1 million (2017: loss of £2.8 million) within Events, Esports & Digital as we continue to scale up these business areas. Profit before tax, adjusting and exceptional items was £14.2 million (2017: £16.9 million), whilst adjusted earnings per share was 6.4 pence (2017: 7.9 pence).

The Group generated £32.2 million of cash from operating activities in the half (2017: £25.7 million), ending the period in a strong financial position with cash of £84.9 million (2017: £73.0 million) and access to aggregated facilities across the UK and Spain of up to £75 million (2017: £80 million) at the period end.

The UK business has 233 potential lease expiries before the end of December 2018 and the collaboration agreement signed with Sports Direct allows the Group to rollout more BELONG concepts across a significant number of locations, including within Sports Direct stores, which gives rise to many important business and location decisions over the next few months. At the same time, the Group expects to move from other existing locations to new, lower cost sites where savings are not otherwise available. This strategic transformation and property optimisation will require additional capital investment and will be supported by the financing facilities from Sports Direct where necessary. Reflecting this period of change, the Board has taken the decision not to declare an interim dividend (2017: 1.0 pence).

Market update

% change*	UK (£)	Spain (€)	Group (£)
Total Retail Market	+14.3%	+13.5%	+15.2%^

* Source: GfK Chart-Track; based on value of retail sales of mint console hardware, software, digital and accessories. 26 weeks ended 27 January 2018 vs. 26 weeks ended 28 January 2017

^ UK and Spanish markets combined. Spain converted into sterling equivalent

The total value of the console gaming market in which we operate grew by 15.2% in the first half, continuing the momentum seen in the second half of last year which grew by 13.8%. The Nintendo Switch console has continued to drive growth in both markets with the UK market seeing an acceleration in growth to 14.3%, up from 8.8% in H2 last year, and the Spanish market growing by 13.5%, compared to 15.7% in H2 last year.

Hardware sales grew in both markets, driven by the Nintendo Switch and the new Xbox One X, with the UK hardware market up 29.3% and Spain up 13.9%. A major factor in this difference was due to the relative impact of the launch of Xbox One X, with Microsoft being more significant in the UK.

Software sales grew due to a better line up of new releases including Call of Duty: WWII which was ahead of its prior year equivalent, Destiny 2 which had no comparative in the prior year, and new Nintendo Switch titles including Super

Mario Odyssey and Mario Kart 8. The UK software market was up 6.0% with the Spanish market up 12.4%, the difference being due to a number of factors, including the relative strength of PlayStation 4 and Nintendo in the Spanish market.

Consumer demand is expected to remain strong for both the Nintendo Switch console and the upcoming new titles for the console, including Super Smash Bros. and a Pokémon game, as well as accessory and other opportunities best highlighted by the recently announced LABO range. In addition to the benefits of the growing installed base of Nintendo Switch owners, there is also a strong slate of upcoming new titles including Red Dead Redemption 2 launching in October and other significant new releases announced or anticipated for later in the calendar year (e.g. The Division 2).

Operational and strategic update

Key Performance Metrics

	Core Retail UK	Core Retail Spain	Spain (€)	Events, Esports & Digital	Group
GTV, % change	(0.3)%	+11.2%	+7.5%	+15.6%	+3.8%
Market share of Console Market***, %	26% (29%)	38% (39%)			30% (32%)
Active Reward programme members	2.7m (2.7m)	1.9m (1.8m)			4.6m (4.5m)
Number of stores	299 (311)	267 (270)			566 (581)
Average lease length, years	1.1 (1.2)	0.9 (1.0)			1.0 (1.1)

Note:
* GTV growth rates converted into sterling equivalent
** Digital and non-console retail categories comprise digital content, preowned tech, PC and mobile accessories, licensed merchandise, services, VR and Marketplace
*** Source: GfK Chart-Track. Total market based on value of retail sales of mint console hardware, software, digital and accessories. 26 weeks ended 27 January 2018 vs. 26 weeks ended 28 January 2017
Figures in brackets denote H1 2017 comparatives as at 28 January 2017

UK Retail Performance

Our UK Retail business delivered a satisfactory performance in the half, with GTV down -0.3% on the prior year. Console sales grew 27.3%, driven by the Nintendo Switch which was launched in March 2017 and so had no comparative sales, along with the continued adoption of PlayStation 4 and the launch of Xbox One X. Total mint software sales fell 1.7%, consistent with the reduction in the size of the store estate (a 3.9% reduction in the number of stores to 299 (2017: 311)) and a further shift of sales online (online sales up 30.6% in the period).

GAME's overall share of the total mint console market at retail was 26%, down 3 percentage points on the prior year. The fall in our market share was a result of the following factors: firstly, an expansion in participants to the GfK Chart-Track market pool (with more retailers of digital content submitting data); secondly, the planned reduction in the size of the store estate combined with greater space allocated to non-console categories including BELONG; and thirdly, the increased contribution of the online channel accounting for circa 1.5 percentage points of market share. During the period we delivered online sales and online market share growth although the overall market swing to a greater online penetration outweighed this positive online performance. The strong growth in hardware sales led to lower overall margins in the period with the gross profit margin rate down 230 basis points to 24.1% (calculated as a % of revenues).

Management have continued to focus on improving performance through the realisation of efficiencies and cost saving measures. We have continued to give significant attention to our store footprint and reducing property costs wherever possible and a further 25 leases were renewed in the first half of the year, of which 23 were on improved terms. The cumulative annual rent savings from these lease renegotiations since we began this process in January 2016 is £2.5 million. Within retail operations, we continue to carefully manage our store employment costs, adjusting resourcing levels as required whilst maintaining appropriate service standards. We have also continued to focus on reducing expenditure across the business, where possible, and have delivered procurement savings on certain business service contracts and other business process improvements.

These initiatives have realised c.£5 million of operational efficiencies and savings in the first half of the year across our UK Retail operations including:

- £1.6 million reduction in store payroll, after absorbing additional inflation including the effects of the national minimum wage
- £1.6 million reduction in property related costs, reflecting rent savings from lease renegotiations completed in the period as well as those achieved in the previous year, plus rates savings
- Over £1.5 million of savings in other store costs and head office costs from the review and tender of contracts and cancellation of non-essential services
- Distribution savings and marketing spend reductions of £0.3 million

Overall, underlying operating costs (before depreciation, amortisation, adjusting and exceptional items) were reduced by £4.0 million after including costs increases such as incremental rental costs following the sale and leaseback of the Group's UK head office and distribution centre and other modest inflationary increases including pay review costs. The cost review activities have been intensified with greater savings targeted and actioned for the second half of the year including further restructuring and reorganisation activities across stores, distribution and centrally. The total targeted savings for the second are at least £6 million.

We ended the half with 299 stores (H1 2017: 311) in the UK, with an average length to first break of 1.1 years and 233 potential lease events before the end of December 2018. During the 26 week period we opened one new store, closed six stores and relocated six stores in the period.

Spain Retail Performance

Our Spanish business delivered a strong performance in the half, with total GTV up 7.5% on a local currency basis. Market share of both the high street and online channels increased year-on-year but the higher contribution of online has meant that our share of the overall market declined by 1 percentage point to 38% (2017: 39%).

In local currency terms, our Spanish Retail business delivered GTV growth in hardware up 16.5%, content up 7.4% and accessories & other up 11.7% with just the preowned category seeing a decline of 6.6%. The growth in hardware sales was driven by Nintendo Switch (which had no comparative) and the new Microsoft range which benefited from the launch of Xbox One X. Within software sales, Nintendo Switch software sales were a major driver (no comparative), PlayStation 4 and Xbox One software sales were up 12.0% and digital sales were up 5.6%. Within the preowned category, growth in PlayStation 4 and Xbox One software sales, up 8.4%, and preowned technology sales, up 25.0%, were more than offset by the fall in other software formats and hardware. Our focus categories (comprising digital content, preowned technology, PC and other accessories and licensed merchandise) were up 12.8%.

In total, after the effects of a slightly stronger Euro, which appreciated approximately 3% against Sterling, GTV rose 11.2% and gross profit rose 4.6%, after a 1.3 percentage points decline in gross profit margin, to 22.8% (calculated as a percentage of revenue).

Underlying operating costs (before depreciation, amortisation and adjusting and exceptional items) rose €1.4 million, or 4.3% on a local currency basis, well below the 7.5% increase in GTV.

We opened two new stores in Spain in the 26 week period, closed three and relocated one, ending with 267 stores (H1 2017: 270).

Events, Esports & Digital Performance

Our Events, Esports and Digital division includes BELONG, Game Esports and Events, Ads Reality, Game Esports Spain and Multiplay (UK) Limited prior to its disposal.

In aggregate, these areas grew sales by 15.6%, or £1.2 million, to £8.9 million in the half (2017: £7.7 million), with the majority of these sales attributable to BELONG and Game Esports and Events.

Gross profit margin improved by 15.7 percentage points in the period to 32.6%, predominantly reflecting the higher margins achieved on events such as Insomnia and Minecon in the period.

Underlying operating costs (before depreciation, amortisation, adjusting and exceptional items) across these areas decreased to £4.0 million (2017: £4.1 million), resulting in an Adjusted EBITDA loss of £1.1 million (2017: EBITDA loss of £2.8 million).

Group Strategy Update

The video games industry is changing rapidly, driven by the continuing evolution of customer and gaming behaviours. Our strategic initiatives ensure that we continue to meet the needs of our customers and suppliers, whilst positioning the business to respond to challenges and realise the growth opportunities arising. Our mission remains to build the most valuable community for gamers and we continue to focus on initiatives to transform the business to a group more offering gaming experiences and services.

New collaboration with Sports Direct

On 12 February 2018 the Group entered into a collaboration agreement with Sports Direct and also obtained new borrowing facilities of £55 million from Sports Direct. This new partnership means the Group has greater opportunity and flexibility to expand its gaming experience activities faster, in more and larger sites and achieve critical scale and thereby deliver on its financial targets.

