

GameStop Corp. (NYSE:GME)



Ishfaq Peerially
eToro Elite Popular Investor
(Approved Value Investor)

Trading Statistics (USD)

Market Cap (bb)	12.6	LTM EPS	-3.31	Update Date	24 Mar 2021
Current Price	181.75	LTM P/E	N/A	Recommendation	NONE
52 Wk L - H	2.57 - 483.00	EV / EBITDA	N/A	Price Target	NONE

Business Description

- Physical gaming retailer with 4816 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 4Q20)

Financial Summary

	FY16	FY17	FY18	FY19	FY20
Revenue (mm)	7,965	8,547	8,285	6,466	5,090
EBITDA (mm)	649	593	-569	-292	-189
Margins	8.1%	6.9%	-6.9%	-4.5%	-3.7
Net Income (mm)	394	322	231	-493	-215
Margins	4.9%	3.8%	2.8%	-7.6%	-4.2%

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
Mar-21	\$ 181.75	\$ 12,600	\$ 436	\$ 508	\$ 337	20%	Cycle + Activism (Ryan Cohen)

- Catalysts for investment changed since I first started investing in GameStop in September 2019
- GameStop no longer qualifies as a value stock
- Ryan Cohen and two other former Chewy executives joining the board of GameStop expected to change the business, starting with a new Chairman in June.

Director	Position	Shares	Ownership	Dec-20	Jan-21	Jun-21
Lizabeth Dunn	Pro4ma Founder	62,258	0.09%			
Raul Fernandez	Proxicom Founder	67,408	0.10%			
James Symancyk	CEO Petsmart		0.00%			
Kathy Vrabeck	Chairman	129,537	0.19%			
Alan Attal	Former COO/CMO Chewy		0.00%			
Ryan Cohen	Founder Chewy	9,001,000	12.90%			
Paul Evans	Permit Capital	1,951,000	2.80%			
Reginald Fils-Aime	Former CEO Nintendo America		0.00%			
Jim Grube	Former CFO Chewy		0.00%			
George Sherman	CEO	2,361,670	3.39%			
William Simon	Fomer COO Walmart USA		0.00%			
Carrie Teffner	Former CFO Petsmart	84,758	0.12%			
Kurt Wolf	Hestia Capital	1,355,100	1.94%			
Other Insiders		8,260,000	11.84%			
Total Insiders			33.37%			

- Hired COO Jenna Owens with Chief Customer Officer Frank Hamlin to leave the company.
- No concrete plan yet on how transformation will happen to take company online
- Closed 693 stores in 2020
- Total shares outstanding short now at 20.3% with 52% of float - minor short squeeze still possible

Risks:

- Now highly speculative stock
- Losing market share with sales of hardware down in 2020 despite the new beginning of a new console cycle
- High competition with Amazon, Walmart, Best Buy, Target and console makers
- This may be the last console cycle as cloud gaming is gaining popularity
- Cyclical stock

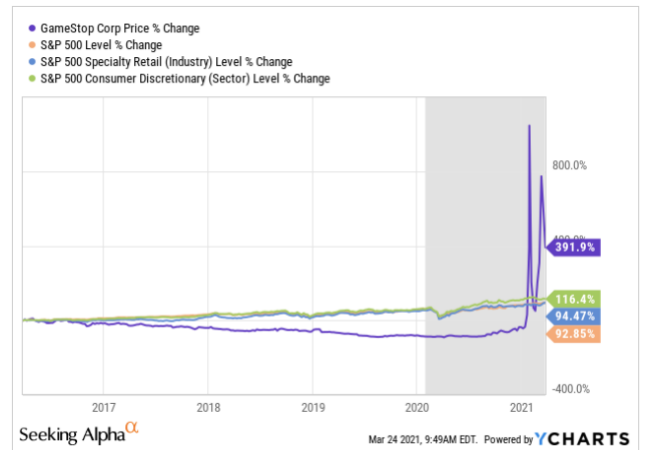
Financial Analysis:

- Revenues of \$2.12 billion in 4Q20 vs \$2.19 in 4Q19
- Revenues of \$5.0 billion in FY20 vs \$6.4 billion in FY19
- SG&A cost of \$1.5 billion in FY20 (29.7% of revenues) vs \$1.9 billion in FY19 (29.8% of revenues)
- Net income of \$80.5 million in 4Q20 vs net income of \$21.0 million in 4Q19
- Net loss of \$215 million in FY20 vs net loss of \$470 million for FY19
- FCF of \$63.7 million for FY20 vs negative FCF of \$492 million for FY19
- Global ecommerce sales increased by 175% in FY20 and now 34% of total sales
- 6.5% increase in Comparable Store sales in 4Q20 vs 4Q19
- Comparable Store Sales down 9% for FY20
- Balance Sheet
 - Total assets: \$2.47 billion ; total liabilities: \$2.03 billion; book value: \$436 million
 - Cash: \$508 million, debts: \$337 million, current assets: \$1.55 billion, current liabilities: \$1.34 billion

Valuations

- My personal Biases
 - GameStop used to be the largest position in my portfolio before selling for a 3300% average profit
 - 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

		P/FCF Exit Multiples					
2026 FCF/share		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		-92%	-75%	-63%	-50%	14%	
CAGR		-39.9%	-24.3%	-17.9%	-13.0%	2.6%	
Probability		10%	20%	25%	25%	20%	
Expectation	-16%	-4%	-5%	-4%	-3%	1%	

Conclusion

- Business potential still here with fundamentals unchanged from last analysis (January 2021)
- Massively overvalued
- Correction to be expected eventually
- Hold stocks at own risk if you believe in the future of the business