GameStop Corp.
NASDAQ:GME

Analyst: Christian Henderson
Sector: Services

HOLD

Price Target: $28.74

Key Statistics as of 10/13/2016

Market Price:	$25.47
Industry:	Electronics Retailer
Market Cap:	$2,680M
52-Week Range:	$25.06-46.98
Beta:	1.42

Catalysts:

- Short Term (less than a year) any change in the distribution methods of video game and console suppliers
- Mid Term Company(1 – 2 years) hold little debt, any change in capital structure could have an unpredictable effect on EPS
- Long term (over 2 year's) Steady growth in Operating Costs are not taking value from the company.

Company Description:

GameStop Corp. operates primarily as a video game retailer and has been publicly traded since 2002. It sells new and pre-owned video game products and software, accessories, digital products such as network cards, prepaid subscription cards, and downloadable software. The company also sells new and pre-owned personal electronics, such as smart phones, laptops, PCs, tablets, headphones and accessories to complement this person products. In addition, it operates website that also sells video game products. As of this year GameStop operates approximately 7,117 stores in the North America, Australia, and Europe. The company, formerly known as GSC Holdings Corp., was founded in 1994 and is headquartered in Grapevine, Texas. The company has a free cash flow of $321 million on sales of $9.3 billion.

Thesis

GameStop is a highly recognized store primarily known by loyal gamers that come to buy or sell preowned video games. The organization has crafted a unique experience that have attracted loyal customers over the past few years. Over the past two years the company has turned from its no debt history to assume a small amount of debt in an attempt to increase enterprise value and maximize shareholder wealth. The company has dropped in the profit from the 2000s because of a change in the gaming industry. GameStop and other companies like now out-of-business Circuit City used to profit heavily from selling this physical video games discs. However, with the technological advancement of gaming consoles, video games can be purchased digitally. Sales have dropped entering the new decade but the company has still remained to outperform expectations and keep revenue afloat.

For these reasons, GameStop's success is stationed at the mercy of these video game suppliers current method of offering some physical products to be purchased from stores. However, the advancement of technology and the reliance of GameStop on video game suppliers of distributed games through stores is reason that the stock will not change too much in value.. The company does not show large enough margins of return to try to invest substantial amounts of additional capital. The company does show modest levels of growth, but modest enough to have a position of "hold".

Business Model

GameStop's business model includes offering various products in services. These products range from video games, video game hardware, mobile phones and accessories and laptops and computers. The company has thousands of locations based in the United States, but also have a significant amount of stores throughout Canada, Europe and Australia. GameStop also operates an online website where consumers can purchase online without having to walk in store. The company prides itself on offering a unique walk-in and social experience for gamers that want a face to face connection in selling and buying video games. However, with the increase of digital download the business model has been recently tweaked to focus on clearing retail and store space to sell merchandise for electronics and try to gain a new consumer base. This new business model is still being remodeled as the new merchandise only make up less than 15% of profits.

Industry Outlook

Video Game companies have begun to provide their platforms to sell their products. This is decreasing the need for middleman stores such as GameStop. GameStop gets is biggest sales from the sale of games for Xbox and PlayStation game consoles, however these systems now operate their own virtual stores. The video game retailing industry has advanced substantially. GameStop is one of the few survivors because of the unique successful tactic of selling and buying preowned video games. The video game retailing industry became smaller with the exit of retail stores, but also grew when PlayStation and Xbox vertically integrated to sell their game products straight to consumers. It is a logical prediction that the future of the industry is should continue to offer products straight from virtual stores on games console to consumer purchase. Unless GameStop can find a way to broaden its products or services, in the ways Best Buy has, the company is only growing to a close ceiling of performance.

Dependence on video game releases

GameStop's sales and profits are based too near on the availability of video games and game consoles. Dates for these releases have a big

impact on the success of the company. This is a huge worrying factor for GameStop because a small amount of profits come from video game accessories, digital software and Mobile & Consumer Electronics. There are two potential that deter the option of further investment. The first risk is from Amazon that offers a more convenient and larger platform for selling and purchasing pre owned video games. The second risk that was stated before is the potential

Product Differentiation:

GameStop's largest competitors are among Best Buy, Wal-Mart and Amazon. GameStop offers a service that is well differentiated than its competitors. What differentiates GameStop from the other stores is the experience of consumers going in to sell and purchase used video games. In 2015, 44.1% of profit was made from pre-owned and value video game products. Offering the experience where consumer come in store to buy and trade used games based on a trust system with the high reputation of GameStop gives the company its competitive edge.

