

November 12, 2010

Dear clients and colleagues,

With the holiday season upon us, we felt it was opportune to introduce a company that will likely benefit from this year's shopping frenzy.

With 1,380 stores globally, Game Group is UK's market leading retailer in the video game segment. It operates retail locations in the UK, Spain, France, Australia, Scandinavia and Eastern Europe. Its revenue mix comes from software, hardware, pre-owned software and peripheral sales for all types of gaming devices (Xbox, Playstation, Nintendo, etc.).

Target market size

The global gaming industry is a vast market, even bigger than the film or the music industries. The retail size of this market reached \$47.2B at the end of 2008, and many experts anticipate it will soar to \$73.5B by 2013. Europe represents 40% of the overall market.

Competitive advantage

Game Group is ranked number one in the UK and Spain where it enjoys a dominant position with 30% market share. Its global standing allows it to sign exclusive distribution agreements with developers. It also offers a wider product range than other specialist retailers or big mass merchant chains. With an inventory of more than 1,000 different used titles, Game Group is also the best choice for customers who wish to resell their products. This is a clear differentiation from mass merchant chains that hold very few used titles. In addition, almost all employees of Game Group are gamers themselves, and this provides a unique shopping experience for customers who want to be served by real specialists.

Growth strategy

The gaming cycle peaked in 2008 and has slowed in the past two years, but we believe this market will grow again. Many new technologies are hitting the shelves this November, and some look very promising, such as Microsoft's Xbox Kinect and Sony's Playstation Move. Also, publishers are releasing new versions of many popular game franchises. As an example, Activision has sold over 55 million copies of Call of Duty since this game franchise started in 2008, which represents \$3B in retail sales. In addition, the company has the opportunity to open new retail locations in Eastern Europe and Scandinavia.

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Risk

The gaming industry is volatile. When developers and publishers release new hardware technology or when the assortment of software increases, the industry experiences strong performance. On the other hand, when there is a lack of innovation or when the consumer environment is unfavourable, the industry tends to contract quite rapidly. The competitive landscape is another aspect to consider as non-specialized retailers and e-tailers are very competitive on pricing. Finally, downloadable content being made available directly from developers could become an issue, but we see that threat as minimal for the short term.

Investment theme

The demography of gaming has evolved drastically over time. Essentially it has moved from a young male audience to a more diversified audience. Male gamers still represent the largest piece of the pie, but their proportion has decreased from 80% not too long ago to 64% today. Customers aged 35 and over now represent half of the total gamers. This population group has never been widely represented in this space and stood at only 24% during the first generation of the gaming cycle at the end of the 1990s. Just to illustrate the popularity of gaming, consider that in the UK, which has an estimated population of 62 million, the number of devices sold reached 24.1million in 2009.

Valuation

Based on a WACC of 10.6% and a terminal growth of 2%, our target price is £1.20.

www.gamegroup.plc.uk

Market cap: £240 million, P/E (TTM): 7.4x, P/E (forward): 6.2x, EV/EBITDA (forward): 2.8x, net debt to EBITDA: 0.8x, Revenue (TTM): £1700M, Free cash flow yield: 14.3%, Dividend yield: 8%.

Regards,

The Global Alpha Team

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