

GameStop Corp. (NYSE:GME)



Ishfaaq Peerally
eToro Champion Popular
Investor (Approved Value
Investor)

Trading Statistics (USD)

Market Cap (bb)	4.53	LTM EPS	-4.22	Update Date	24 Jan 2021
Current Price	65.01	LTM P/E	N/A	Recommendation	HOLD
52 Wk L - H	2.57 - 76.76	EV / EBITDA	N/A	Price Target	NONE

Business Description

- Physical gaming retailer with over 5000 stores in 10 countries
- Sells consoles, video games, collectibles, and gaming magazines
- Brands: GameStop, EB Games, Micromania, Think Geek, Game Informer and ZingPop Culture
- Moving towards e-commerce (34% of sales in last holiday Season)

Financial Summary

	FY16	FY17	FY18	FY19	TTM
Revenue (mm)	7,965	8,547	8,285	6,466	5,162
EBITDA (mm)	649	593	-569	-292	-91
Margins	8.1%	6.9%	-6.9%	-4.5%	-1.8%
FCF (mm)	394	322	231	-493	150
Margins	4.9%	3.8%	2.8%	-7.6%	2.9%

Investment Thesis

Catalysts

Date	Price	Market Cap	Book Value	Cash	Debt	Shares Short	Catalysts
Sep-19	\$ 4.70	\$ 474	\$ 809	\$ 424	\$ 419	67%	Cigar Butt + Activism (Michael Burry - buybacks) + Cycle
Apr-20	\$ 2.57	\$ 172	\$ 611	\$ 499	\$ 419	87%	Pure Value + Cigar Butt + Cycle + Short Squeeze
Sep-20	\$ 10.04	\$ 642	\$ 352	\$ 735	\$ 472	102%	Value + Cigar Butt + Cycle + Short Squeeze + Activism (Ryan Cohen)
Jan-21	\$ 65.01	\$ 4,534	\$ 332	\$ 445	\$ 216	102%	Cycle + Short Squeeze + Activism (Ryan Cohen) + Speculation

- Catalysts for investment changed since I first started investing in GameStop in September 2019
- Right now, the main catalysts for recent price movement is speculation from Wallstreetbets subreddit
- Increase in price forcing shorts to cover position (last data for percent of shares short is at 102% from 30th of December 2020)
- As of 24th of January 2021, only 2000 shares are available for shorting at borrow rate of 32%
- GameStop no longer qualifies as a value stock with current valuation of X30 FCF
- Ryan Cohen and two other former Chewy executives joining the board of GameStop expected to change business. No concrete plan yet.
- No change in fundamentals to explain recent price gains

Valuation

- My personal Biases
 - GameStop is the largest position in my portfolio at 25% with average buying price of \$3.97 (+1500% profits)
 - Sold about half of my holdings last Friday at \$58-\$65 range
 - WSB traders just want to trigger a short squeeze for a quick profit, then move to the next hot stock
 - More likely to be a pump and dump stock
 - I believe that Ryan Cohen is smart and has the vision to change GameStop
 - Hard to value impact of Ryan Cohen without him presenting a clear plan
- Assumptions
 - Estimated \$300 million in FCF in 2021

- 2022-2026 crucial years for GameStop with Ryan Cohen's activism
 - More exposure to e-commerce → higher margins
 - Number of stores from 5000 to 2000 by 2026
 - Lower revenues but better margin with SG&A costs lowered to \$1 billion a year by 2026 from current \$1.6 billion
 - FCF of \$200/year in 2022-2026 discounted at 15%
- Bear Case
 - Changes prove to be too costly and fail. GameStop remains physical gaming retailer with failing business
 - Revenues of \$3 billion in 2026
 - FCF margin of 6%
 - \$200 million in FCF
 - No future growth
 - Base Case
 - Revenues of \$3.5 billion in 2026
 - FCF Margin of 9%
 - \$315 million in FCF
 - Future Growth of 2% p.a
 - Bull Case
 - Revenues of \$4 billion in 2026
 - FCF margin of 12%
 - \$480 million in FCF
 - Future growth of 5% p.a

	FCF Discounted at 15%		
	Bear	Base	Bull
2021	\$ 300	\$ 300	\$ 300
2022	\$ 174	\$ 174	\$ 174
2023	\$ 151	\$ 151	\$ 151
2024	\$ 132	\$ 132	\$ 132
2025	\$ 114	\$ 114	\$ 114
2026	\$ 99	\$ 157	\$ 239
Terminal Value	\$ 662	\$ 1,205	\$ 2,386
Intrinsic Value	\$ 1,632	\$ 2,233	\$ 3,496
Price	\$ 23.32	\$ 31.89	\$ 49.94



- GameStop stock worth \$50/share in bull case
- GameStop trading above its intrinsic value

2026 FCF/share		P/FCF Exit Multiples					
		X5	X10	X15	X20	X30	
Bear	\$ 2.85	\$ 14.25	\$ 28.50	\$ 42.75	\$ 57.00	\$ 85.50	
Base	\$ 4.50	\$ 22.50	\$ 45.00	\$ 67.50	\$ 90.00	\$ 135.00	
Bull	\$ 6.85	\$ 34.25	\$ 68.50	\$ 102.75	\$ 137.00	\$ 205.50	
Returns		-78%	-31%	4%	38%	216%	
CAGR		-26.2%	-7.1%	0.8%	6.7%	25.9%	
Probability		30%	20%	25%	15%	10%	
Expectation	-5%	-8%	-1%	0%	1%	3%	

- Best case scenario, GameStop is worth \$205/share in 5 years with profits of 25% per year
- Downside risk bigger than upside reward at current price

Short Squeeze

- Short term gains could continue as short squeeze intensifies



- More likely to be a short-term short squeeze (eg. Volkswagen Group in 2008) than a long-term one (eg. RH ongoing from 2016)
- Further gains highly probable in the short-term as long as speculators think they can force the shorts to cover

Conclusion

- Expensive for now and could go even higher in the short term
- Correction to be expected eventually
- Hold for investors who bought at a very cheap price, taking profits along the way