

Financial appendix

GAME

1. GAME group's financial performance for the three years to 31 January 2007, together with various key performance indicators, is summarized in Table 1.

TABLE 1 Summary of GAME Group, UK and Republic of Ireland financial performance (consolidated) for the three years to 31 January 2007

	£'000					
	Group			UK and Republic of Ireland		
	Years ended 31 January			Years ended 31 January		
	2007	2006	2005	2007	2006	2005
Turnover (sales)	801,306	645,118	576,586	586,361	491,624	465,436
Cost of sales	583,563	470,763	400,070	423,848	356,115	317,364
Gross profit	217,743	174,355	176,516	162,513	135,509	148,072
Other operating expenses	184,778	166,132	146,720	135,684	126,069	117,028
Operating profit before non-recurring costs	32,965	11,198	29,796	26,829	9,440	31,044
Non-recurring costs	-	-2,975	-	-	-2,975	-
Operating profit	32,965	8,223	29,796	26,829	6,465	31,044
Key performance indicators						
Increase/decrease in turnover year on year (%)	24.2	11.9	-5.0	19.3	5.6	-9.2
Gross margin on sales (%)	27.2	27.0	30.6	27.7	27.6	31.8
Operating margin on sales (%)	4.1	1.3	5.2	4.6	1.3	6.7

Source: The GAME Group Plc annual reports for the financial years ended 31 January 2007, 2006 and 2005.

2. Group sales for the year ended 31 January 2007 increased by 24 per cent to £801 million (2006: £645 million) with like-for-like sales up by 16 per cent. New store openings contributed an 8 per cent increase. Average sales per sq metre increased by £1,247 to £10,506 (ie an increase of £116 in average sales per sq foot to £977).¹ In the UK and Ireland total sales were up by 19 per cent and like-for-like sales were up by 17 per cent. Group operating profit was £33.0 million (2006: £8.2 million).²
3. For the year ended 31 January 2007, GAME's gross margins were around 27 per cent despite the greater proportion of lower margin console sales in their product mix as a result of new console product launches. However, 2006 gross margins were themselves lower than 2005 as a result of the launches of PSP in September 2005 and Xbox 360 in December 2005, which, whilst contributing to good sales, were achieved on low operating margins.³
4. Table 2 sets out the summary of UK financial performance of GAME for the seven years ended 31 January 2007. During the period 2001 to 2007, GAME doubled its turnover from £296.4 million to £586.4 million. Operating margins have, however, fluctuated year on year reflecting changes in product mix and console life cycles.

¹The GAME Group Plc annual report 06-07, p18.

²The GAME Group Plc annual report 06-07, p8 & 18.

³Mintel report: *Computer and video game retailing, Retail Intelligence*, September 2006, p88.

TABLE 2 UK financial performance—GAME

	Years ended January						
	2007	2006	2005	2004	2003	2002	2001
Sales (excluding sales tax) (£m)	586.4	491.6	465.4	512.5	492.7	408.3	296.4
Operating profit (£m)	26.8	6.5	31.0	19.0	27.7	19.7	9.0
Operating margin (%)	4.6	1.3	6.7	3.7	5.6	4.8	3.0

Source: GAME's statutory accounts.

Note: Data from 2004 onwards include a contribution from Gameplay, an online specialist GAME acquired for £2.3 million in July 2004.

Turnover by business segment

5. Table 3 shows a summary of sales and gross profit by revenue stream for the financial years ended 31 January 2006 and 31 January 2007, and the six-month period ended 31 July 2007.

TABLE 3 GAME's turnover and gross profit by revenue stream

	£'000			
	6 periods ended 28 July 2007	Years ended 31 January 2007 2006		
Sales				
Mint peripherals	()	()		
Mint consoles				
Mint software				
Total sales—mint				
Pre-owned peripherals				
Pre-owned consoles				
Pre-owned software				
Total sales—pre-owned				
Total sales—(mint and pre-owned)				
Gross profit				
Mint peripherals				✂
Mint consoles				
Mint software				
Total gross profit—mint				
Pre-owned peripherals				
Pre-owned consoles				
Pre-owned software				
Total gross profit—pre-owned				
Total gross profit—(mint and pre-owned)				
Gross profit margin				
Mint peripherals	()	()		
Mint consoles				
Mint software				
Total gross profit margin—mint				
Pre-owned peripherals				
Pre-owned consoles				
Pre-owned software				
Total gross profit margin—pre-owned				
Total gross profit margin—(mint and pre-owned)				

Source: GAME.

Notes:

1. The data provided excludes sales in the Republic of Ireland and online sales.
2. The financial data provided for 2007 does not include Gamestation sales data for any period.

