Siena Market Line
2nd week of March 2016

Gamestop Corp.
GME

Analyst: Richard Acheson
Sector: Consumer Disc.

BUY

Price Target: $68.67

Key Statistics as of 3/4/16

Market Price:	$31.23
Industry:	Specialty Retail
Market Cap:	$3.3B
52-Week Range:	$24.33 - $47.83
Beta:	.69

Thesis Points:

- Gamestop is undervalued due to the recent market crash in late 2015 and early 2016
- Showing diversification with their new acquisition of Technology Brands
- The company creates great value, particularly reselling pre-owned games and consoles.

Company Description:

Gamestop Corp. is a retailer that specializes in selling new and pre-owned video game consoles, games for each console, as well as accessories for all of their consumers gaming needs. They are currently the largest video game retailer in the world owning 4,138 stores domestically as well as 6,690 stores worldwide. Gamestop is also the issuer of *Game Informer* which is the world's largest publication of video game review, strategic tips for current games, and also a look into games that will be coming out in the near future. Despite the recent tank in stock price, Gamestop continue to create value within the company and will create value to future shareholders.

Thesis

Gamestop is currently priced at $32.19. In the beginning of November 2015, they were priced at roughly $47 per share. The decrease was due to a crash within the entire market with nothing specifically applying to Gamestop. After reaching a low of $25 per share in January, Gamestop is starting to make up for the loss, making this a perfect time to buy.

Not only is the price historically low, but the company is also diversifying its revenue streams in order to become more flexible using their newly acquisitioned Technology Brands segment. This include the sales of new pre-paid phone, tablets and other electronics. This helps them diversify their revenue stream that way they are not completely dependent on their suppliers to constantly come out with new games and consoles.

Lastly, Gamestop gets an extremely high amount of their value from purchasing pre-owned games a high discount and then reselling those games or consoles to a new consumer at a much higher rate. This segment contributed 41% of their gross profit in 2015 and 2014.

Porter's Five Forces

Bargaining power of suppliers: **HIGH**

Gamestop is completely dependent on their suppliers' ability to be able to make new games and consoles. The entire industry is based on new releases and new games and consoles that consumers have to buy. If there were no new games coming out the entire industry would fail

Bargaining power of customers: **LOW**

Consumers have very little bargaining power if any at all. Not only Gamestop, but every retailer prices new games and consoles evenly. Not only that, but Gamestop is able to buy used hardware at a high discount because customers don't have anyone else to sell their used games and consoles too.

Threat of substitutes: **MEDIUM**

There are some alternatives for gamers to pursue. Games on consumers mobile devices have recently become popular and cold be a potential threat, but these games do not nearly include the same amount of detail that comes from purchasing a console.

Existing rivalry: **MEDIUM**

Existing rivals to Gamestop mainly include major retailers like Walmart and Target. Neither one of these retailers specifically sells video games and therefore does not carry the amount of detail in their inventory the Gamestop does, leaving Gamestop as still the best choice for consumers gaming needs.

Barriers to Entry: **HIGH**

Gamestop has established themselves as the leading retailer in the gaming industry. It would require a substantial amount a capital for a new competitor to emerge and be able to compete with Gamestop on a high level. If Gamestop continues to expand and make themselves available to consumers it's hard to image a threat emerging anytime soon in the future.

Technology Brands

Technology Brands is a recent acquisition by Gamestop in an attempt to diversify their revenue stream by offering more products that are not directly video game related. This includes companies like:

Simply Mac: Licensed to sell a full line of Apple products like Macbooks, iPhones, and iPads. They currently have 60 stores.

Spring Mobile: Sells post-paid AT&T service plans and products. Currently have 358 AT&T branded stores.

Cricket Wireless: A new brand of AT&T selling pre-paid plans and wireless services. This segment has 63 stores throughout the nation.

This segment of Gamestop's operations is still in the growing stage and will continue to expand over the years. This past year Technology Brands contributed for $328 million in revenue which is only .04% percent of revenue currently

Pre-owned Segment

The pre-owned segment of Gamestop is where a lot of their value is created. The profit margins on selling pre-owned games and consoles are extremely high this segments accounted for 41% of their gross profit in 2015 as well as 25% of their net sales.