The collaboration agreement covers the rollout of BELONG and Game Retail Limited stores, in standalone locations as well as concessions in Sports Direct sites. As part of the collaboration agreement, Sports Direct has acquired a 50% interest in the rights of the BELONG intellectual property for cash consideration of £3.2 million and the right to a profit share of up to 50% of future profits of BELONG arenas and/or profits from new and existing venues that include a BELONG arena or a BELONG arena with a Game Retail proposition. Any new standalone Game Retail locations fall outside of this agreement meaning there will not be any sharing of profitability of any new Game Retail locations where there is no BELONG concept included, unless the Game Retail location is within a Sports Direct site. The sharing of profits from venues that include a BELONG arena (or a similar concept) cover sites in the UK and internationally.

The facilities agreement comprises a £20 million unsecured working capital facility and a £35 million unsecured capital expenditure facility, the latter of which the Group may utilise to fund the opening of new BELONG arenas and Game Retail stores under the collaboration agreement, and ongoing development of the BELONG website and its related tournament management system. The working capital facility is available until 31 January 2019, with the option to request an extension. The capital expenditure facility is available for drawing over quarterly periods expiring 31 January 2023. Repayments under the capital expenditure facility commence approximately two years after initial drawdown and equal repayments (20% of the amounts drawn in any quarterly period) are to be made annually thereafter over the next five years.

In the period, we also delivered important milestones against each pillar of our strategy as follows:

1. Improve our core multichannel retail businesses to maximise market potential and profitability

- *Strong customer engagement*
  - GAME Elite membership programme in the UK has over 80,000 sign-ups to date
  - Over 700,000 new customers signed up to our Reward programmes in the UK and Spain, with active Reward customers up 100,000 to 4.6 million (last 12 months)
- *Building new categories and services*
  - Continued development in Spain of its new focus categories (including digital content, accessories, preowned technology and licensed merchandise), where GTV growth of 12.8% was delivered on a local currency basis
  - Continued development in the UK of the live and online gaming services, see point 2 below
- *Further developing the online and multichannel proposition*
  - Click & Collect and Reserve & Collect propositions growth of 28.7% versus H1 last year in the UK and represented 10% of online sales for the period
  - Delivery options further developed to include a free next day tracked service (including Saturday) for order values over £75 and store retail stock for preowned and mint software now available online and despatched directly from stores
  - Online trade-in service proposition successfully launched and developed
  - Website further developed and enhanced including site navigation and customer journey improvements
  - The launch of an online consumer finance offering
- *Optimising the store estate*
  - Seven stores relocated and a further three new stores opened across the UK and Spain. Four of these relocations and openings were concessions within Maplin stores which have since closed in H2
  - Nine stores across the UK and Spain were closed during the first half period

- Significant store activity planned in H2 with the growth of BELONG, plus we continue to review and improve the configuration of our UK store estate and drive and protect store contribution

2. Expand the Group's live and online gaming services for gamers and publishers

- *Growth in BELONG arenas*
    - 20 BELONG arenas in operation, 3 new openings in the current financial year to date
    - 176,000 hours played in the half, representing a utilisation level of 28.5% versus 18.7% in H2 last year
    - New online booking platform launched in February 2018
    - New facilities allow for approximately 100 BELONG arenas within 3 years
    - Plans progressing to open the first BELONG arenas in Spain
- *Continued expansion of our esports activities*
    - Secured the hosting of the Call of Duty ('COD') World League: Birmingham Open, part of the COD World League Global Circuit with a prize pool of US$200,000, the largest esports event the Group has run to date
    - Three seasons of BELONG arena clash to date with growth in participation in the latest competition (season three in the current year up 137% on season two)
    - One further season of our 'UK Masters' national esports tournaments successfully completed, with viewership targets exceeded and 'Weekly Cups' launched in October 2017
- *Successful development and growth of the Insomnia Gaming Festival*
    - Over 68,000 footfall achieved at the Summer Insomnia in August 2017
    - Expected footfall of over 55,000 for Insomnia 62, a 10% increase Easter on Easter
- *Continued development of the contract events business*
    - Over 30,000 footfall at BRICKLIVE Birmingham in October 2017, the largest third party event the Group has organised to date.

3. Optimise organisational efficiency while investing for the future

- *Significant operational efficiencies and cost savings achieved*
    - Approximately £5 million of cost savings realised across UK retail operations
- *Continued progress rationalising the UK store base and delivering property savings*
    - A further 23 leases renegotiated on improved terms in the half, realising over £0.8 million of annual rent savings
    - Planning for 233 lease events during calendar 2018 and a further 39 in calendar 2019
- *Disciplined investment in strategic initiatives*
    - Planning well underway to accelerate the rollout of BELONG concepts in collaboration with Sports Direct and other growth initiatives spanning multichannel retail, events and esports

Chief Financial Officer

The Company is pleased to report the appointment of Martin Hopcroft as Interim Chief Financial Officer with immediate effect. He will attend and advise at all future board meetings. Martin is a graduate chartered accountant with considerable experience in providing financial, operational and strategic management to businesses in transformation and has most recently acted as interim CFO for Cambian Group plc.

Conclusion

Our core console markets continued to grow in the first half of the year; but at a faster rate than the second half of last year. This growth was driven by strong customer demand for Nintendo Switch, the continued adoption of PlayStation hardware, the launch of Microsoft's Xbox One X and a stronger line up of new software titles compared to the same time last year. In the second half of the year there will be several significant new games titles and new software releases for the Nintendo Switch. Despite these developments, the Board remains cautious on the outlook for the second half and has increased its focus on efficiency and cost saving actions to right size the business for the current and future environment.

The Group continues to pursue its diversification and growth strategies through further rollout of BELONG arenas and development of esports activities plus the continued focus on the development of non-console categories. The new collaboration with Sports Direct provides important and necessary funding and exciting new opportunities. The Group continues to organise itself effectively, enhancing its consumer proposition and customer engagement, whilst building ever stronger and more collaborative arrangements with its key suppliers and business partners and believes it is well positioned to execute its strategy and deliver future growth.

FINANCIAL REVIEW

Group Results

Statutory Results – IFRS measures	26 weeks ended 27 January 2018 £m	26 weeks ended 28 January 2017 (Restated) £m	26 week *change* %
Revenue	**517.4**	498.1	3.9
Gross Profit	**123.1**	127.1	(3.1)
Operating Profit	**12.9**	17.3	(25.4)
Net Finance Costs	**(0.6)**	(0.8)	25.0
Profit Before Tax	**12.3**	16.5	(25.5)
Basic EPS	**5.4p**	7.7p	(29.9)
Selected Non-IFRS measures			
Gross Transaction Value (GTV)	**586.8**	565.4	3.8
GTV - Total UK (including Retail and E,E&D)	**374.0**	373.9	-
GTV - Events & Esports (excluding Digital)	**7.1**	5.4	31.5
GTV - Total Spain	**212.8**	191.5	11.1
Adjusted EBITDA	**21.2**	23.3	(9.0)
Adjusted EBITDA - Core Retail	**22.3**	26.1	(14.6)
Adjusted EBITDA - Events, Esports & Digital	**(1.1)**	(2.8)	60.7
Adjusted Profit Before Tax	**14.2**	16.9	(16.0)
Adjusted (basic) EPS	**6.4p**	7.9p	(19.0)

The Group's Gross Transaction Value (GTV) grew by £21.4 million or 3.8% to £586.8 million (2017: £565.4 million), which was predominantly driven by the growth in console hardware and physical content as well as the growth in sales of gaming experiences and related ancillary sales.

Group revenue (which takes into account the commission-only element of digital sales) grew by 3.9% in the period to £517.4 million (2017: £498.1 million).

Group gross profit rate (as a percentage of GTV) fell by 150 basis points to 21.0%. The change in gross profit rate was explained by the shift in sales mix to lower margin hardware and the decline in the higher margin core preowned category that more than offset the higher trading margins in both hardware and physical software.

Underlying operating costs (excluding depreciation, amortisation, exceptional and adjusting items) decreased by £1.9 million or 1.8% in the half to £101.9 million. This overall cost reduction was explained by the significant savings achieved in UK Retail being offset in part by the impact of modestly higher Spanish retail costs. The underlying costs in Core UK Retail of £67.3 million reflect the benefits of approximately £5 million of cost saving initiatives delivered in the period. The underlying costs in Core Spanish Retail of €34.3 million were well controlled and increased by €1.4 million or 4.3% on the equivalent period last year. Costs across the Group's Events, Esports & Digital division, comprising BELONG, Game Esports and Events, Ads Reality, Game Esports Spain and Multiplay (UK) Limited prior to its disposal, were reduced by £0.1 million to £4.0 million. The change in costs reflect the continued expansion of BELONG, the benefits of the cost reduction programme in Game Esports & Events as well as lower costs given the disposal of Multiplay Digital.

Group operating profit was £12.9 million (2017: £17.3 million). The change in operating profit in the period is explained by lower gross profit generation, lower operating costs and net exceptional income of £4.0 million (2017 exceptional income: £6.3 million). The Group achieved an Adjusted EBITDA of £21.2 million (2017: £23.3 million), reflecting a 14.6% decline in Core Retail to £22.3 million and a lower EBITDA loss of £1.1 million (2017: EBITDA loss £2.8 million) within Events, Esports & Digital as the new business activities were further developed in the period.

Adjusted profit before tax in the year was £14.2 million (2017: £16.9 million) and Adjusted basic earnings per share was 6.4 pence (2017: 7.9 pence). On a statutory basis, profit before tax was £12.3 million (2017: £16.5 million) and basic earnings per share was 5.4 pence (2017: 7.7 pence).

