

GameStop Corp. (GME)

\$3.81 (As of 02/07/20)

Price Target (6-12 Months): **\$3.25**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: B

Summary

Shares of GameStop have declined and underperformed the industry in the past three months. The stock was hit by a dismal holiday performance and soft view. The season turned out to be a tough one with sales coming in below expectations. Management did expect the sales environment to be challenging as customers are choosing to postpone their purchases on account of expected console launches in late 2020. But a sharper-than-expected fall in new hardware and software sales particularly in the month of December has dealt a heavy blow. Consequently, management now expects fiscal 2019 comparable store sales to fall 19-21%. In addition, a shift to digital download and streaming of games continues to be a headwind. Nevertheless, management is cutting down costs, enhancing digital capabilities, rationalizing store base and exiting loss-making businesses.

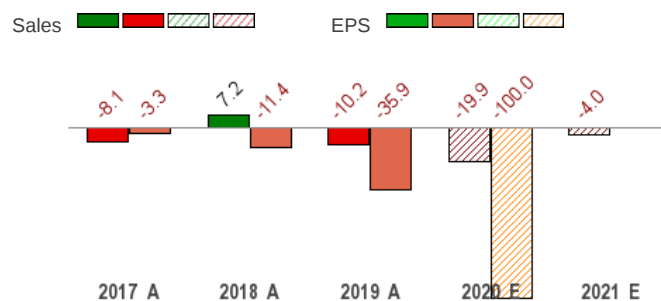
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$12.10 - \$3.15
20 Day Average Volume (sh)	3,296,288
Market Cap	\$251.2 M
YTD Price Change	-37.3%
Beta	0.57
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Consumer Electronics
Zacks Industry Rank	Bottom 4% (245 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-916.7%
Last Sales Surprise	-10.9%
EPS F1 Est- 4 week change	-62.2%
Expected Report Date	NA
Earnings ESP	-4.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,305 E	1,114 E	1,359 E	2,593 E	6,370 E
2020	1,548 A	1,286 A	1,439 A	2,363 E	6,635 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	-\$0.24 E	-\$0.72 E	-\$0.17 E	\$1.46 E	\$0.11 E
2020	\$0.07 A	-\$0.32 A	-\$0.49 A	\$0.84 E	\$0.00 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.

P/E TTM	5.4
P/E F1	34.6
PEG F1	NA
P/S TTM	0.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

Overview

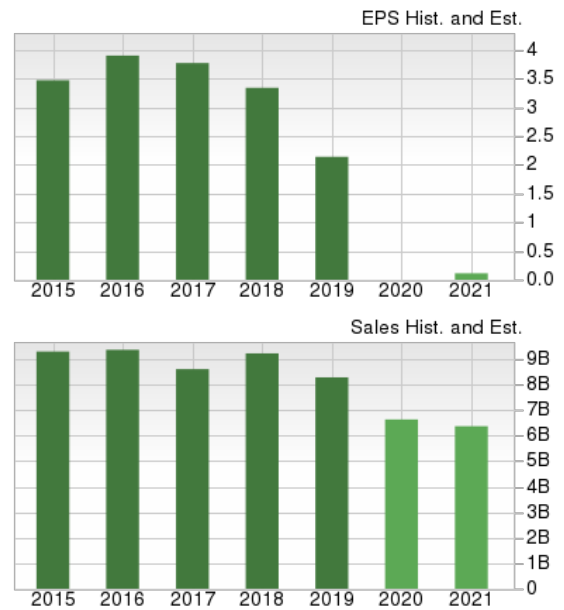
Headquartered in Grapevine, TX, GameStop Corporation (GME) is a global leader in retailing software, hardware, and game accessories for video game systems (by Sony, Nintendo and Microsoft) and personal computers (PC). The company is also one of the largest resellers of used video games as well as PC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

- ▼ **Dismal Holiday Performance:** Shares of GameStop have lost 36.8% in the past three months against the industry's 9.5% rally. The stock was recently hit by a dismal performance in the holiday season and soft view for fiscal 2019. Holiday season turned out to be a tough one for GameStop with sales coming in below expectations. Management did expect the sales environment to be challenging as customers are choosing to postpone their purchases on account of expected console launches in late 2020. But a sharper-than-expected fall in new hardware and software sales particularly in the month of December has dealt a heavy blow. Total global sales for the nine-week holiday period ended Jan 4, 2020 plunged 27.5% to \$1.83 billion. Comparable store sales decreased 24.7% against an increase of 1.5% in the year-ago period. Consequently, GameStop adjusted fiscal 2019 sales view and now envisions earnings "to be below guidance." The company also added that the challenges it countered in the fourth quarter of fiscal 2019 are likely to persist in fiscal 2020. Management now expects fiscal 2019 comparable store sales to decline in the band of 19-21%.
- ▼ **Dismal Top-Line Performance:** GameStop 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.
- ▼ **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. It 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.

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.

Risks

- **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.
 - **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.
 - **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.
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Last Earnings Report

GameStop Reports Wider-Than-Expected Q3 Loss

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 envisions 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.

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

Recent News

GameStop Posts Soft Holiday Sales, Revisits View – Jan 13, 2020

Holiday season turned out to be a tough one for GameStop with sales coming in below expectations. The disappointing performance compelled the video game retailer to revisit fiscal 2019 view. Management did expect the sales environment to be challenging as customers are choosing to postpone their purchases on account of expected console launches in late 2020. But a sharper-than-expected fall in new hardware and software sales particularly in the month of December has dealt a heavy blow.

