Jan 10, 2020

GameStop Corp. (GME)

$5.55 (As of 01/09/20)

Price Target (6-12 Months): **$6.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/08/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: D | Momentum: D	

Summary

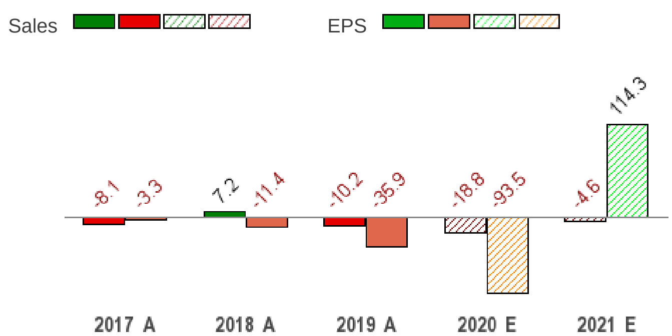
Shares of GameStop have declined and underperformed the industry in the past year, due to the company's dismal top-line performance. This continued in third-quarter fiscal 2019, wherein sales lagged the Zacks Consensus Estimate and fell year over year. The metric was hurt by soft comps, store closures and adverse currency. Moreover, it posted wider-than-expected loss in the quarter. Also, a shift to digital download and streaming of games continues to be a headwind. Consequently, management slashed comps and earnings view for fiscal 2019. Additionally, its pre-owned business has been a concern, owing to declines across both hardware and software. Nevertheless, management is cutting down costs, focusing on high-margin product categories, enhancing digital capabilities, rationalizing store base, exiting loss-making businesses and lowering debt.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$16.90 - $3.15
20 Day Average Volume (sh)	4,393,055
Market Cap	$365.9 M
YTD Price Change	-8.7%
Beta	0.47
Dividend / Div Yld	$0.00 / 0.0%
Industry	Retail - Consumer Electronics
Zacks Industry Rank	Bottom 11% (227 out of 254)
Last EPS Surprise	-916.7%
Last Sales Surprise	-10.9%
EPS F1 Est- 4 week change	-8.3%
Expected Report Date	04/07/2020
Earnings ESP	6.7%
P/E TTM	7.8
P/E F1	39.6
PEG F1	NA
P/S TTM	0.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,305 E	1,114 E	1,359 E	2,666 E	6,419 E
2020	1,548 A	1,286 A	1,439 A	2,456 E	6,728 E
2019	1,934 A	1,647 A	2,084 A	3,063 A	8,285 A

EPS Estimates

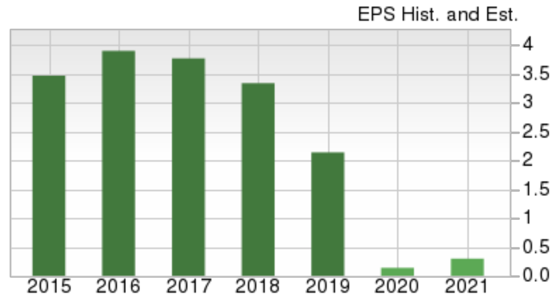
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.21 E	-$0.69 E	-$0.11 E	$1.48 E	$0.30 E
2020	$0.07 A	-$0.32 A	-$0.49 A	$1.05 E	$0.14 E
2019	$0.38 A	$0.05 A	$0.67 A	$1.45 A	$2.14 A

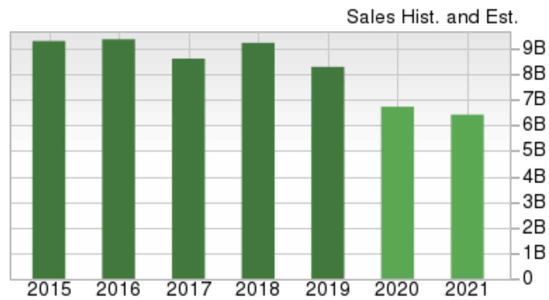
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Headquartered in Grapevine, TX, GameStop Corporation (GME) is a global leader in retailing software, hardware, and game accessories for video game systems (by Sony, Nintendo and Microsoft) and personal computers (PC). The company is also one of the largest resellers of used video games as well as PC entertainment software.





The products are sold through stores and its eCommerce website – gamestop.com. GameStop also publishes a multi-platform video game magazine – Game Informer - one of the major game magazines published in the United States.

