

JANUARY 2021 REPORT



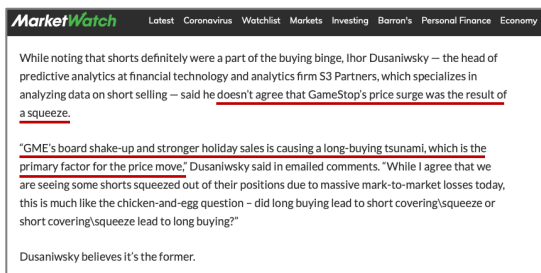
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GameStop (GME) Valuation

GME Remains Undervalued; Ryan Cohen's Influence Points to Bull Case Target of \$169.00

January 20, 2021

GameStop closed on January 19, 2021 at \$39.36, **up more than 1000%** from an all-time low on \$2.80 on April 3, 2020. Although a persistent narrative is that this rise is unsustainable and related to a short-squeeze situation, we believe that **significant covering has yet to occur**, and that this move represents a **violent correction from severe undervaluation** based on GameStop's current business and balance sheet. We further believe that it currently has **significant remaining upside** in comparison to similar consumer discretionary names that are in the process of transitioning to an omnichannel business model.



Although the years-long short thesis implies a terminal value of zero (bankruptcy), we see this outcome as **virtually impossible** given the current state of GameStop's financials, incoming console revenue, and proven ecommerce results trajectory. In fact, our analysis clearly shows **3 distinct paths to profitability:**

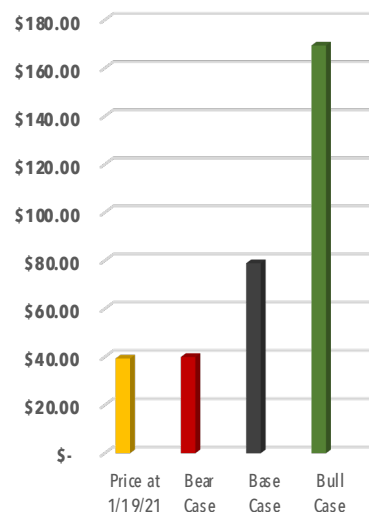
- **A Bear Case (\$32.00)** tracking the existing "GameStop Reboot" initiative, with successful footprint rationalization to 2,000 stores in North America by 2023, steady ecommerce contribution, and a continued market decline in physical games not offset by major business model updates.
- **A Base Case (\$80.00)** that is similar, but with a material increase in ecommerce revenue contribution, plus greater impact from digital revenue sharing with vendors, and some participation in other digital-first businesses.
- **A Bull Case (\$169.00)** based on a full transition by 2025 to the ecommerce-first "cultural gaming hub" hinted at by Ryan Cohen, with a significant increase in revenue attributed to ecommerce, new vendor partnerships, meaningful participation in the advertising revenue pool for gaming, and growth acceleration in the overall TAM for gaming.

VALUATION

RATING:	UNDERVALUED
PRICE ¹ :	\$39.36
MARKET CAP:	\$2.7B
BEAR CASE PT:	\$32.00
BASE CASE PT:	\$80.00
BULL CASE PT:	\$169.00

¹ Prior day market close

GAMESTOP CORP (GME) PRICE TARGET



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Bear Case: Ecommerce growth, accelerated by COVID-19, stops at 27.5% share, footprint is reduced to 2,000 stores in US/Canada, SG&A improvements are completed, the console cycle decays, and GameStop does not innovate as consumers shift overwhelmingly to digital

Our downside scenario **completely discounts the influence of Ryan Cohen** and his Chewy, Inc. cohort on the board and instead follows the trajectory of the existing **GameStop Reboot** initiative under the direction of current CEO George Sherman. It also discounts potential macro growth drivers in the overall gaming market, such as the increasing demand for Collectors' Editions and other higher-margin merchandise.

In this case, we **halt all ecommerce channel growth** at the current levels, model the bottom-line influence of reducing the store footprint to 2,000 locations in North America, and complete the SG&A reductions as per the current plan.