Segmental results

Core Retail: UK

	H1 2018 £m	H1 2017 (Restated) £m	Variance %
Gross Transaction Value	**365.5**	366.7	(0.3)
Revenue	**320.0**	320.2	(0.1)
Gross Profit Rate[1]	**21.1%**	23.1%	(200 bps)
Adjusted EBITDA	**9.9**	13.4	(26.1)

1. Calculated as a % of GTV

The core UK Retail business saw Gross Transaction Values broadly in line with last year. Hardware GTV increased by 27.3% but all other key categories were down year on year. Nintendo Switch drove the growth in hardware although its related software and accessories sales could not offset the decline in the other categories.

The increase in sales mix of the lower margin hardware category drove a 2.0 percentage point decline to the gross margin (as a % of GTV) in the first half to 21.1% (2017: 23.1%).

Operating costs before depreciation, amortisation, adjusting and exceptional items were reduced by £4.0 million or 5.6%, reflecting operating cost savings of over £5 million. This was partially offset by additional rent payable on the UK distribution centre and head office buildings of £0.2 million following the sale and leaseback of the property in October 2016 and other inflationary increases.

The impact of the change in sales category mix on the gross profit margin rate meant Adjusted EBITDA for the core UK Retail business declined £3.5 million in the half to £9.9 million (2017: £13.4 million) despite the significant reduction in operating costs.

Core Retail: Spain

	H1 2018	H1 2017 (Restated)	Variance	LC Variance^
	£m	£m	%	%
Gross Transaction Value	**212.4**	191.0	11.2	7.5
Revenue	**188.5**	170.2	10.8	7.1
Gross Profit Rate	**20.2%**	21.5%	(130 bps)	
Adjusted EBITDA	**12.4**	12.7	(2.4)	(6.7)

Note: ^ LC currency basis (LC). Calculated based on original Euro amounts.

GAME's Spanish Retail business (excluding esports) delivered GTV growth of 7.5% over the period on a local currency basis. Hardware GTV increased by 16.5%, meaning that GTV excluding low margin hardware grew by 5.1% on a local currency basis. A key priority for the Spanish retail business was the continued development of its new focus categories (including digital content, PC and other accessories, preowned technology and licensed merchandise), where GTV growth of 12.8% was delivered on a local currency basis.

On a reported basis, after the effects of a stronger Euro during the half, Spanish GTV rose 11.2%. On a reported basis, Spanish revenue grew 10.8% to £188.5 million.

Gross profit rates in the territory declined by 130 basis points to 20.2% (2017: 21.5%). Spanish operating costs excluding depreciation, amortisation and adjusting and exceptional items increased to £30.6 million (2017: £28.4 million), representing 14.4% of GTV (2017: 14.9%). In local currency, these Spanish operating costs increased €1.4 million, or 4.3%, well below the level of increase in sales.

The Adjusted EBITDA for the period was £12.4 million (2017: £12.7 million). In local currency terms Adjusted EBITDA was €13.9 million (2017: €14.9 million).

Events, Esports & Digital

	H1 2018	H1 2017 (Restated)	Growth
	£m	£m	%
Gross Transaction Value	**8.9**	7.7	15.6
Revenue	**8.9**	7.7	15.6
Gross Profit Rate	**32.6%**	16.9%	1570 bps
Adjusted EBITDA loss	**(1.1)**	(2.8)	60.7

Revenue from Events, Esports & Digital grew 15.6% to £8.9 million (2017: £7.7 million). Revenue from Events & Esports (excluding Digital, as Multiplay Digital was sold 28 November 2017) grew 31.5% to £7.1 million (2017: £5.4 million).

The gross profit rate increased by 15.7 percentage points in the half, to 32.6%. The improvement in gross margin was largely due to greater profitability within Game Esports and Events where the move to the NEC in the prior year had initially increased the operating costs of events. Gross profit from Events & Esports (excluding Digital) grew 250% to £2.1 million (2017: £0.6 million). This is explained by the greater focus on operating profitable events and the scaling up of the BELONG operation.

Core underlying operating costs attributable to Events, Esports and Digital decreased £0.1 million to £4.0 million in the first half (2017: £4.1 million). Cost investment in BELONG amounted to £0.6 million as the Group continued to expand its activities in this area but this was offset by savings in the Game Esports and Events business plus lower costs as a result of the Multiplay (UK) Limited disposal.

The Adjusted EBITDA loss in the half was £1.1 million (2017 EBITDA loss: £2.8 million).

Gross Transaction Value (GTV) and Revenue

	GTV			Revenue		
	H1 2018	H1 2017 (Restated)	Growth	**H1 2018**	H1 2017 (Restated)	Growth
	£m	£m	%	**£m**	£m	%
Hardware	**146.7**	117.6	24.7	**145.0**	116.7	24.3
Content	**265.3**	262.1	1.2	**198.5**	198.4	0.1
Accessories & Other[1]	**87.3**	90.0	(3.0)	**88.1**	88.0	0.1
Preowned	**87.5**	95.7	(8.6)	**85.8**	95.0	(9.7)
Total	**586.8**	565.4	3.8	**517.4**	498.1	3.9

1 Includes sales contributed from Events, Esports & Digital businesses

Group GTV increased 3.8% over the first half to £586.8 million (2017: £565.4 million). Foreign exchange rates positively impacted the reported GTV during the half. GTV in UK businesses of £374.0 million was level on last year and GTV in Spain of £212.8 million was up 11.1% on last year.

Hardware sales grew £29.1 million to £146.7 million, reflecting the continued consumer demand for Nintendo Switch consoles, the benefits of the Xbox One X launch and the stronger relative sales of PlayStation 4.

Content GTV, which includes both mint boxed and digital game content, increased by 1.2% in the period. Physical software sales grew 3.3% to £190.8 million in the first half. This improvement reflects the strong consumer reaction to Nintendo Switch software and a 0.5% increase in the sales of Xbox One and PlayStation 4 content. Total digital console sales continued to grow, although non-console digital sales (comprising Steam and other PC downloads and point of sale activation cards) fell resulting in an overall 3.7% decrease in digital GTV in the half.

GTV from the accessories & other category decreased by £2.7 million or 3.0% to £87.3 million. This decline was experienced despite an increase of 8.2% in console and PC accessories in the period as this was more than offset by the continued decline of the Toys-to-Life category and impacted by the strong performance of Virtual Reality in 2017 when the major launches occurred. Sales in the period from Game Esports & Events (excluding Digital) increased 31.5% to £7.1 million.

Sales of preowned mobile phones and tablets (GAMEtronics) were in line with the prior year but the Group saw a decline in sales of preowned Xbox 360 and PlayStation 3 hardware and software, plus lower Xbox One and PlayStation 4 software leading to an overall decline in GTV for preowned products of 8.6% to £87.5 million.

On a statutory basis, Group revenue increased 3.9% in the first half to £517.4 million (2017: £498.1 million).

Gross profit

Gross profit fell by 3.1% to £123.1 million (2017: £127.1 million).

	H1 2018	H1 2017 (Restated)	Change
	£m	£m	%
UK Retail	**77.2**	84.7	(8.9)
Spain Retail	**43.0**	41.1	4.6
Events, Esports and Digital	**2.9**	1.3	123.1
Total	**123.1**	127.1	(3.1)
Spain Retail (€m)	**48.2**	47.8	0.8

Gross profit margin by category is analysed in the table below.

	H1 2018	H1 2017	Change
	%	%	% pts
Hardware	**7.1**	5.7	1.4
Accessories & Other	**32.9**	29.9	3.0
Content	**21.6**	23.0	(1.4)
Preowned	**30.5**	34.6	(4.1)
Total	**21.0**	22.5	(1.5)

Note: Gross profit calculated as a % of GTV

Overall the Group gross profit rate decreased by 1.5 percentage points in the period due to the higher mix of lower margin hardware sales as well as a lower mix and falling rates on preowned and content categories. This was despite higher gross profit rates in hardware and accessories & other.

Hardware margin rates improved 1.4 percentage points compared with the same period last year to 7.1% due to a combination of improved supplier terms and higher achieved margin rates on Nintendo Switch. The performance of Nintendo Switch reflects the earlier stage of its selling cycle with relatively limited supply and fewer discounts.

The gross margin of accessories & other increased 3.0 percentage points to 32.9%. This increase was due to the higher margin achieved in the Events, Esports & Digital segment (including pay to play margins in the BELONG arenas) and the mix of products within this category, including higher sales of core console accessories and lower sales of virtual reality headsets.

Despite higher physical software trading margins of 25.2% (2017: 24.6%), the overall content gross profit rate decreased 1.4 percentage points to 21.6% in the half, mainly due to the change in mix of physical and digital product sales.

Preowned margin rates fell 4.1 percentage points due to the increasing mix of Xbox One and PlayStation 4 (new format) software, which achieve lower margin rates than older formats, as well as lower gross profit rates on preowned technology products.

Operating expenses

	Core Retail £m	Events, Esports & Digital £m	Continuing Costs £m	H1 2018 Adjusting Items £m	Sub-total £m	Exceptional Items £m	Total £m
Selling and distribution	(79.7)	(0.8)	(80.5)	-	(80.5)	-	(80.5)
Administrative	(24.0)	(3.8)	(27.8)	(5.9)	(33.7)	(2.0)	(35.7)
Total Operating expenses	(103.7)	(4.6)	(108.3)	(5.9)	(114.2)	(2.0)	(116.2)
Depreciation and amortisation	(5.8)	(0.6)	(6.4)	(4.7)	(11.1)	-	(11.1)
Operating expenses excluding D&A	(97.9)	(4.0)	(101.9)	(1.2)	(103.1)	(2.0)	(105.1)

	Core Retail £m	Events, Esports & Digital £m	Continuing Costs £m	H1 2017 (Restated) Adjusting Items £m	Sub-total £m	Exceptional Items £m	Total £m
Selling and distribution	(82.0)	(0.2)	(82.2)	-	(82.2)	-	(82.2)
Administrative	(22.9)	(4.3)	(27.2)	(6.7)	(33.9)	-	(33.9)
Total Operating expenses	(104.9)	(4.5)	(109.4)	(6.7)	(116.1)	-	(116.1)
Depreciation and amortisation	(5.2)	(0.4)	(5.6)	(4.8)	(10.4)	-	(10.4)
Operating expenses excluding D&A	(99.7)	(4.1)	(103.8)	(1.9)	(105.7)	-	(105.7)

Continuing operating expenses before exceptional and adjusting items, comprising selling and distribution and administrative expenses, decreased by £1.1 million or 1.0% to £108.3 million. Continuing operating costs (excluding depreciation, amortisation, exceptional and adjusting items) decreased by 1.8% to £101.9 million.