GameStop operates more than 5,700 stores across 14 countries. Its consumer product network comprises www.gamestop.com; and Game Informer magazine. The company's video game brand stores sells a wide range of digital products that include network points cards, downloadable content, prepaid digital, prepaid subscription cards and digitally downloadable software as well as collectible products.

The company categorizes sale of products and services as follows: New video game hardware (21.3% of fiscal 2018 sales), New video game software (29.6% of fiscal 2018 sales), Pre-owned and value video game products (22.5% of fiscal 2018 sales), Video game accessories (11.5% of fiscal 2018 sales), Digital (2.3% of fiscal 2018 sales), Collectibles (8.5% of fiscal 2018 sales) and Other (4.3% of fiscal 2018 sales).

Geographically, the company's operations are segmented into four regions — United States, Canada, Australia and Europe. Each region engages in retail operations with majority stores selling new and pre-owned video game systems, software and accessories.

Reasons To Buy:

▲ **Strategic Review:** GameStop is undertaking strategic endeavors to bring the company back on track. These involve cost containment efforts, optimization of inventory, focusing on high margin product categories and rationalizing store base worldwide. The company also plans to augment store experience, expand and redesign PowerUp Rewards loyalty program, enhance digital capabilities and improve engagement with vendors and partners. The company's long-term target is to create $1 billion e-commerce business. The company is also focusing on lowering debt load. Year to date through fiscal 2019, the company lowered its outstanding debt by $401.7 million.

GameStop has been undertaking cost containment efforts, optimizing inventory, focusing on high-margin product categories, rationalizing store base and lowering debt.

▲ **Prudent Savings Plans:** GameStop is on track with the comprehensive business review process to strengthen profitability and develop new revenue. In fact, the plan involves reviewing all aspects of the business and adopting prudent transformations for achieving improved performance. The company has undertaken cost-savings and operating profit improvement initiatives. This strategy aims at strengthening the organization and aid financial improvement and profitability in the long term. Its efforts in this regard include supply-chain improvements, operational enhancements, cost cuts, pricing, optimization, addition of high-margin products and rationalization of global store base. Management aims at achieving annualized operating profit improvement of more than $200 million by 2021.

▲ **Other Strategic Activities:** Management plans to shift focus from underperforming areas to those with high-profit potential. In sync with this, the company is on track with making improvements in the physical video game retail business model. It is also on track with exploring opportunities in the digital arena. Further, the company plans to augment technology and data analytics capabilities. The company is exiting loss-incurring businesses and closing underperforming stores. It expects to shut around 230-250 underperforming stores worldwide by the end of the current fiscal year. Also, GameStop is on track to wind down operations in Denmark, Finland, Norway and Sweden amid weak industry trends. We note that as part of the company's comprehensive review process, it concluded the sale of Spring Mobile business on Jan 16, 2019. Moreover, the company completed the divestiture of Simply Mac to Cool Holdings in September 2019. It also announced a series of strategic partnerships to boost presence in the gaming industry and widen customer reach. In sync with this, the company has undertaken partnerships with Complexity Gaming, Infinite eSports as well as Entertainment and Envy Gaming among several others.

▲ **Collectibles Business Looks Robust:** GameStop's collectibles sales category has been profitable for the past several quarters. During the third quarter of fiscal 2019, collectibles sales grew 4.3% to $161.2 million, thanks to continued growth in the domestic and international stores. This was the 16th straight quarter of increase. This was preceded by increases of 21.2% and 10.5% in the second and first quarters of fiscal 2019 and 3.1%,11.7%, 15.7% and 24.4% in the fourth, third, second and first quarters of fiscal 2018, respectively. Collectibles business is being driven by consistent growth in domestic and international collectibles business. The company believes that it has a solid potential for sustained growth in this business. Moreover, GameStop seeks to strengthen this unit by widening its global footprint in video game stores, as well as e-commerce platforms.

▲ **Strong Footing in Gaming Arena:** GameStop continues to branch out its business and has evolved as a mixed retailer of physical and digital gaming as well as electronics products. The company's venture into digital, iDevice and gaming tablet businesses have been accretive to its results. Also, the company's buy-sell-trade model of selling new games and buying back used games, and the PowerUp Rewards program have made it a popular destination for shoppers. The company's pre-owned trade capabilities and solid omni-channel presence are also encouraging.

Reasons To Sell:

> We note that the company’s pre-owned business has been witnessing soft sales since the past few quarters. Moreover, the company’s fiscal 2019 comps and earnings forecast is unimpressive.