Bear Case Valuation		21	22	23	24	25
Bear Case Legacy & e-Comm Revenues	\$	3,346	\$ 3,725	\$ 3,868	\$ 3,621	\$ 3,144
Bear Case PowerUp & AdTech Revenues	\$	532	\$ 585	\$ 541	\$ 487	\$ 438
Total Bear Case Revenues	\$	3,877	\$ 4,310	\$ 4,409	\$ 4,108	\$ 3,582
Bear Case Legacy & e-Comm Gross Profit	\$	903	\$ 1,011	\$ 1,054	\$ 1,011	\$ 910
Bear Case PowerUp & AdTech Gross Profit	\$	202	\$ 222	\$ 206	\$ 185	\$ 167
Total Bear Case Gross Profit	\$	1,105	\$ 1,233	\$ 1,260	\$ 1,197	\$ 1,077
Bear Case Gross Margin		28.5%	28.6%	28.6%	29.1%	30.1%
G&A	\$	929	\$ 929	\$ 929	\$ 929	\$ 929
Bear Case EBIT	\$	176	\$ 304	\$ 331	\$ 268	\$ 148
Bear Case Valuation		21	22	23		
	Exit Multiple			9.0		
	EBIT			\$ 331		
	Exit Value	\$ -	\$ -	\$ 2,981		
	NPV 10%			\$2,240		
	Fully Diluted Shares			69.75		
	Bear Case Price Per Share			\$32.11		

As can be seen, the primary revenue driver in the bear case will continue to be **legacy businesses** including hardware, physical software, limited revenue share of digitally-distributed software, and "pilot" to "early"-sized moves into businesses such as digital loyalty and advertising pool participation.

OUR TAKE AND PROBABILITIES

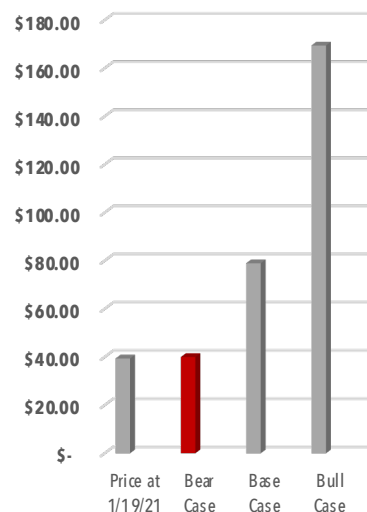
- Our bear case is presented to model the current trajectory of the business under the existing plan and management. Even in this case, there is **clear profitability for years**.
- Based on the recent actions of Ryan Cohen and the CHWY cohort, we **do not believe that this case represents a probable outcome at this time**.
- In the unlikely event of this case, the current valuation represents **approximately fair value** for the existing business.

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Base Case: Shift to ecommerce continues at a reduced rate to 37.5% by 2025, new digital partnerships are struck, margins improve as new product segments are added, and digital revenue such as advertising and e-sports leverage the CRM value of an enhanced PowerUp program

Our base scenario assumes a reduced but continued rate of growth in ecommerce (web, mobile, and “web-in-store” endless aisle), culminating in a conservative 37.5% of revenue by 2025. It also accounts for macro gaming market tailwinds such as the increasing demand for higher-margin items, and an increase in pre-owned software inventory velocity through digital transformation of the program.

It also begins to account for additional digital revenue in the form of more vendor partnerships with a greater variety of business partners.

Base Case Valuation		21	22	23	24	25
Base Case Legacy & e-Comm Revenues		\$ 4,082	\$ 4,608	\$ 4,810	\$ 4,584	\$ 4,089
Base Case PowerUp & AdTech Revenues		\$ 590	\$ 620	\$ 651	\$ 683	\$ 717
Total Base Case Revenues		\$ 4,672	\$ 5,227	\$ 5,461	\$ 5,268	\$ 4,806
Base Case Legacy & e-Comm Gross Profit		\$ 1,066	\$ 1,218	\$ 1,277	\$ 1,249	\$ 1,154
Base Case PowerUp & AdTech Gross Profit		\$ 238	\$ 250	\$ 262	\$ 275	\$ 289
Total Base Case Gross Profit		\$ 1,304	\$ 1,468	\$ 1,539	\$ 1,524	\$ 1,443
Base Case Gross Margin		27.9%	28.1%	28.2%	28.9%	30.0%
G&A		\$ 929	\$ 929	\$ 929	\$ 929	\$ 929
Base Case EBIT		\$ 375	\$ 539	\$ 611	\$ 595	\$ 514
Base Case Valuation		21	22	23		
	Exit Multiple			12.0		
	EBIT			\$ 611		
	Exit Value	\$ -	\$ -	\$ 7,330		
	NPV 10%			\$5,507		
	Fully Diluted Shares			69.75		
	Base Case Price Per Share			\$78.95		

In this case, digital shifts contribute meaningfully to margin and CLV improvements, while larger entrees into new business segments, primarily leveraging GameStop’s one-of-a-kind gamer demographic customer data for marketing and targeting, more than double the potential valuation.