Group continuing selling and distribution expenses decreased 2.1% or £1.7 million to £80.5 million with UK Retail costs down £4.1 million from cost savings and business efficiencies, but partly offset by increases in Spain Retail and Events, Esports & Digital costs. Group continuing administrative costs increased £0.6 million to £27.8 million.

Continuing costs – excluding exceptional, adjusting items and depreciation and amortisation	**H1 2018 £m**	H1 2017 (Restated) £m	*Change* %
Core Retail	**(97.9)**	**(99.7)**	**1.8**
UK Retail	(67.3)	(71.3)	5.6
Spain Retail	(30.6)	(28.4)	(7.7)
Spain Retail, €m	*(34.3)*	*(32.9)*	*(4.3)*
Events, Esports and Digital	**(4.0)**	**(4.1)**	**2.4**
Total	**(101.9)**	**(103.8)**	**1.8**

Underlying core retail costs were £1.8 million lower year on year, at £97.9 million (2017: £99.7 million). Within this, UK Retail costs were reduced by 5.6% or £4.0 million to £67.3 million whilst Spanish retail costs increased 7.7% to £30.6 million predominantly due to sales-related costs and the impact of a weaker pound. Across the Group's UK Retail operations, a number of business efficiencies and cost savings were delivered in the period:

- £1.6 million reduction in store payroll, after absorbing additional inflation including the effects of the national minimum wage
- A reduction of £1.6 million in property related costs, reflecting rent savings from lease renegotiations completed in the period as well as those achieved in the previous year, plus rates savings
- Over £1.5 million of savings in other store costs and head office costs from the review and tender of contracts and cancellation of non-essential services
- Distribution savings and marketing spend reductions of £0.3 million

In local currency, Spanish retail costs for the period increased by 4.3% or €1.4 million, which was below the sales growth of over 7%. Higher distribution costs, store payroll and store rent costs, mainly linked to greater sales activity, were incurred.

Operating expenses across the Group's Events, Esports and Digital businesses decreased £0.1 million to £4.0 million (2017: £4.1 million). Cost savings and efficiencies were achieved in Game Esports and Events and Multiplay Digital. However, higher costs arose in BELONG from the greater number of arenas opened versus the prior year.

Exceptional and adjusting items

The exceptional items as detailed in note 3 are as follows:

Exceptional income/(costs)	H1 2018 £m	H1 2017 £m
Gain on sale of business	6.0	-
Gain on sale of property	-	6.3
Project-related costs and other similar costs	(1.4)	-
Redundancy and reorganisation costs	(0.6)	-
Total exceptional items	**4.0**	**6.3**

Exceptional income of £6.0 million was recognised in the period relating to the gain on the sale of Multiplay (UK) Limited. In the previous period the Group entered into the sale and leaseback of the UK head office and distribution centre, which gave rise to an exceptional gain of £6.3 million.

During the period the Group has undertaken several key strategic projects and initiatives which resulted in £1.4 million of non-recurring costs (2017: £nil). In addition, £0.6 million (2017: £nil) of redundancy and reorganisation costs have been incurred in the UK businesses and further costs will be incurred in the second half of the year as the Group continues with its reorganisation plans.

The adjusting items before tax as detailed in note 3 are as follows:

Adjusting items	H1 2018 £m	H1 2017 £m
Brand and other acquired intangibles amortisation	4.7	4.8
Costs of post-acquisition remuneration	1.2	1.7
Cost of IPO-related share-based payment compensation	-	0.2
Total adjusting items	**5.9**	**6.7**

Amortisation charges decreased by £0.1 million in the half as a result of the disposal of Multiplay (UK) Limited. The post-acquisition remuneration of £1.2 million (2017: £1.7 million) related to amounts of cash and shares payable to certain of the original shareholders of Multiplay (UK) Limited which was linked to the completion of a minimum period of post-acquisition employment. The payment of this post-acquisition remuneration was made on 2 March 2018, representing £2.4 million of cash and the issue of 2,079,002 ordinary shares in GAME Digital plc. No further post-acquisition remuneration will accrue on the Multiplay acquisition after this date.

Adjusted EBITDA

	H1 2018			H1 2017 (Restated)			
	Core Retail £m	Events, Esports & Digital £m	Total £m	Core Retail £m	Events, Esports & Digital £m	Total £m	26 week change %
GTV	577.9	8.9	586.8	557.7	7.7	565.4	3.8
Revenue	508.5	8.9	517.4	490.4	7.7	498.1	3.9
Gross profit	120.2	2.9	123.1	125.8	1.3	127.1	(3.1)
Adj. operating costs excluding D&A	(97.9)	(4.0)	(101.9)	(99.7)	(4.1)	(103.8)	(1.8)
Adjusted EBITDA	**22.3**	**(1.1)**	**21.2**	**26.1**	**(2.8)**	**23.3**	**(9.0)**
Adjusted EBITDA margin %	4.4%	(12.4)%	4.1%	5.3%	(36.4)%	4.7%	(60bps)

Note: EBITDA margin calculated as a % of revenue

Group Adjusted EBITDA (EBITDA less exceptional and adjusting items) of £21.2 million (2017: £23.3 million) fell by a total of £2.1 million in the period. Core Retail performance reflects a £3.8 million decline, predominantly related to the UK Retail operation whilst the Spanish Retail operations delivered an Adjusted EBITDA of £12.4 million, down £0.3 million. The Adjusted EBITDA loss from Events, Esports and Digital totalled £1.1 million (2017 EBITDA loss: £2.8 million), reflecting the improvement in performance in Game Esports and Events (arising from higher margins and cost saving measures) as well as the growth in the new business activities in the period.

Financing costs

Net financing costs totalled £0.6 million (2017: £0.8 million). The decrease in financing costs reflects lower drawings in Spain over the period and lower costs for the UK facilities following the expiry of the facility provided by Lajedosa Investments S.à r.l. on 31 October 2017.

Profit before tax

Profit before tax for the period amounted to £12.3 million (2017: £16.5 million). Profit before tax for Core Retail was £9.7 million (2017: £22.1 million) and Events, Esports and Digital reported a profit before tax of £2.6 million (2017 loss: £5.6 million).

Taxation

The effective tax rate (defined as the accounting tax charge divided by the accounting profits before tax) was 25.2% (2017: 20.6%). The increase in the tax rate reflects the change in mix of profitability of companies in the Group with a higher proportion of profits generated by the Spanish business at a tax rate in Spain of 25%. No deferred tax is forecast to be recognised in relation to the full year taxable losses expected to arise in the UK and the existing deferred tax asset has been released and charged to the statement of comprehensive income in the period. No corporation tax is expected to be payable in the UK in the current year and subject to agreement with HMRC, a tax refund from previous years should become receivable.

Earnings per share

The earnings used for the calculation of Adjusted basic EPS are as follows:

	H1 2018 £m	H1 2017 £m
Profit Before Tax	**12.3**	16.5
Adjusting items	**5.9**	6.7
Exceptional items	**(4.0)**	(6.3)
Adjusted Profit Before Tax	**14.2**	16.9
Effective Tax Rate on above	**24%**	21%
Tax	**(3.4)**	(3.5)
Adjusted Profit After Tax	**10.8**	13.4
Shares outstanding (basic) *	**169,696,481**	169,688,271
Adjusted basic EPS	**6.4p**	7.9p

* Basic shares outstanding excludes shares held in trust (EBT and SIP)

The Group delivered Adjusted basic earnings per share of 6.4 pence (2017: 7.9 pence). In order to give a better view of underlying earnings, adjustments to earnings per share have been made to remove exceptional and adjusting items.

On a statutory basis, after the impact of exceptional and adjusting items, basic earnings per share for the 26 weeks ended 27 January 2018 was 5.4 pence (2017: 7.7 pence).

Cash flow and net cash

	H1 2018 £m	H1 2017 £m
Net cash from operating activities	**32.2**	25.7
Capital expenditure	(6.2)	(5.8)
Proceeds from sale of business/property	14.9	13.3
Cash generated from operations after capital expenditure and disposal of assets	**40.9**	33.2
Dividends	(1.7)	(2.8)
Net repayments of borrowings	(1.3)	(0.7)
Other	0.1	0.1
Cash flow	**38.0**	29.8
Opening cash	47.2	43.1
Effect of changes in foreign exchange rates	(0.3)	0.1
Closing cash	**84.9**	73.0
Borrowings and finance lease liabilities	(2.7)	(4.0)
Net funds	**82.2**	**69.0**

Cash generated from operations

Cash generated from operations amounted to £36.3 million, £8.3 million higher than the previous year. This increase has been generated from an improvement in working capital which has offset the fall in EBITDA. After finance costs and corporation tax payments, cash generated from operating activities was £32.2 million (2017: £25.7 million).

The working capital improvement was largely explained by a significant decrease in the inventories balance compared to the prior year. Stock levels in the UK have fallen year-on-year from more efficient stock management and greater supplier support over the peak trading period.

Corporation tax paid has increased by £2.3 million to £3.7 million due to the timing impact of payments on account in Spain.