6. Sales for mint consoles are greater than total sales of pre-owned consoles. However, the percentage gross profit margin achieved on pre-owned consoles sales is consistently higher than for mint. A similar pattern is observed for sales of mint software and pre-owned software, with gross profit margins for pre-owned software significantly higher than for mint. However, the cash margin realized on pre-owned is consistently lower than that of mint. Pre-owned software margins tend to be higher than mint margins on the majority of platforms.

Gamestation

7. The financial performance of Gamestation based on the audited accounts for the last three years to 31 December 2006, together with various key performance indicators, is summarized in Table 4.

TABLE 4 Summary of Gamestation's financial performance (consolidated) for the three years to 31 December 2006

	£'000		
	Years ended 31 December		
	2006	2005	2004 (restated)
Turnover	229,227	182,396	153,594
Cost of sales	-172,332	-134,504	-109,876
Gross profit	56,895	47,892	43,718
Administrative expenses	-54,492	-49,202	-37,227
Operating profit/loss	2,403	-1,310	6,491
EBITDA	7,064	3,435	9,762
<i>Key performance indicators</i>			<i>per cent</i>
Increase/decrease in turnover			
year on year	25.7	18.8	53.3
Gross margin on sales	24.8	26.3	28.5
Operating margin on sales	1.1	-0.7	4.2
EBITDA on sales	3.1	1.9	6.3

Source: Gamestation statutory accounts.

8. Sales increased by about 17 per cent to £182.4 million in 2005, but profitability declined, resulting in an operating loss of £1.3 million. The increase in revenues for 2005 was mainly related to the opening of 27 new stores increasing the total to 238. The number of new openings in 2005 was substantially less than the 73 new stores opened in 2004 due to the growth of Gamestation's store base being temporarily put on hold by its parent company, Blockbuster Inc.
9. Profitability declined during this period of turnover growth. Gamestation recorded an operating loss of £1.3 million in 2005 compared with an operating profit of £6.5 million in 2004. Gross margin decreased by 2.2 percentage points to 26.3 per cent, driven mainly by a reduction in pricing for some console software. In addition, administrative expenses increased by £12 million. However, Gamestation had EBITDA of £3.4 million indicating that although it was loss-making pointing 2005, it was still generating positive cash flow.
10. In 2006, sales increased by 26 per cent to £229 million. Gross margins continued to fall, by 1.5 percentage points to 24.8 per cent. However, administrative expenses only increased by £5.3 million enabling Gamestation to report an operating profit of £2.4 million and EBITDA of £7.1 million.

Turnover by business segment

11. Table 5 shows a summary of sales and gross profit by revenue stream for the financial years ended 31 December 2005 and 2006 and the six months ended 30 June 2007.

TABLE 5 Gamestation turnover and gross profit revenue stream

	£'000		
	6 months ended 30 June 2007	Years ended 31 December 2006	2005
<i>Sales</i>			
Mint peripherals	()	()	()
Mint consoles			
Mint software			
Total sales—mint			
<i>Sales</i>			
Pre-owned peripherals	()	()	()
Pre-owned consoles			
Pre-owned software			
Total sales—pre-owned			
Total sales (mint and pre-owned)			
✂			
<i>Gross profit</i>			
Mint peripherals	()	()	()
Mint consoles			
Mint software			
Total gross profit—mint			
<i>Gross profit</i>			
Pre-owned peripherals	()	()	()
Pre-owned consoles			
Pre-owned software			
Total gross profit—pre-owned			
Total gross margin (mint and pre-owned)			
<i>per cent</i>			
<i>Gross profit margin</i>			
Mint peripherals	()	()	()
Mint consoles			
Mint software			
Total gross profit margin—mint			
<i>Gross profit margin</i>			
Pre-owned peripherals	()	()	()
Pre-owned consoles			
Pre-owned software			
Total gross profit margin—pre-owned			
Total gross margin—mint and pre-owned			

Source: GAME and Gamestation.

[✂]

12. Table 5 shows that sales for mint consoles are greater than sales of pre-owned consoles. However, the margin achieved on pre-owned consoles sales is significantly higher than for mint. Sales of pre-owned and mint software are at similar levels. However, the gross margin for pre-owned software is significantly higher than for mint. The cash margin realized on pre-owned is consistently lower than that of mint.
13. Gamestation told us that the changes in product mix during the year had an impact at a gross margin level. For example, the product mix moves towards mint products around Christmas and towards pre-owned around Easter and during school holidays.

Gamestation also stated that other factors such as local competition and supplier funding would also affect margins, but to a much lesser extent.

Pre merger forecast

14. Gamestation expected revenue growth to continue as a result of its trade-in games programme and its store expansion to [REDACTED] by 2009.⁴ [REDACTED]

⁴[REDACTED]