- **Dismal Top-Line Performance:** Shares of GameStop have lost 64.9% in the past one year against the industry's 47.5% rally. The company has been struggling with dismal top-line performance for quite sometime now. During the third quarter of fiscal 2019, net sales declined 25.7% (or 24.7% on a constant-currency basis) year over year to $1,438.5 million, hurt by soft comparable store sales performance, store closures and adverse currency fluctuations. The top line also fell short of the Zacks Consensus Estimate of $1,614 million, marking the fourth consecutive miss. We note that net sales have declined 14.3, 13.3% and 7.6% in the preceding three quarters. By sales mix, new video game hardware sales declined 45.8%, while new video game software sales fell 32.6%. Pre-owned and value video game products sales were down 13.3%, while video game accessories sales fell 13.4%. Meanwhile, consolidated comparable store sales performance has also been disappointing. Consolidated comparable store sales fell 23.2% during the third quarter of fiscal 2019, following a decline of 11.6% in the preceding quarter. Based on softer-than-expected industry wide trend, sluggish sales at its stores due to delayed purchases and shutdown of underperforming operations globally, management slashed its outlook for fiscal 2019. GameStop now envisions comparable store sales to decline in high teens compared with the prior projection of a low teens decline.

- **Wider-Than-Expected Q3 Loss & Dull View:** GameStop reported dismal third-quarter fiscal 2019 results, wherein both the top and the bottom line not only fell short of the Zacks Consensus Estimate but also came below the prior-year reported figures. GameStop’s adjusted loss from continuing operations came in at 49 cents a share against the Zacks Consensus Estimate of earnings of 6 cents. The reported figure also compared unfavorably with adjusted earnings of 49 cents per share in the year-ago period. Its performance was hurt by sluggish store sales as customers delayed console purchases until the launch of generation nine consoles from Sony and Microsoft by the end of 2020. Also, a shift to digital download as well as streaming of games continues to be a headwind. Unfortunately, management expects this trend to persist in the fourth quarter of fiscal 2020. Trimmed comparable-store sales and earnings forecast for fiscal 2019 further adds to its woes. Consequently, management now expects fiscal 2019 adjusted earnings in the band of 10-20 cents per share, which indicates a major decline from $2.14 earned last fiscal. Earlier, management had anticipated adjusted earnings per share of $1.15-$1.30 for fiscal 2019.

- **Pre-owned Products Continue to Struggle:** The company’s pre-owned business has been depicting dismal trends for a while, due to the launch of fewer titles, decrease in physical software sales, muted demand owing to digital access to older titles and fewer promotions offered to customers. During the third quarter of fiscal 2019, pre-owned and value video game product sales came in at $344.2 million, down 13.3% year over year owing to declines across both hardware and software. This follows a decline of 17.5%, 20.3%, 21.3%, 13.4%, 9.9% and 5.8% in the preceding quarters.

- **Stiff Competition & Other Headwinds:** The video game industry is highly competitive, and video game shoppers now have many alternatives to buy software, hardware, and game accessories for video game systems and personal computers. Retail bigwigs such as Wal-Mart, Target and Best Buy have also entered the video game market. These larger retailers could dent GameStop’s sales and margins. Moreover, consumers can only download a limited number of PC entertainment software and older generation video games from the Internet. However, with the advancement of technology, if the consumers’ accessibility increases, they may no longer prefer to buy PC entertainment software and video games through the company’s retail stores.

Last Earnings Report

GameStop Reports Wider-Than-Expected Q3 Loss

Quarter Ending	10/2019
Report Date	Dec 10, 2019
Sales Surprise	-10.87%
EPS Surprise	-916.67%
Quarterly EPS	-0.49
Annual EPS (TTM)	0.71

GameStop reported dismal third-quarter fiscal 2019 results. In the quarter, the top and the bottom line missed the Zacks Consensus Estimate and fared unfavorably compared with prior-year quarter's figures. Investors' sentiments were hurt by management's trimmed outlook for fiscal 2019 earnings, comparable-store sales and adjusted free cash flow.

The Grapevine, TX-based company's performance was hurt by sluggish store sales due to customers delaying console purchases until the launch of generation nine consoles from Sony and Microsoft by the end of 2020. Also, a shift to digital download as well as streaming of games continues to be a headwind. Unfortunately, management expects this trend to persist in the fourth quarter of fiscal 2020.