	H1 2018 £m	H1 2017 £m
Operating profit	12.9	17.3
Exceptional gain on sale of assets	(6.0)	(6.3)
Depreciation and amortisation	11.1	10.4
EBITDA	**18.0**	**21.4**
Working capital generation and other items	18.3	6.6
Cash generated from operations	**36.3**	**28.0**
Finance costs	(0.4)	(0.9)
Corporation tax paid	(3.7)	(1.4)
Net cash from operating activities	**32.2**	**25.7**
Working capital generation ratio, %	56.8%	25.7%

Note: Working capital generation ratio calculated as working capital generated as a % of net cash from operating activities

Capital expenditure

Group capital expenditure amounted to £6.2 million in the half (2017: £5.8 million), representing 29% of Adjusted EBITDA (2017: 25%) and 1.2% of revenue (2017: 1.2%).

Capital expenditure was prioritised on investment in BELONG (stores and technology), online and systems development, a small number of new retail and store relocations in the UK and Spain as well as additional investment in the distribution centre in Spain.

Dividends

Reflecting the decision to increase investment in the Group's new BELONG concept and optimise the UK estate in light of the significant number of lease events planned for over the next nine months, the Board has taken the decision not to declare an interim dividend (2017: 1.0 pence per share).

The Board will continue to evaluate future dividends and remains committed to returning surplus cash to shareholders after retaining sufficient capital to fund the required investment to support future business growth.

Cash resources and financing

As at 27 January 2018, the Group had cash and cash equivalents of £84.9 million (2017: £73.0 million) and both the UK and Spanish banking facilities were undrawn.

As at 27 January 2018 the Group had aggregate available banking facilities of up to £75 million (2017: £80 million) comprising a UK asset-backed revolving loan facility agreement with PNC Financial Services UK Limited and Wells Fargo Capital Finance (UK) Limited of up to £50 million and a two-year financing facility with a syndicate of Spanish banks amounting to €28.0 million (2017: €34.7 million). The UK and Spain facilities can be increased by up to £25 million and €16 million respectively during the peak season annually until the respective expiry dates.

The new Spanish facilities signed on 19 January 2018 comprise a working capital facility of €8 million and a guarantee facility of €20 million available throughout the term (expiring 31 January 2020, subject to the option to request an extension). In each peak trading period over the next 2 years the working capital facility will increase by €16 million.

On 12 February 2018 the Group entered into a collaboration agreement with Sportsdirect.com Retail Limited ('Sports Direct') and obtained new borrowing facilities of £55 million from Sports Direct. Sports Direct is a subsidiary of Sports Direct International plc, a related party of the Group by virtue of holding 25.75% of the share capital of the Company.

The facilities agreement comprises a £20 million unsecured working capital facility and a £35 million unsecured capital expenditure facility, the latter of which the Group may utilise to fund the opening of new BELONG arenas and Game Retail stores under the collaboration agreement, and ongoing development of the BELONG website and its related tournament management system. The working capital facility is available until 31 January 2019, with the option to request for an extension. The capital expenditure facility is available for drawing over quarterly periods expiring 31 January 2023. Repayments under the capital expenditure facility commence approximately two years after initial drawdown and equal repayments (20% of the amounts drawn in any quarterly period) are to be made annually thereafter over the next five years.

Working capital

Net investment in trade working capital decreased by £19.4 million to £47.7 million (2017: £67.1 million), reflecting the lower stock balances referred to in the cash flow and net cash section above.

Trade working capital	H1 2018 £m	H1 2017 £m	Change £m
Inventory	**89.8**	102.7	(12.9)

Trade receivables	**15.7**	19.9	(4.2)
Trade payables	**(57.3)**	(55.5)	(1.8)
	48.2	67.1	(18.9)

The Group stock balances have decreased £12.9 million to £89.8 million, achieved through more efficient purchasing and management of stock in the UK Retail business.

The trade receivables balance has modestly decreased £4.2 million to £15.7 million and trade payables increased by £1.8 million to £57.3 million. These movements reflect management's actions to optimise the timing of stock intake and other actions to improve working capital management.

Prior period restatements and changes in accounting estimates

During the 52 week period ended 29 July 2017, the Group recorded prior period errors for material differences identified in two balance sheet accounts. The error relating to potentially overpaid VAT on preowned goods must be agreed with HMRC and, as there is currently no certainty over the recoverability of part or all of the error, no receivable balance has been recorded in these financial statements.

In addition, the Group reviewed its supplier funding arrangements and how these are reflected in the financial statements. This resulted in a reclassification of marketing income from other operating expenses to a deduction within cost of sales.

Where applicable, these prior period errors and reclassification of supplier marketing income have been reflected in the comparative information as set out in notes to the condensed set of financial statements.

Going concern

The Directors have a reasonable expectation that the Group and the Company has adequate financial resources to ensure it continues to operate for a period of not less than 12 months from the approval of the condensed financial statements. In reaching their conclusion the Directors have carefully considered the cash resources and financing facilities available to the Group and have reviewed budgets and forecasts including downside sensitivities. On that basis they continue to adopt the going concern basis of accounting in preparing the condensed financial statements.

Principal risks and uncertainties

The Board has considered the principal risks and uncertainties for the remaining six months of the financial year and determined that the risks presented in the 2017 Annual Report, described as follows, also remain relevant to the rest of the financial year: Strategy and business model, competition, people and organisational capability, key supplier dependency, trading and consumer confidence, data protection and cyber security, financial management and control, business disruption and crisis management, core systems and new technologies and health and safety.

Responsibility Statement

The Directors confirm, to the best of their knowledge and belief, that this condensed consolidated set of interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that the interim management report herein includes a fair review of the information required by the DTR 4.2.7 and DTR 4.2.8 namely:

- an indication of important events that have occurred during the 26 weeks ended 27 January 2018 and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the 26 weeks ended 27 January 2018 and any material changes in the related party transactions described in the last Annual Report.

A copy of the Company's 2017 Annual Report and Accounts is available on GAME's website www.gamedigitalplc.com

This responsibility statement was approved by the Board of directors on 26 March 2018 and is signed on its behalf by:

Martyn Gibbs
Chief Executive Officer

Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 27 January 2018

	Note	26 weeks ended 27 January 2018 (Unaudited) Core Retail £m	Events, Esports & Digital £m	Total £m	26 weeks ended 28 January 2017 (Restated and Unaudited) Core Retail £m	Events, Esports & Digital £m	Total £m
Revenue	1	**508.5**	**8.9**	**517.4**	490.4	7.7	498.1
Cost of sales		**(388.3)**	**(6.0)**	**(394.3)**	(364.6)	(6.4)	(371.0)
Gross profit		**120.2**	**2.9**	**123.1**	125.8	1.3	127.1
Other operating expenses	2	**(109.9)**	**(6.3)**	**(116.2)**	(109.3)	(6.8)	(116.1)
Other exceptional income: gain on sale of business	3	**-**	**6.0**	**6.0**	-	-	-
Other exceptional income: gain on sale of property	3	**-**	**-**	**-**	6.3	-	6.3
Operating profit/(loss) before exceptional items		**12.3**	**(3.4)**	**8.9**	16.5	(5.5)	11.0
Exceptional items	3	**(2.0)**	**6.0**	**4.0**	6.3	-	6.3
Operating profit/(loss)	4	**10.3**	**2.6**	**12.9**	22.8	(5.5)	17.3
Investment income		**0.1**	**-**	**0.1**	0.1	-	0.1
Finance costs	5	**(0.7)**	**-**	**(0.7)**	(0.8)	(0.1)	(0.9)
Profit/(loss) before taxation		**9.7**	**2.6**	**12.3**	22.1	(5.6)	16.5
Taxation	6	**(3.2)**	**0.1**	**(3.1)**	(3.7)	0.3	(3.4)
Profit/(loss) for the period attributable to equity holders of the Company		**6.5**	**2.7**	**9.2**	18.4	(5.3)	13.1
Total other comprehensive (expense)/income - exchange differences on translation of foreign operations		**(0.7)**	**-**	**(0.7)**	0.2	-	0.2
Total comprehensive income/(expense) for the period attributable to equity holders of the Company		**5.8**	**2.7**	**8.5**	18.6	(5.3)	13.3
Earnings per share							
Basic (pence)	7			**5.4**			7.7
Diluted (pence)	7			**5.3**			7.6

All results relate to continuing operations (note 1).

Condensed Consolidated Statement of Financial Position

As at 27 January 2018

	Note	27 January 2018 £m (Unaudited)	28 January 2017 £m (Unaudited and restated)	29 July 2017 £m (Audited)
Non-current assets				
Property, plant and equipment	8	**16.8**	16.8	17.2
Intangible assets	9	**31.0**	52.2	47.5
Deferred tax asset		**0.1**	0.1	-
Trade and other receivables		**4.0**	2.4	2.5
		51.9	71.5	67.2
Current assets				
Inventories		**89.8**	102.7	81.2
Trade and other receivables		**32.7**	35.9	23.5
Current income tax assets		**1.0**	1.0	1.7
Financial assets at fair value through profit or loss		**-**	0.2	-
Cash and cash equivalents	10	**84.9**	73.0	47.2
		208.4	212.8	153.6
Total assets		**260.3**	284.3	220.8
Current liabilities				
Trade and other payables		**136.2**	139.7	100.8
Borrowings	10	**0.9**	1.6	2.0
Current income tax liabilities		**1.1**	2.8	2.6
Leasehold property incentives		**0.6**	1.0	0.8
		138.8	145.1	106.2
Net current assets		**68.6**	67.7	47.4
Non-current liabilities				
Trade and other payables		**-**	1.5	-
Borrowings	10	**1.8**	2.4	2.6
Deferred tax liabilities		**1.3**	1.4	1.3
Leasehold property incentives		**1.3**	1.6	1.5
		4.4	6.9	5.4
Total liabilities		**143.2**	152.0	111.6
Net assets		**117.1**	132.3	109.2
Equity attributable to equity holders of the Company				
Share capital		**1.7**	1.7	1.7
Share premium		**14.4**	14.4	14.4
Merger reserve		**130.9**	130.9	130.9
Cumulative translation reserve		**(2.4)**	(3.2)	(1.7)
Other reserve		**4.8**	3.9	4.0
Retained deficit		**(32.3)**	(15.4)	(40.1)
Total equity		**117.1**	132.3	109.2