OUR TAKE AND PROBABILITIES

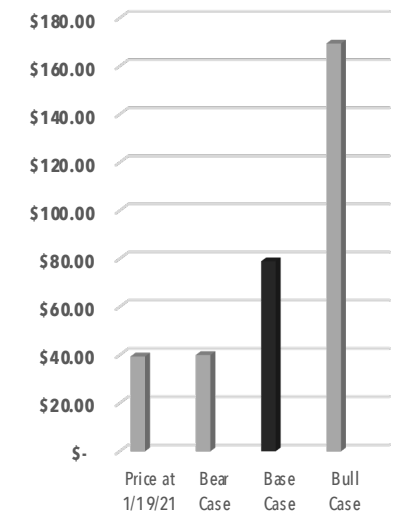
- Our base case is presented to model either the **downside possibilities of a Ryan Cohen-as-CEO scenario**, or the **upside possibilities of current management** under the direction and influence of the CHWY cohort.
- Although we believe this case is far **more likely than the bear scenario**, the entrepreneurial history of Ryan Cohen still indicates that our **bull case is the most likely at this time**.

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Bull Case: Ryan Cohen accelerates digital transformation by boosting ecommerce contribution to 45% via improved CX, aggressively pursues business partnerships, and leverages the full potential of 20M+ active PowerUp members across multiple digital businesses and channels

Our final scenario weighs the significant impact of Ryan Cohen, Alan Attal and Jim Grube, former Chewy, Inc (CHWY) executives, and assumes that Cohen is appointed CEO to execute his vision of transforming GameStop into a “technology-driven sector leader” as per his letter to the board.

In our bull case, ecommerce revenues will exceed 45% by 2025, and fully-evolved business strategies such as digital pre-owned, an enhanced Amazon Prime-like PowerUp program, and significant influence in the advertising pool for gaming will contribute extremely high-margin revenue and profits.

Bull Case Valuation		21	22	23	24	25
Bull Case Legacy & e-Comm Revenues		\$ 4,856	\$ 5,597	\$ 5,931	\$ 5,763	\$ 5,286
Bull Case PowerUp & AdTech Revenues		\$ 671	\$ 739	\$ 812	\$ 894	\$ 983
Total Bull Case Revenues		\$ 5,528	\$ 6,336	\$ 6,743	\$ 6,657	\$ 6,269
Bull Case Legacy & e-Comm Gross Profit		\$ 1,255	\$ 1,481	\$ 1,584	\$ 1,586	\$ 1,512
Bull Case PowerUp & AdTech Gross Profit		\$ 314	\$ 345	\$ 380	\$ 418	\$ 459
Total Bull Case Gross Profit		\$ 1,569	\$ 1,826	\$ 1,963	\$ 2,004	\$ 1,972
Bull Case Gross Margin		28.4%	28.8%	29.1%	30.1%	31.5%
G&A		\$ 929	\$ 929	\$ 929	\$ 929	\$ 929
Bull Case EBIT		\$ 640	\$ 897	\$ 1,035	\$ 1,075	\$ 1,043
Bull Case Valuation		21	22	23		
	Exit Multiple			15.2		
	EBIT			\$ 1,035		
	Exit Value	\$ -	\$ -	\$ 15,728.28		
	NPV 10%			\$ 11,817		
	Fully Diluted Shares			69.75		
	Bull Case Price Per Share			\$ 169.42		

By moving GameStop towards >50% of revenues from higher-margin digital businesses, we believe a valuation multiple of 15x EBIT is reasonable in comparison to other digital-first consumer discretionary names. We have rounded the multiple to 15.2x in honor of Tylee, Cohen’s toy poodle and Cohen’s reputation as an aggressive, entrepreneurial founder.

OUR TAKE AND PROBABILITIES

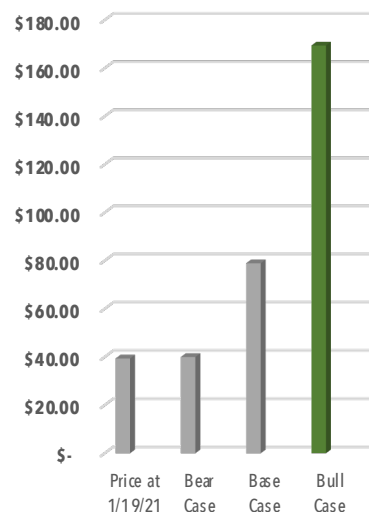
- This case models the most likely outcome and business trajectory of a **complete Ryan Cohen takeover of the business.**
- Forecasts are based on evolution of the existing business using **known elements of Cohen’s business history and potential plans**, as well as digital commerce industry best practices.
- Based on the recent actions of Ryan Cohen and the CHWY cohort, **we firmly believe this case is the most likely outcome at this juncture.**

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