	52 Weeks Ended January 31, 2015	
	Gross Profit	Gross Profit Percent
Gross Profit:		
New video game hardware(1)	$ 196.6	9.7%
New video game software	716.9	23.2
Pre-owned and value video game products	1,146.3	48.0
Video game accessories	246.1	37.7
Digital	152.0	70.3
Mobile and consumer electronics	186.7	36.0
Other(2)	131.3	32.8
Total	$ 2,775.9	29.9%

Risk Associated

As with any other company, there is a certain degree of risk with investing in Gamestop. The biggest risks are as follows:

Strictly tied to economic condition: many consumers consider gaming a luxury rather than a necessity. So if the nation is going through a recession where they have a reduction in their discretionary income, these luxury items are typically the first to go. The state of the economy have a huge effect on sales.

Dependence on suppliers: Gamestop has to constantly depend on their suppliers to release new games and consoles that consumers will enjoy. If there supplier lose the ability to produce new products, sales will surely suffer.

Electronic game industry is cyclical: This industry is very dependable on its ability to constantly come out with new software and hardware in order to keep its consumers entertained. Even when this is done successfully sales tend to suffer because consumers tend to not buy games or consoles of the current generation when the next generation of consoles is only a year away. This became apparent in 2012 and 2013 when sales went from $9.5B down to $8.8B. Late 2013 was the release of the new generation of consoles, the Xbox One and PS4. So consumers tend to wait for the next generation to release and purchase that rather than purchase the current generation that will only remain current for one more year.

Valuation

Even with a very conservative approach, the valuation was from the proforma was able to obtain a target price of $68.67 and an intrinsic value of $62.57. According to the sensitivity analysis, Gamestop's stock price is mostly sensitive to operating cost and revenue. For a growth rate in revenue, a standard 2% was used for the explicit period and well as the continuing period. Operating cost for the base year was calculated as the same as last reported, 91.2% and the continuing period was 93%. The company does a very good job of creating value, having an ROIC/WACC ratio of 2.15 for the year 2.15 and it has remained that high for many years. Revenue growth has been consistent with the exception of the end of the console cycle in 2013.

Conclusion

Considering the conservation approach that was taken and the large spread between the current price of $31.23 and the target price that was calculated of $68.67, Gamestop is extremely undervalued. They've already been steadily increasing since January after their low of $25. They show signs of stability and also looks to significantly increase their price in the very near future.

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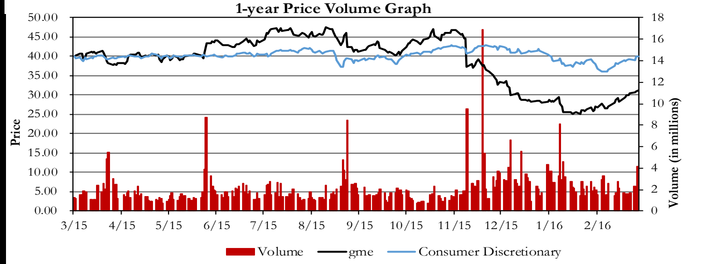
2nd week of March 2016

GameStop Corp. (gme) — CENTER FOR GLOBAL FINANCIAL STUDIES — BULLISH

Analysis by Richard Acheson	Current Price:	$31.23	Intrinsic Value	$62.57	Target 1 year Return: 124.47%
3/5/2016	Divident Yield:	4.6%	Target Price	$68.67	Probability of Price Increase: 99.34%

1-year Price Volume Graph



Description

GameStop Corp. operates as a multichannel video game retailer.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	March 24, 2016
Estimated Country Risk Premium	6.54%
Effective Tax rate	35%
Effective Operating Tax rate	35%

Market Data

Market Capitalization	$3,268.85
Daily volume (mil)	2.53
Shares outstanding (mil)	104.67
Diluted shares outstanding (mil)	107.80
% shares held by institutions	138%
% shares held by investments Managers	116%
% shares held by hedge funds	9%
% shares held by insiders	2.19%
Short interest	37.66%
Days to cover short interest	14.80
52 week high	$47.83
52-week low	$24.33
Levered Beta	1.09
Volatility	38.86%