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 27 January 2018

	Share capital £m	Share premium £m	Merger reserve £m	Cumulative translation reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
At 30 July 2016 (As previously reported)	**1.7**	**14.4**	**130.9**	**(3.4)**	**2.6**	**(19.3)**	**126.9**
Effect of prior period errors	-	-	-	-	-	(3.8)	**(3.8)**
At 30 July 2016 (Audited and restated)	**1.7**	**14.4**	**130.9**	**(3.4)**	**2.6**	**(23.1)**	**123.1**
Profit for the period	-	-	-	-	-	13.1	**13.1**
Other comprehensive income	-	-	-	0.2	-	-	**0.2**
Total comprehensive income	**-**	**-**	**-**	**0.2**	**-**	**13.1**	**13.3**
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.4	**0.4**
Credit to equity for equity-settled post-acquisition remuneration	-	-	-	-	1.3	-	**1.3**
Dividends	-	-	-	-	-	(5.8)	**(5.8)**
At 28 January 2017 (Unaudited and restated)	**1.7**	**14.4**	**130.9**	**(3.2)**	**3.9**	**(15.4)**	**132.3**
Loss for the period	-	-	-	-	-	(25.2)	**(25.2)**
Other comprehensive income	-	-	-	1.5	-	-	**1.5**
Total comprehensive income/(expense)	**-**	**-**	**-**	**1.5**	**-**	**(25.2)**	**(23.7)**
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.5	**0.5**
Credit to equity for equity-settled post-acquisition remuneration	-	-	-	-	0.1	-	**0.1**
At 29 July 2017 (Audited)	**1.7**	**14.4**	**130.9**	**(1.7)**	**4.0**	**(40.1)**	**109.2**
Profit for the period	-	-	-	-	-	9.2	**9.2**
Other comprehensive expense	-	-	-	(0.7)	-	-	**(0.7)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(0.7)**	**-**	**9.2**	**8.5**
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.3	**0.3**
Credit to equity for equity-settled post-acquisition remuneration	-	-	-	-	0.8	-	**0.8**
Dividends	-	-	-	-	-	(1.7)	**(1.7)**
At 27 January 2018 (Unaudited)	**1.7**	**14.4**	**130.9**	**(2.4)**	**4.8**	**(32.3)**	**117.1**

Condensed Consolidated Statement of Cash Flows

For the 26 weeks ended 27 January 2018

	Note	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Cash flow from operating activities			
Operating profit		12.9	17.3
Depreciation		3.2	3.0
Amortisation		7.9	7.4
Gain on sale of business	3	(6.0)	-
Gain on sale of property	3	-	(6.3)
Loss on disposal of assets		0.3	0.1
Cash settled post-acquisition remuneration charge		0.4	0.4
Share-based payments expense		1.1	1.7
Increase in trade and other receivables		(10.0)	(15.7)
Increase in inventories		(9.5)	(26.4)
Increase in trade and other payables		36.4	47.0
Decrease in leasehold incentives		(0.4)	(0.5)
Cash generated by operations		36.3	28.0
Finance costs paid		(0.4)	(0.9)
Corporation tax paid		(3.7)	(1.4)
Net cash from operating activities		32.2	25.7
Cash flows from investing activities			
Purchase of property, plant and equipment		(3.5)	(3.1)
Purchase of intangible assets		(2.7)	(2.7)
Proceeds from sale of business	13	14.9	-
Proceeds from sale of property, plant and equipment	3	-	13.3
Investment income		0.1	0.1
Net cash generated by investing activities		8.8	7.6
Cash flows from financing activities			
Repayments of borrowings		(1.3)	(0.7)
Dividends paid		(1.7)	(2.8)
Net cash used in financing activities		(3.0)	(3.5)
Net increase in cash and cash equivalents		38.0	29.8
Cash and cash equivalents at beginning of period		47.2	43.1
Effect of foreign exchange rates		(0.3)	0.1
Cash and cash equivalents at end of period	10	84.9	73.0

Notes to the Condensed Set of Financial Statements

For the 26 weeks ended 27 January 2018

General information

The financial information included in this interim statement of results does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the 52 week period ended 29 July 2017 have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Basis of preparation

GAME Digital plc (the 'Company') is a company incorporated in England. The condensed consolidated interim financial statements of the Company for the 26 week period ended 27 January 2018 comprise the Company and its subsidiaries (together referred to as the 'Group'). The condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. They are unaudited but have been reviewed by the Company's auditor and should be read in conjunction with the consolidated financial statements of the Group for the 52 week period ended 29 July 2017.

Accounting policies

The accounting policies adopted in the preparation of the condensed consolidated financial statements are the same as those set out in the Group's annual financial statements for the 52 weeks ended 29 July 2017. The condensed financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments that are measured at fair values at the end of each reporting period.

The Group will adopt IFRS 9 *Financial Instruments* from the financial year beginning 29 July 2018 and this new standard is not expected to have a material impact on the consolidated financial statements.

The Group is currently assessing the impact that IFRS 15 *Revenue from Contracts with Customers* may have on the consolidated financial statements and a detailed review of revenue streams is being performed. Management have identified that the following areas are likely to be impacted by the new standard: loyalty schemes, gift cards and warranties. No material adjustment to revenue is expected and the Group will adopt the new standard from the financial year beginning 29 July 2018.

The Group has not begun to assess the impact that IFRS 16 *Leases* will have on the consolidated financial statements and it is not practicable to provide a reasonable estimate until a detailed review has been completed. Also given the nature of the store lease negotiations that have taken place in the UK in the last two years, some of the leases may be covered by the exception for short-term leases. However, as with most retailers this standard is expected to have a significant impact on the Group's results and balance sheet. With 566 store leases across the Group and head office and distribution centre leases in the UK and Spain, the majority of these leases will be brought onto the balance sheet. This will have the effect of increasing the Adjusted EBITDA but the overall impact on the profit before tax has not been quantified. The standard is mandatory for periods beginning on or after 1 January 2019 and at this stage the Group does not intend to adopt the standard before its effective date.

Prior period restatements

During the 52 week period ended 29 July 2017, the Group recorded prior period errors for material differences identified in two balance sheet accounts. In addition, the Group reviewed its supplier funding arrangements and how these are reflected in the financial statements which resulted in a reclassification of marketing income from other operating expenses to a deduction within cost of sales. Further details are set out in note 1 to the consolidated financial statements for the 52 weeks ended 29 July 2017.

Where applicable these prior period errors and reclassification of supplier marketing income have been reflected in the comparative information as set out in note 15.

Going concern

The Directors have a reasonable expectation that the Group and the Company has adequate financial resources to ensure it continues to operate for a period of not less than 12 months from the approval of condensed financial statements. In reaching their conclusion the Directors have carefully considered the cash resources and financing facilities available to the Group and have reviewed budgets and forecasts including downside sensitivities. On that basis they continue to adopt the going concern basis of accounting in preparing the condensed financial statements.

Forward-looking statements

This announcement contains certain forward-looking statements which have been made by the Directors in good faith using information available up until the date they approved the announcement. Forward-looking statements should be regarded with caution as by their nature such statements involve risk and uncertainties relating to events and circumstances that may occur in the future. Actual results may differ from those expressed in such statements, depending on the outcome of these uncertain future events.

1 Operating segments

The Group's operating segments have been determined based on the management information reviewed by the Group's Chief Executive Officer.

The Chief Executive Officer considers the business from a geographic perspective for the retail businesses, namely the UK and Spain and these segments are separately managed. Recent acquisitions and new business ventures, comprising BELONG, Game Esports and Events, Ads Reality, Game Esports Spain and Multiplay (UK) Limited prior to its disposal, are presented as a separate segment titled 'Events, Esports & Digital'. The performance of this segment is reviewed separately by the Chief Executive Officer, the activities are different to those of the retail segments and significant growth is expected in the next few years.

Multiplay (UK) Limited, comprising the Multiplay Digital business, was sold on 28 November 2017 but has been presented within continuing operations as it was part of the Events, Esports & Digital CGU and not a significant part of the business to be classified as a discontinued operation.

The performance of operating segments is assessed based on Gross Transaction Value ('GTV'), Revenue and Adjusted EBITDA defined as follows:

- GTV is a non-IFRS measure defined as total retail receipts and all other Group revenue excluding VAT and before the deduction of revenue deferral relating to loyalty points and other accounting adjustments. GTV reflects the full retail sales value of digital sales, agency sales (including sales by business partners on GAME's Marketplace website), warranties and other similar arrangements and thereby includes the publishers' and sellers' shares of those transactions. GTV provides the most reliable measure of activity in an environment where more sales are expected to move from physical to digital.
- Revenue is measured in a manner consistent with that in the statement of comprehensive income.
- The Group defines Adjusted EBITDA as operating profit before depreciation and amortisation, exceptional and adjusting items. Adjusted EBITDA is a supplemental measure of the Group's performance and liquidity that is not required to be presented in accordance with IFRS.

The activities and products of the operating segments are detailed on pages 132 to 135 of the Group's latest Annual Report and Accounts.