Nevertheless, the company is exiting loss-incurring businesses and closing underperforming stores. Management expects to shut around 230-250 underperforming stores worldwide by the end of fiscal 2019. Also, GameStop is on track to wind down operations in Denmark, Finland, Norway and Sweden to counter the weak industry trends.

Q3 Performance

GameStop's adjusted loss from continuing operations came in at 49 cents per share against the Zacks Consensus Estimate of earnings of 6 cents. The reported figure also compares unfavorably with adjusted earnings from continuing operations of 49 cents per share in the year-ago period.

Net sales declined 25.7% year over year (24.7% on a constant-currency basis) to $1,438.5 million thanks to soft comparable store sales performance, store closures and adverse currency fluctuations. Moreover, the top line lagged the Zacks Consensus Estimate of $1,613.9 million, marking its fourth consecutive miss.

We note that consolidated comparable store sales fell 23.2%, following a decline of 11.6% in the last reported quarter. The downside was caused by low transactions, partially offset by improvement in units per transaction for new hardware and software video game.

By sales mix, new video game hardware sales declined 45.8% to $189 million. This is reflective of announcements for next generation console launches in 2020. New video game software sales fell 32.6% to $485.9 million. The growth in Nintendo Switch software titles was more than offset by sluggishness in new title launches.

Pre-owned and value video game products sales came in at $344.2 million, down 13.3% year over year. The downtick was caused by declines across both hardware and software. Video game accessories sales fell 13.4% year over year to $156.5 million.

Moreover, digital sales fell 18.5% to $37 million. Nevertheless, Collectibles sales rose 4.3% to $161.2 million in the reported quarter owing to consistent growth in domestic and international stores. This marked the 16th straight quarter of upside.

Moving on, gross profit fell 21% from year-ago quarter's figure to $441.1 million. However, gross margin expanded 190 basis points to 30.7%, driven by margin expansion in all video game categories.

SG&A expenses declined 2.5% to $451.8 million in the reported quarter. As a percentage of net sales, the metric increased to 31.4% from 23.9% reported in the prior-year quarter. The company reported adjusted operating loss of $18.6 million against an adjusted operating income of $69.6 million reported in the year-ago quarter.

Other Financial Aspects

GameStop ended the quarter with cash and cash equivalents of $290.3 million, down $158.3 million year over year. Moreover, the company had net receivables of $145.7 million, net long-term debt of $419.4 million (down from $471.2 million in the year-ago quarter) and shareholders' equity of $617.1 million at the quarter end.

During the quarter, the company incurred capital expenditures of $20 million. Further, management expects to incur capital expenditures in the band of $80-$85 million during fiscal 2019. Management now expects to generate adjusted free cash flow in the range of $200-$220 million during the fiscal year. Earlier, GameStop anticipated the metric in the range of $225-$250 million for the same period.

Under its recently-concluded modified Dutch auction tender offer, the company repurchased 22.6 million shares for an aggregate amount of $115.7 million during the quarter. The company has $67.8 million shares remaining under the existing repurchase program.

Outlook

GameStop now envisions comparable store sales to decline in high teens compared with the prior projection of a low teens decline. Also, the company now expects fiscal 2019 adjusted earnings in the band of 10-20 cents per share, which suggests a decline from $2.14. Earlier, management anticipated adjusted earnings per share of $1.15-$1.30 for fiscal 2019.

Recent News

GameStop Divests Simply Mac – September 26, 2019

GameStop completed the divestiture of Simply Mac to Cool Holdings. In May 2019, the company had signed a definitive agreement to sell all outstanding shares of Simply Mac to Cool Holdings.

Valuation

GameStop shares are down 64.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 47.5% and 20.5% over the past one year, respectively.

The S&P 500 index is up 25.3% in the past year.

The stock is currently trading at 19.25X forward 12-month earnings, which compares to 13.8X for the Zacks sub-industry, 25.51X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.16X and as low as 2.14X, with a 5-year median of 6.39X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $6 price target reflects 20.21X forward 12-month earnings.