Porter's Fiver Forces

Intensity of competition

There is high intensity amongst existing competitors within the gaming industry. This includes the platform of selling preowned video game products on the Amazon website that gives GameStop the majority of its success. Amazon allows customers to sell and purchase games at the convenience of their own home and any hour of the day. In respects to selling video game consoles and new video games Best Buy and Walmart are big competitors. They offer bigger marketing campaigns and competitive prices.

Threat of Substitution

The threat of substitution is high because game consoles are creating their own platforms to distribute their products. Sony's PlayStation network and Microsoft's Xbox market have their own methods of distributing their product digitally. This method delivers the game right to the console of the consumer in real time.

Barriers to New Entry

The threat of new competition is low. There is a high initial investment capital requirement to enter the market. Also, with the threat of technology it will hard to develop longevity

Bargaining power of suppliers

Bargaining power of suppliers is moderate. There is low cost of switching suppliers which makes supplier competition high. The volume of games is also is very important, as a high volume need to be sold from suppliers to make substantial profit.

Bargaining power of consumers

Bargaining power of consumers is moderate. Customers don't much ability to push prices down on games and systems, however they have the power to not buy products if they are priced ridiculously high.

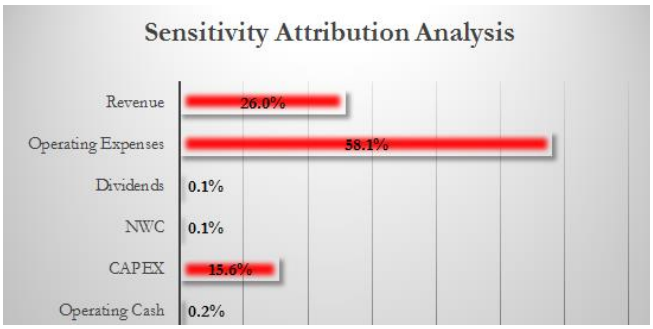
Valuation

This company can be valued to have insignificant intrinsic value. Based on forecasted 1 year target price of $28.74 this company does not spark interest. Dividend yield is 5.8% which is solid but based on the financials of the company the value will be more or less the same. The past year 3 years the company has been trying to achieve the same level of revenues as it did prior to 2012. The environment surrounded the industry can lead one to err on the side of caution with investing in this opportunity.

Important Dates and Catalysts

The company produces high percentage revenue from the release of cyclical video games and game consoles. Important dates vary based on game release from consoles such as PS3, Xbox and Wii. Game releases are also big revenue boosts for the company. As previously the dependency on these video game suppliers is a

deterrent.



The most sensitive driver that will cause a change in stock price is operating expenses. If operating expenses increase which they are scheduled, then present value will suffer. Unless, GameStop releases plans to lower operating expenses then this only further supports the decision to hold.

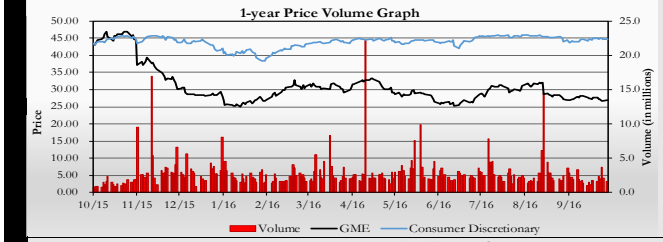
Conclusion

In conclusion avoiding investments in this stock in the immediate future is recommended. If the option is available to short for long term two or more years if available that may prove to be a better option. On paper this company has potential for redemption. Though, the ball is in the court of video game suppliers such as Microsoft and Sony. In any point in time video games could be released solely through their channel of the digital online network. This would slash the profit margin of GameStop in half. The company also had to assume debt within the last three years, this was a huge shock on its financial statements. The company had low to no debt the years prior to 2013, the newly borrowed debt is an uncertain sign of the future of the company.

GameStop has been a strong company and outperformed the low expectations that have been set upon it but the company in its current state does not have high room for grow

GameStop Corp. (GME) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by P.C. Principal	Current Price:	$25.47	Intrinsic Value	$27.34	Target 1 year Return: 18.61%
10/13/2016	Divident Yield:	5.8%	Target Price	$28.74	Probability of Price Increase: 66.8%



Description

GameStop Corp. operates as an omnichannel video game retailer.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	November 19, 2016
Estimated Country Risk Premium	6.46%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

Market Capitalization	$2,648.41
Daily volume (mil)	2.68
Shares outstanding (mil)	103.98
Diluted shares outstanding (mil)	104.90
% shares held by institutions	115%
% shares held by investments Managers	87%
% shares held by hedge funds	15%
% shares held by insiders	2.15%
Short interest	28.50%
Days to cover short interest	11.38
52 week high	$47.62
52-week low	$24.33
Levered Beta	0.94
Volatility	38.36%