The following is an analysis of the Group's GTV, revenue and Adjusted EBITDA by reportable segment:

	26 weeks ended 27 January 2018 (Unaudited)			26 weeks ended 28 January 2017 (Unaudited and restated)		
	Core Retail £m	Events, Esports & Digital £m	Total £m	Core Retail £m	Events, Esports & Digital £m	Total £m
Gross Transaction Value						
UK	**365.5**	**8.5**	**374.0**	366.7	7.2	373.9
Spain	**212.4**	**0.4**	**212.8**	191.0	0.5	191.5
Total Gross Transaction Value	**577.9**	**8.9**	**586.8**	557.7	7.7	565.4
Revenue						
UK	**320.0**	**8.5**	**328.5**	320.2	7.2	327.4
Spain	**188.5**	**0.4**	**188.9**	170.2	0.5	170.7
Total revenue	**508.5**	**8.9**	**517.4**	490.4	7.7	498.1

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited and restated)
Total Gross Transaction Value	**586.8**	565.4
Digital cost of sales	**(63.2)**	(64.0)
Other agency sales	**(2.8)**	(2.2)
Loyalty points deferral	**(6.8)**	(5.0)
Other accounting adjustments	**3.4**	3.9
Total revenue	**517.4**	498.1

Other accounting adjustments comprise movements in provisions and estimates (including accounting for gift card, returns and deposits) and other revenue for the Core Retail segment.

	26 weeks ended 28 January 2017 (Unaudited)			26 weeks ended 28 January 2017 (Unaudited)		
	Core Retail £m	**Events, Esports & Digital £m**	**Total £m**	**Core Retail £m**	**Events, Esports & Digital £m**	**Total £m**
Adjusted EBITDA						
UK	**9.9**	**(0.8)**	**9.1**	13.4	(2.5)	10.9
Spain	**12.4**	**(0.3)**	**12.1**	12.7	(0.3)	12.4
Total Adjusted EBITDA	**22.3**	**(1.1)**	**21.2**	26.1	(2.8)	23.3
Depreciation and amortisation	**(5.8)**	**(0.6)**	**(6.4)**	(5.2)	(0.4)	(5.6)
Adjusting items (note 3)	**(4.2)**	**(1.7)**	**(5.9)**	(4.4)	(2.3)	(6.7)
Exceptional items (note 3)	**(2.0)**	**-**	**(2.0)**	-	-	-
Other exceptional income: gain on sale of business/property (note 3)	**-**	**6.0**	**6.0**	6.3	-	6.3
Investment income	**0.1**	**-**	**0.1**	0.1	-	0.1
Finance costs	**(0.7)**	**-**	**(0.7)**	(0.8)	(0.1)	(0.9)
Profit/(loss) before taxation	**9.7**	**2.6**	**12.3**	22.1	(5.6)	16.5

Revenue, and hence profitability, of the Core Retail division is more heavily weighted towards the first half of the financial year with the Christmas period and timing of key new software releases.

For the purposes of monitoring segment performance and allocating resources between segments, the Group's Chief Executive monitors the tangible, financial and current assets and current and non-current liabilities attributable to each segment. All assets and liabilities are allocated to reportable segments.

	At 27 January 2018 (Unaudited)			At 28 January 2017 (Unaudited and restated)		
	Core Retail £m	**Events, Esports & Digital £m**	**Total £m**	**Core Retail £m**	**Events, Esports & Digital £m**	**Total £m**
Total assets						
UK	**157.7**	**8.6**	**166.3**	189.4	18.0	207.4
Spain	**93.4**	**0.6**	**94.0**	76.3	0.6	76.9
Combined total assets	**251.1**	**9.2**	**260.3**	265.7	18.6	284.3
Total liabilities						
UK	**86.8**	**3.6**	**90.4**	104.4	4.4	108.8
Spain	**52.8**	**-**	**52.8**	43.2	-	43.2
Combined total liabilities	**139.6**	**3.6**	**143.2**	147.6	4.4	152.0

	At 29 July 2017 (Audited)		
	Core Retail £m	**Events, Esports & Digital £m**	**Total £m**
Total assets			
UK	129.7	17.6	147.3
Spain	72.9	0.6	73.5
Combined total assets	202.6	18.2	220.8
Total liabilities			
UK	66.2	5.6	71.8
Spain	39.8	-	39.8
Combined total liabilities	106.0	5.6	111.6

Revenues from major products and services
The Group's revenues from its major products and services were as follows:

	26 weeks ended 27 January 2018	26 weeks ended 28 January 2017

	£m (Unaudited)	£m (Unaudited and restated)
Hardware	**145.0**	116.7
Content	**198.5**	198.4
Accessories & Other	**88.1**	88.0
Preowned	**85.8**	95.0
Total revenue	**517.4**	498.1

Hardware revenue represents the sale of console platforms. Content revenue includes income relating to the sale of gaming products for use on hardware platforms, including both physical and digital content. Digital content is reported on a commission basis and is recognised net of associated purchase costs. Accessories & Other includes the sale of console accessories, PC, VR and related accessories, licensed merchandise and all other retail revenue and revenue from the Events, Esports & Digital segment including 'pay to play' activities in BELONG arenas. Preowned includes the sale of preowned content, hardware, accessories and mobile devices.

2 Other operating expenses

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited and restated)
Selling and distribution	**80.5**	82.2
Administrative expenses	**35.7**	33.9
Total other operating expenses	**116.2**	116.1
Less exceptional items (note 3)	**(2.0)**	-
Total other operating expenses before exceptional items	**114.2**	116.1

As set out in the Group's annual financial statements for the 52 weeks ended 29 July 2017, the prior period has been restated following a review of all supplier funding arrangements and how these are reflected in the financial statements. Income received from suppliers in relation to promotional support where there are no directly attributable costs has been reclassified from other operating expenses to a deduction within cost of sales (note 15).

3 Exceptional and adjusting items

The Group defines exceptional items as per the accounting policies in the Group's latest Annual Report and Accounts.

Exceptional items:

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Gain on sale of business	**6.0**	-
Gain on sale of property	**-**	6.3
Project-related costs and other similar costs	**(1.4)**	-
Redundancy and reorganisation costs	**(0.6)**	-
Total exceptional items	**4.0**	6.3

On 28 November 2017, the Company sold its entire shareholding in Multiplay (UK) Limited to Unity Technologies APS for cash consideration of £19.0m. The gain on the sale of the subsidiary was £6.0m (note 13).

On 7 October 2016 the Group sold its freehold property interest in the distribution centre and head office buildings located in Basingstoke, UK and entered into an immediate leaseback of these premises. The total cash consideration was £13.5m less transaction costs of £0.2m resulting in an exceptional gain of £6.3m.

During the period the Group has undertaken several key strategic projects and initiatives which has resulted in £1.4m of non-recurring costs (2017: £nil). In addition, £0.6m (2017: £nil) of redundancy and reorganisation costs have been incurred in the UK businesses and further costs will be incurred in the second half of the year as the Group continues with its reorganisation plans.

Certain items that do not meet the definition of exceptional but, in management's view are not reflective of underlying trading, are presented as adjusting items when calculating non-GAAP performance measures, namely Adjusted EBITDA (note 1) and Adjusted Earnings per Share (note 7).

Adjusting items within operating profit in the period are as follows:

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Brand and other acquired intangibles amortisation	4.7	4.8
Cost of post-acquisition remuneration	1.2	1.7
Cost of IPO-related share-based payment compensation	-	0.2
Total adjusting items	5.9	6.7

Brand amortisation arose in the UK on the purchase of the trade and assets from the former GAME Group plc and in Spain on consolidation of the company. Following the acquisition of Multiplay (UK) Limited and the Ads Reality business, the separately identifiable intangible assets were capitalised, including brand value, customer relationships and technology assets and were amortised over their useful lives. These amortisation charges are recurring costs to the Group and therefore not classified as exceptional, however, as they are significant non-cash items and are not reflective of the underlying trading of the business are presented as adjusting items.

Post-acquisition remuneration relates to cash and shares payable to certain selling shareholders agreed at the time of the acquisition of Multiplay (UK) Limited and this cost is in addition to recurring annual remuneration for these employees. The payment of this post-acquisition remuneration was on 2 March 2018, representing £2.4m of cash and the issue of 2,079,002 ordinary shares in GAME Digital plc. No further post-acquisition remuneration will accrue on the Multiplay acquisition after 2 March 2018.

One-off awards of ordinary shares were made in conjunction with the IPO in June 2014. The share-based payments charge and associated costs in respect of these awards are presented within adjusting items due to the nature of the awards. Subsequent annual awards are included within operating expenses as they are a recurring cost to the Group.

4 Operating profit

		26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
This is stated after charging/(crediting):			
Depreciation of property, plant and equipment		3.2	3.0
Amortisation of intangible assets		7.9	7.4
Loss on disposal of assets		0.3	0.1
Gain on sale of business		(6.0)	-
Gain on sale of property		-	(6.3)
Staff costs		46.8	50.3
Net foreign exchange losses		0.3	0.1
Operating lease rentals	– leasehold premises	17.1	17.3
	– other	0.1	0.2

5 Finance costs

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Interest on bank borrowings	0.6	0.8
Interest on finance lease liabilities	0.1	0.1
	0.7	0.9

6 Taxation

Tax for the period ended 27 January 2018 is charged at the best estimate of the average annual effective tax rate for the UK and Spain expected for the full year, applied to the pre-tax profit of the 26 week period of those entities.

The Group is impacted by the uneven generation of taxable profits throughout the year as it typically generates a much higher level of profits in the first half of the financial year. This has resulted in a corporation tax charge of £2.9m for the period (period ended 28 January 2017: £3.4m) and it is anticipated that this tax expense will reduce in the full year results.

Deferred tax movements in the period amounted to a charge of £0.2m (period ended 28 January 2017: £nil).