The table below shows summary valuation data for GME

Valuation Multiples - GME

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.25	13.8	25.51	18.94
	5-Year High	22.16	13.8	26.13	19.34
	5-Year Low	2.14	8.32	18.99	15.17
	5-Year Median	6.39	11.59	22.91	17.44
P/S F12M	Current	0.06	0.39	1.08	3.51
	5-Year High	0.52	0.41	1.1	3.51
	5-Year Low	0.04	0.21	0.8	2.54
	5-Year Median	0.25	0.31	0.9	3
EV/EBITDA TTM	Current	5.48	6.42	15.28	11.99
	5-Year High	6.52	6.61	15.3	12.86
	5-Year Low	0.19	2.91	10.27	8.48
	5-Year Median	3.73	4.41	12.33	10.67

As of 01/09/2020

Industry Analysis **Zacks Industry Rank:** Bottom 11% (227 out of 254)

Top Peers

Target Corporation **(TGT)**	Outperform
Aarons,Inc. **(AAN)**	Neutral
Amazon.com, Inc. **(AMZN)**	Neutral
Best Buy Co., Inc. **(BBY)**	Neutral
Costco Wholesale Corporation **(COST)**	Neutral
Systemax Inc. **(SYX)**	Neutral
Walmart Inc. **(WMT)**	Neutral
Conns, Inc. **(CONN)**	Underperform

Industry Comparison Industry: Retail - Consumer Electronics

Industry Peers

	GME Neutral	X Industry	S&P 500	AAN Neutral	BBY Neutral	CONN Underperform
VGM Score	F	-	-	A	B	B
Market Cap	365.87 M	365.87 M	23.94 B	3.89 B	23.13 B	304.77 M
# of Analysts	4	4	13	8	9	5
Dividend Yield	0.00%	0.00%	1.78%	0.28%	2.24%	0.00%
Value Score	D	-	-	A	A	A
Cash/Price	0.75	0.16	0.04	0.04	0.05	0.16
EV/EBITDA	-1.78	7.63	13.97	1.95	9.29	7.63
PEG Ratio	NA	0.71	2.03	0.71	1.72	0.20
Price/Book (P/B)	0.61	1.28	3.33	2.08	7.54	0.49
Price/Cash Flow (P/CF)	1.64	2.73	13.73	1.89	10.60	2.73
P/E (F1)	39.14	15.04	18.79	13.04	15.04	4.70
Price/Sales (P/S)	0.05	0.76	2.64	0.99	0.53	0.19
Earnings Yield	2.52%	6.65%	5.32%	7.67%	6.65%	21.28%
Debt/Equity	1.52	0.36	0.72	0.19	1.10	2.04
Cash Flow ($/share)	3.39	3.64	6.94	30.66	8.43	3.89
Growth Score	D	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	-16.85%	20.38%	10.56%	15.96%	21.97%	20.38%
Proj. EPS Growth (F1/F0)	-93.57%	14.63%	7.49%	16.54%	11.72%	-10.04%
Curr. Cash Flow Growth	-29.60%	15.57%	14.83%	20.03%	11.12%	58.97%
Hist. Cash Flow Growth (3-5 yrs)	-8.05%	15.62%	9.00%	20.01%	9.54%	2.04%
Current Ratio	1.18	1.77	1.23	2.74	1.05	4.92
Debt/Capital	60.26%	39.46%	42.99%	15.67%	52.39%	67.13%
Net Margin	-9.27%	5.21%	11.08%	5.09%	3.54%	5.37%
Return on Equity	8.27%	14.05%	17.16%	14.21%	49.43%	13.89%
Sales/Assets	2.12	1.69	0.55	1.26	2.91	0.76
Proj. Sales Growth (F1/F0)	-22.92%	1.54%	4.20%	11.07%	1.54%	0.83%
Momentum Score	D	-	-	D	D	C
Daily Price Chg	-2.97%	-0.28%	0.53%	-1.19%	0.81%	-3.54%
1 Week Price Chg	-0.34%	0.00%	-0.30%	1.14%	0.20%	-5.69%
4 Week Price Chg	-0.54%	-0.54%	1.92%	-0.17%	4.71%	-19.39%
12 Week Price Chg	-7.96%	-7.96%	6.54%	-19.35%	27.89%	-59.33%
52 Week Price Chg	-65.23%	22.98%	22.58%	24.95%	57.15%	-47.19%
20 Day Average Volume	4,393,055	37,029	1,580,816	552,921	1,977,278	1,386,460
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.48%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.33%	-0.48%	0.00%	-0.48%	0.43%	-10.25%
(F1) EPS Est 12 week change	-87.59%	-4.08%	-0.50%	-1.96%	3.42%	-17.35%
(Q1) EPS Est Mthly Chg	-6.80%	0.00%	0.00%	0.00%	0.57%	-26.55%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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