Past Earning Surprises

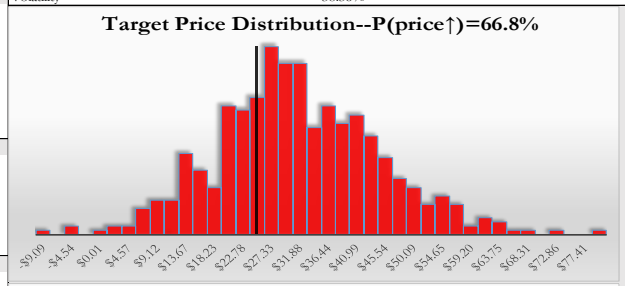
Quarter ending	Revenue	EBITDA
8/1/2015	-3.51%	-1.96%
10/31/2015	-9.58%	-18.88%
1/30/2016	-3.06%	-0.65%
4/30/2016	-5.85%	0.33%
7/30/2016	-10.54%	-0.89%
Mean	-6.51%	-4.41%
Standard error	1.5%	3.6%

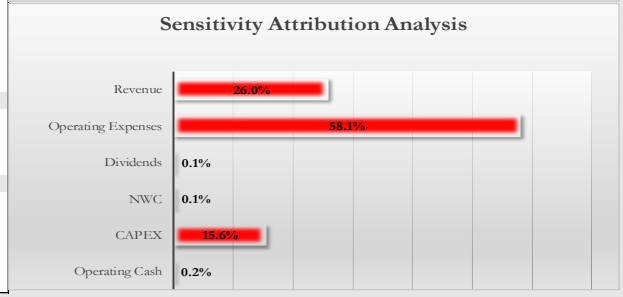
Peers

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

Management	Position	Total compensations growth	Total return to shareholders
DeMatteo, Daniel	Co-Founder and Executive Cha	-100% per annum over 4y	3.78% per annum over 4y
Raines, J.	Chief Executive Officer and	-100% per annum over 4y	3.78% per annum over 4y
Lloyd, Robert	Chief Financial Officer and	-100% per annum over 4y	3.78% per annum over 4y
Bartel, Tony	Chief Operating Officer	-100% per annum over 4y	3.78% per annum over 4y
Mauler, Michael	Executive Vice President and	-100% per annum over 3y	9.83% 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	8.1%	7.90%	20.49%
NOPAT Margin	7%	7.34%	7.0%
Revenue/Invested Capital	1.19	1.08	2.93
ROE	14.4%	12.74%	24.29%
Adjusted net margin	6%	6.97%	6.7%
Revenue/Adjusted Book Value	2.37	1.83	3.61
Invested Funds	**GME (LTM)**	**GME (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	3.6%	5.8%	19%
Estimated Operating Cash/Total Capital	3.6%	4.4%	N/A
Non-cash working Capital/Total Capital	4.2%	-1.4%	19%
Invested Capital/Total Capital	100.0%	98.6%	82%
Capital Structure	**GME (LTM)**	**GME (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	1.29	1.07	0.24
Cost of Existing Debt	2.75%	2.09%	7.24%
Estimated Cost of new Borrowing	2.02%	1.85%	7.24%
CGFS Risk Rating	AA	AA	AA
Unlevered Beta (LTM)	0.51	0.64	0.95
WACC	5.12%	6.15%	9.43%





Porter's 5 forces (scores are out of 100)

Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-2.6%	6.8%	1.58
7/30/2017	-1.1%	5.8%	1.17
7/30/2018	-0.3%	5.6%	1.07
7/30/2019	0.2%	5.6%	1.09
7/30/2020	0.7%	5.5%	1.05
7/30/2021	1.2%	5.4%	1.02
7/30/2022	1.7%	5.3%	0.99
7/30/2023	2.1%	5.2%	0.97
7/30/2024	2.6%	5.2%	0.96
7/30/2025	3.1%	5.1%	0.93
7/30/2026	3.6%	5.1%	0.91
Continuing Period	4.1%	5.0%	0.90

Period	Invested Capital	Net Claims	Price per share
Base Year	$6,617.46	$4,168.96	$31.38
7/30/2017	$7,068.42	$3,775.94	$34.91
7/30/2018	$7,522.96	$2,812.45	$38.48
7/30/2019	$7,687.60	$2,213.22	$41.97
7/30/2020	$7,696.58	$1,645.79	$45.49
7/30/2021	$8,145.40	$1,110.31	$49.01
7/30/2022	$8,234.62	$606.63	$52.55
7/30/2023	$7,725.16	$133.94	$56.11
7/30/2024	$7,586.50	-$220.66	$59.76
7/30/2025	$7,473.44	-$640.40	$63.48
7/30/2026	$7,386.57	-$1,026.17	$67.25
Continuing Period			