7 Earnings per share

Earnings per share has been calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Profit for the period attributable to equity holders of the Company	9.2	13.1
Weighted average number of ordinary shares in issue	170,859,106	170,859,106
Less: weighted average number of shares held in trusts	(1,162,625)	(1,170,835)
Weighted average number of ordinary shares for basic earnings per share	169,696,481	169,688,271
Basic earnings per share (pence)	5.4	7.7

Diluted earnings per share

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Profit for the period attributable to equity holders of the Company	9.2	13.1
Weighted average number of ordinary shares for basic earnings per share	169,696,481	169,688,271
Effect of dilutive potential ordinary shares:		
Share options	4,614,093	2,717,015
Weighted average number of ordinary shares for diluted earnings per share	174,310,574	172,405,286
Diluted earnings per share (pence)	5.3	7.6

Adjusted earnings per share

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Profit for the period attributable to equity holders of the Company	9.2	13.1
Brand and other acquired intangibles amortisation (note 3)	4.7	4.8
Cost of post-acquisition remuneration	1.2	1.7
Cost of IPO-related share-based payment compensation	-	0.2
Other exceptional income: gain on sale of business	(6.0)	-
Other exceptional income: gain on sale of property	-	(6.3)
Exceptional items	2.0	-
Tax on items above	(0.3)	(0.1)
Adjusted profit for the period attributable to equity holders of the Company	10.8	13.4
Weighted average number of ordinary shares for adjusted basic earnings per share	169,696,481	169,688,271
Adjusted basic earnings per share (pence)	6.4	7.9
Weighted average number of ordinary shares for adjusted diluted earnings per share	174,310,574	172,405,286
Adjusted diluted earnings per share (pence)	6.2	7.8

8 Property, plant and equipment (unaudited)

During the period ended 27 January 2018, the Group spent £3.5m (period ended 28 January 2017: £3.1m) on additions and disposed of assets (including assets held for sale) with a total carrying amount of £0.3m (period ended 28 January 2017: £7.2m). Disposals of assets of a total carrying value of £0.3m were made in relation to the sale of Multiplay (UK) Limited (note 13).

9 Intangible assets (unaudited)

During the period ended 27 January 2018, the Group spent £2.7m (period ended 28 January 2017: £2.7m) on additions. Disposals of goodwill and other intangible assets of a total carrying value of £11.2m were made in relation to the sale of Multiplay (UK) Limited (note 13).

10 Analysis of net funds

	27 January 2018 £m (Unaudited)	28 January 2017 £m (Unaudited)	29 July 2017 £m (Audited)
Cash and cash equivalents	**84.9**	73.0	47.2
Finance lease liabilities	**(2.7)**	(4.0)	(4.6)
Net funds	**82.2**	69.0	42.6

11 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Game Stores Iberia SLU leases a property in which a member of key management owns 50% of the ordinary share capital of the lessor company. The annual rent is £0.1m and the lease term is for a period of five years from 25 June 2015, however the lessee can terminate the lease at any time by providing three months' notice.

There were no other transactions with related parties during the period and there were no amounts owed by or to related parties at the end of the period (28 January 2017: £nil).

On 20 April 2016, the Company, its subsidiary Game Retail Limited (as borrower) and certain other subsidiaries of the Company entered into an asset-backed revolving loan facility of up to £100.0m with Lajedosa Investments S.à r.l., a related party. Lajedosa Investments S.à r.l. is an associate of Duodi Investments S.à r.l. which is a related party of the Company by virtue of holding approximately 36.53% of the Company's ordinary share capital. No amount was drawn under this facility up to the expiry date on 31 October 2017.

12 Dividends

Amounts recognised as distributions to equity holders in the period:

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Final dividend for the 52 weeks ended 29 July 2017 of £nil (53 weeks ended 30 July 2016) of 1.75p per share	**-**	3.0
Interim dividend for the 52 weeks ended 29 July 2017 of 1.0p (53 weeks ended 30 July 2016 of 1.67p) per share	**1.7**	2.8
Total	**1.7**	5.8

The interim dividend for the 52 weeks ended 29 July 2017 was paid to shareholders on 4 August 2017.

	26 weeks ended 27 January 2018 £m (Unaudited)	26 weeks ended 28 January 2017 £m (Unaudited)
Proposed interim dividend for the 52 weeks ended 28 July 2018 of £nil (52 weeks ended 29 July 2017: 1.0p) per share	**-**	1.7

13 Disposal of Multiplay (UK) Limited

On 28 November 2017, the Company sold its entire shareholding in Multiplay (UK) Limited to Unity Technologies APS for cash consideration of £19.0m. The gain on the sale of the subsidiary was £6.0m. The consideration was settled by £17.1m paid on completion and £1.9m held in escrow for 19 months, subject to any warranty claims.

14 Post balance sheet events

Sports Direct collaboration and facility agreements

On 12 February 2018 the Group entered into a collaboration agreement with Sportsdirect.com Retail Limited ('Sports Direct') and obtained new borrowing facilities of £55m from Sports Direct. Sports Direct is a subsidiary of Sports Direct International plc, a related party of the Group by virtue of holding 25.75% of the share capital of the Company.

The collaboration agreement covers the rollout of BELONG and Game Retail Limited stores, in standalone locations as well as concessions in Sports Direct sites. As part of the collaboration agreement, Sports Direct has acquired a 50% interest in the rights of the BELONG intellectual property for cash consideration of £3.2m and the right to a profit share of up to 50% of future profits of BELONG arenas and/or profits from new and existing venues that include a BELONG arena or a BELONG arena with a Game Retail proposition. Any new standalone Game Retail locations fall outside of this agreement meaning there will not be any sharing of profitability of any new Game Retail locations where there is no BELONG concept included, unless the Game Retail location is within a Sports Direct site. The sharing of profits from venues that include a BELONG arena (or a similar concept) cover sites in the UK and internationally.

The facilities agreement comprises a £20m unsecured working capital facility and a £35m unsecured capital expenditure facility, the latter of which the Group may utilise to fund the opening of new BELONG arenas and Game Retail stores under the collaboration agreement, and ongoing development of the BELONG website and its related tournament management system. The interest rate on drawn funds under both facilities is 2.5% per annum above Barclays base rate (subject to a floor of 0.5% per annum). The working capital facility is available until 31 January 2019, with the option to request for an extension. The capital expenditure facility is available for drawing over quarterly periods expiring 31 January 2023. Repayments under the capital expenditure facility commence approximately two years after initial drawdown and equal repayments (20% of the amounts drawn in any quarterly period) are to be made annually thereafter over the next five years.

Issue of share capital

On 2 March 2018 the Company issued 2,079,002 ordinary shares of 1p each for £nil cash consideration in relation to equity-settled post-acquisition remuneration payable on the third anniversary following the acquisition of Multiplay (UK) Limited on 2 March 2015. This represents part of the final payment in relation to the purchase of Multiplay (UK) Limited. The balance was paid in cash and no further post-acquisition remuneration will accrue to the Multiplay acquisition after this date.

15 Prior period restatements

A summary of the combined impact of the prior period adjustments as well as the reclassification of certain marketing income on the condensed consolidated statement of comprehensive income for the 26 weeks ended 28 January 2017 and the condensed consolidated statement of financial position as at 28 January 2017 is as follows:

Condensed consolidated statement of comprehensive income for the 26 weeks ended 28 January 2017

	Total as previously reported £m	Marketing income reclassification £m	Restated £m
Revenue	499.0	(0.9)	498.1
Cost of sales	(375.6)	4.6	(371.0)
Gross profit	123.4	3.7	127.1
Other operating expenses	(112.4)	(3.7)	(116.1)
Other exceptional income: gain on sale of property	6.3	-	6.3
Operating profit before exceptional items	11.0	-	11.0
Exceptional items	6.3	-	6.3
Operating profit	17.3	-	17.3
Investment income	0.1	-	0.1
Finance costs	(0.9)	-	(0.9)
Profit before taxation	16.5	-	16.5
Taxation	(3.4)	-	(3.4)
Profit for the period attributable to equity holders of the Company	13.1	-	13.1
Total other comprehensive income - exchange differences on translation of foreign operations	0.2	-	0.2

Total comprehensive income for the period attributable to equity holders of the Company	13.3	-	13.3

Condensed consolidated statement of financial position as at 28 January 2017

	As previously reported £m	Additional accrual for stock £m	Preowned margin £m	Tax effect £m	Restated £m
Non-current assets					
Property, plant and equipment	16.8	-	-	-	16.8
Intangible assets	52.2	-	-	-	52.2
Deferred tax asset	0.1	-	-	-	0.1
Trade and other receivables	2.4	-	-	-	2.4
	71.5	-	-	-	71.5
Current assets					
Inventories	102.7	-	-	-	102.7
Trade and other receivables	35.9	-	-	-	35.9
Current income tax assets	-	-	-	1.0	1.0
Financial assets at fair value through profit or loss	0.2	-	-	-	0.2
Cash and cash equivalents	73.0	-	-	-	73.0
	211.8	-	-	1.0	212.8
Total assets	283.3	-	-	1.0	284.3
Current liabilities					
Trade and other payables	134.9	3.2	1.6	-	139.7
Borrowings	1.6	-	-	-	1.6
Current income tax liabilities	2.8	-	-	-	2.8
Leasehold property incentives	1.0	-	-	-	1.0
	140.3	3.2	1.6	-	145.1
Net current assets	71.5	(3.2)	(1.6)	1.0	67.7
Non-current liabilities					
Trade and other payables	1.5	-	-	-	1.5
Borrowings	2.4	-	-	-	2.4
Deferred tax liabilities	1.4	-	-	-	1.4
Leasehold property incentives	1.6	-	-	-	1.6
	6.9	-	-	-	6.9
Total liabilities	147.2	3.2	1.6	-	152.0
Net assets	136.1	(3.2)	(1.6)	1.0	132.3
Equity attributable to equity holders of the Company					
Share capital	1.7	-	-	-	1.7
Share premium	14.4	-	-	-	14.4
Merger reserve	130.9	-	-	-	130.9
Cumulative translation reserve	(3.2)	-	-	-	(3.2)
Other reserve	3.9	-	-	-	3.9
Retained deficit	(11.6)	(3.2)	(1.6)	1.0	(15.4)
Total equity	136.1	(3.2)	(1.6)	1.0	132.3

Independent Review Report to GAME Digital plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 January 2018 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 15.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the accounting policies, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 January 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BDO LLP
Chartered Accountants
London, United Kingdom
26 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).