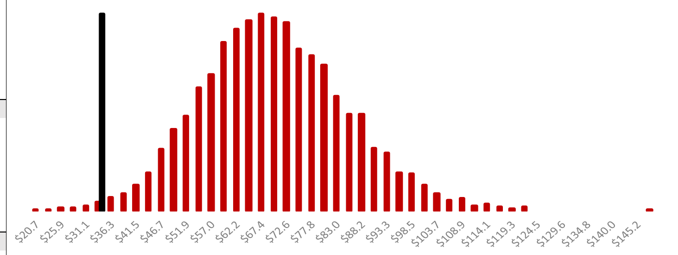
Past Earning Surprises

Quarter ending	Revenue	EBITDA
11/1/2014	-5.32%	-16.80%
1/31/2015	-3.04%	2.04%
5/2/2015	2.51%	11.12%
8/1/2015	1.54%	13.47%
10/31/2015	-5.59%	-12.49%
Mean	-1.98%	-0.53%
Standard error	1.7%	6.1%

Peers

Activision Blizzard, Inc.
AutoZone, Inc.
Electronic Arts Inc.
Best Buy Co., Inc.
Staples, Inc.
hhgregg, Inc.
Zynga, Inc.
Systemax Inc.

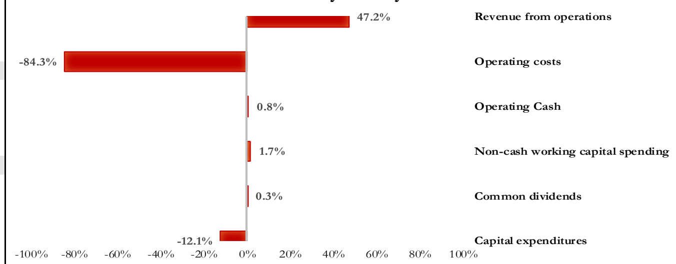
Target Price Distribution--Prob(Price Increase)= 99%



Management	Position	Total compensations growth	Total return to shareholders
DeMatteo, Daniel	Executive Chairman	-100% per annum over 4y	6.09% per annum over 4y
Raines, J.	Chief Executive Officer and	-100% per annum over 4y	6.09% per annum over 4y
Lloyd, Robert	Chief Financial Officer and	-100% per annum over 4y	6.09% per annum over 4y
Bartel, Tony	Chief Operating Officer	-100% per annum over 4y	6.09% per annum over 4y
Mauler, Michael	Executive Vice President and	-100% per annum over 3y	9.3% per annum over 3y
Crawford, Troy	Chief Accounting Officer and	N/M	N/M

Profitability	gme (LTM)	gme (5 years historical average)	Industry (LTM)
ROIC	13.9%	17.02%	21.73%
NOPAT Margin	7%	7.73%	7.4%
Revenue/Invested Capital	1.95	2.20	2.95
ROE	24.0%	30.80%	25.93%
Adjusted net margin	6%	7.10%	7.0%
Revenue/Adjusted Book Value	3.83	4.34	3.72
Invested Funds	**gme (LTM)**	**gme (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	2.9%	7.4%	15%
Estimated Operating Cash/Total Capital	1.0%	4.8%	N/A
Non-cash working Capital/Total Capital	-1.0%	-2.9%	18%
Invested Capital/Total Capital	70.7%	69.9%	86%
Capital Structure	**gme (LTM)**	**gme (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.68	0.88	0.22
Cost of Existing Debt	3.78%	3.39%	4.39%
Estimated Cost of new Borrowing	3.45%	3.19%	4.39%
CGFS Risk Rating	BBB	A	A
Unlevered Beta (LTM)	0.69	0.73	0.92
WACC	6.53%	6.40%	8.57%

Sensitivity Analysis



Valuation

Period	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share
Base Year			$3,857.87	$3,210.04	$61.35
10/31/2016	2.0%	2.14	$3,999.65	$3,030.91	$67.42
10/31/2017	2.0%	1.95	$4,453.03	$2,485.26	$73.77
10/31/2018	2.0%	1.93	$4,523.02	$2,034.40	$80.19
10/31/2019	2.0%	1.85	$4,783.60	$1,488.86	$86.60
10/31/2020	2.0%	1.82	$4,569.57	$946.49	$92.98
10/31/2021	2.0%	1.77	$5,042.12	$320.98	$99.16
10/31/2022	2.0%	1.78	$5,150.44	-$190.58	$105.20
10/31/2023	2.0%	1.79	$5,358.39	-$596.78	$111.22
10/31/2024	2.0%	1.71	$5,453.65	-$1,205.33	$117.06
10/31/2025	2.0%	1.74	$5,539.57	-$1,693.46	$122.71
Continuing Period	2.0%	1.73			