Total global sales for the nine-week holiday period ended Jan 4, 2020 plunged 27.5% to \$1.83 billion. Comparable store sales decreased 24.7% against an increase of 1.5% in the year-ago period. Consequently, GameStop adjusted fiscal 2019 sales view and now envisions earnings “to be below guidance.” The company also added that the challenges it countered in the fourth quarter of fiscal 2019 are likely to persist in fiscal 2020.

Management now expects fiscal 2019 comparable store sales to decline in the band of 19-21%. The company had earlier guided comparable store sales to decline in high teens. The company projects capital expenditures between \$75 million and \$80 million and forecasts total cash and liquidity, including availability under the revolving line of credit, at the end of the fiscal year to be about \$900 million.

Valuation

GameStop shares are down 37.3% in the year-to-date period and nearly 65.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.5% but those in the Zacks Retail-Wholesale sector are up 3.5% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 42.7% and 21%, respectively.

The S&P 500 index is up 3.4% in the year-to-date period and 24.5% in the past year.

The stock is currently trading at 0.04X forward 12-month sales, which compares to 0.36X for the Zacks sub-industry, 1.07X for the Zacks sector and 3.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.52X and as low as 0.04X, with a 5-year median of 0.24X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$3.25 price target reflects 0.04X forward 12-month sales.

The table below shows summary valuation data for GME

Valuation Multiples - GME					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.04	0.36	1.07	3.53
	5-Year High	0.52	0.4	1.1	3.53
	5-Year Low	0.04	0.21	0.8	2.54
	5-Year Median	0.24	0.3	0.92	3
P/B TTM	Current	0.41	4.45	5.31	4.29
	5-Year High	2.57	4.68	5.86	4.42
	5-Year Low	0.32	1.66	3.6	2.85
	5-Year Median	0.95	2.74	4.85	3.62
EV/EBITDA TTM	Current	4.85	5.81	15.71	11.36
	5-Year High	6.52	6.61	15.71	12.85
	5-Year Low	0.19	2.78	10.79	8.47
	5-Year Median	3.73	4.24	12.39	10.7

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (245 out of 254)



Top Peers

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

Industry Comparison Industry: Retail - Consumer Electronics				Industry Peers		
	GME Underperform	X Industry	S&P 500	AAN Neutral	BBY Neutral	CONN Underperform
VGM Score	F	-	-	A	B	B
Market Cap	251.16 M	436.76 M	24.00 B	3.73 B	22.52 B	262.86 M
# of Analysts	4	4	13	8	9	5
Dividend Yield	0.00%	0.00%	1.78%	0.29%	2.30%	0.00%
Value Score	F	-	-	A	A	A
Cash/Price	1.15	0.16	0.04	0.04	0.05	0.21
EV/EBITDA	-1.57	7.62	14.07	1.88	9.06	7.42
PEG Ratio	NA	0.68	2.04	0.68	1.60	0.18
Price/Book (P/B)	0.42	2.00	3.28	2.00	7.34	0.42
Price/Cash Flow (P/CF)	1.13	6.39	13.58	1.81	10.33	2.35
P/E (F1)	34.64	13.96	18.86	12.47	13.96	4.05
Price/Sales (P/S)	0.03	0.73	2.65	0.95	0.52	0.17
Earnings Yield	2.89%	6.73%	5.30%	8.02%	7.16%	24.67%
Debt/Equity	1.52	0.27	0.71	0.19	1.10	2.04
Cash Flow (\$/share)	3.39	3.39	6.89	30.66	8.43	3.89
Growth Score	D	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	-16.85%	20.38%	10.80%	15.96%	21.97%	20.38%
Proj. EPS Growth (F1/F0)	NA%	4.86%	7.23%	16.87%	4.90%	0.35%
Curr. Cash Flow Growth	-29.60%	15.57%	9.51%	20.03%	11.12%	58.97%
Hist. Cash Flow Growth (3-5 yrs)	-8.05%	15.62%	8.55%	20.01%	9.54%	2.04%
Current Ratio	1.18	2.26	1.20	2.74	1.05	4.92
Debt/Capital	60.26%	26.53%	42.90%	15.67%	52.39%	67.13%
Net Margin	-9.27%	5.21%	11.76%	5.09%	3.54%	5.37%
Return on Equity	8.27%	14.21%	16.98%	14.21%	49.43%	13.89%
Sales/Assets	2.12	1.69	0.54	1.26	2.91	0.76
Proj. Sales Growth (F1/F0)	-3.99%	4.92%	4.15%	11.13%	1.72%	4.67%
Momentum Score	B	-	-	A	C	C
Daily Price Chg	-7.97%	-1.16%	-0.64%	-2.51%	-1.83%	-4.18%
1 Week Price Chg	-11.11%	-1.41%	-2.60%	-3.45%	-5.31%	-4.47%
4 Week Price Chg	-31.35%	-2.02%	0.72%	-4.15%	-2.63%	-13.75%
12 Week Price Chg	-36.29%	-0.71%	4.69%	-5.53%	15.11%	-59.09%
52 Week Price Chg	-66.78%	21.19%	16.01%	11.22%	47.84%	-55.56%
20 Day Average Volume	3,296,288	30,625	1,961,054	714,425	2,160,676	902,354
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-62.19%	-0.87%	-0.00%	0.25%	0.00%	-1.74%
(F1) EPS Est 12 week change	-87.43%	-14.16%	-0.16%	-0.22%	3.76%	-28.10%
(Q1) EPS Est Mthly Chg	-16.13%	-1.23%	0.00%	-2.45%	0.17%	0.00%

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	F
Growth Score	D
Momentum Score	B
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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