# 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 -<br>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  | P     | rice |    | Mark | et Cap | Bool | Value | Cash |     | Debt |     | <b>Shares Short</b> | Catalysts   |
|-------|-------|------|----|------|--------|------|-------|------|-----|------|-----|---------------------|---|
| Sep-1 | 9 \$  | 4.7  | 70 | \$   | 474    | \$   | 809   | \$   | 424 | \$   | 419 | 67%                 | Cigar Butt + Activism (Michael Burry - buybacks) + Cycle          |
| Apr-2 | 20 \$ | 2.5  | 57 | \$   | 172    | \$   | 611   | \$   | 499 | \$   | 419 | 87%                 | Pure Value + Cigar Butt + Cycle + Short Squeeze                   |
| Sep-2 | 20 \$ | 10.0 | )4 | \$   | 642    | \$   | 352   | \$   | 735 | \$   | 472 | 102%                | Value + Cigar Butt + Cycle + Short Squeeze + Activism (Ryan Coher |
| Jan-2 | 21 \$ | 65.0 | )1 | \$   | 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 prize 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
  - o 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%
- o \$200 million in FCF
- No future growth

### Base Case

- Revenues of \$3.5 billion in 2026
- FCF Margin of 9%
- o \$315 million in FCF
- o Future Growth of 2% p.a

#### Bull Case

- o Revenues of \$4 billion in 2026
- FCF margin of 12%
- o \$480 million in FCF
- Future growth of 5% p.a

|                       |      | FCF   | Disco | unted 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   |
| <b>Terminal Value</b> | \$   | 662   | \$    | 1,205    | \$   | 2,386 |
| Intrinsic Value       | \$   | 1,632 | \$    | 2,233    | \$   | 3,496 |
| Price                 | \$   | 23.32 | \$    | 31.89    | \$   | 49.94 |



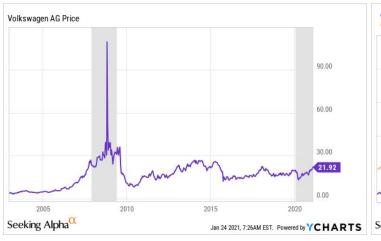
- GameStop stock worth \$50/share in bull case
- GameStop trading above its intrinsic value

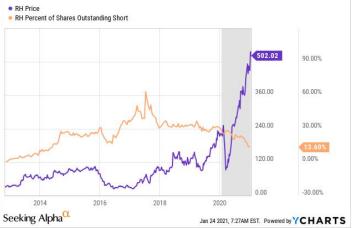
|                |         |    | P/FCF Exit Multiples |     |       |     |        |     |        |     |        |
|----------------|---------|----|----------------------|-----|-------|-----|--------|-----|--------|-----|--------|
| 2026 FCF/share |         |    |                      | X10 |       | 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%     | 6  | -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



