

# **GameStop: A New Lease on Life, or Game Over?**

Author: Marc Low

## **Introduction**

GameStop CEO George Sherman sat back in his plush high-backed office chair, gazed out the window and surveyed the planes landing and taking off from Dallas-Ft. Worth International Airport, less than a mile away from GameStop's Grapevine, Texas headquarters. After seeing the latest financial results, the auditor's comments and yesterday's closing stock price, part of him longed to be on one of those departing planes, destination: anywhere-but-here.

He'd had a long and distinguished career at a series of hugely successful retailers: Home Depot, BestBuy, Advance Auto Parts and most recently, Verizon Wireless. Prior to his move into the business world he was an Officer in the United States Air Force, an experience which he often credited for his "calm under fire" demeanor. It was this combination of military discipline and extensive retail experience that gave him the confidence to assume the reigns as CEO of the beleaguered video game retailer in April of 2019, but the scale of his current challenge was enough to give even the most confident CEO pause.

Not long ago, GameStop was the darling of Wall Street and Main Street alike. Well over 5000 mall-based retail stores employing tens of thousands of full-time and seasonal staff served a rabid audience of video game fanatics who would literally line up for a copy of the latest popular video game title. By any measure the company had been hugely successful, growing to over \$9 billion USD in annual revenues; Wall Street rewarded this steady revenue growth with steady stock price appreciation, peaking at just over \$63 in 2008.

Those days were a distant memory however, with the perfect storms of a retail apocalypse causing store traffic to wither and an industry shift away from physical game disks to downloaded programs and online streaming services colliding, leaving GameStop management scrambling to react. The previous CEO's failed sale of the company last year had shaken whatever market confidence remained.

The company's financial reports read like a Wall Street Journal horror story. Sales: down; margins: down; profits: non-existent; store traffic: down; same store sales: down; worst of all: a continuation of the steady stock price decline from the recent high of \$53 in 2014 to under \$5 today, a reflection of GameStop's bleak prospects.

As he went deeper into the company's financial results, he realized the Wall Street commentators were right; GameStop was in real risk of becoming the next Blockbuster Video – another quaint analog business dinosaur seemingly surprised by the meteor called “digital”. He'd read all the case studies on the fall of huge legacy brands like Blockbuster and Kodak, but now that he was the one in the hot seat, it wasn't at all clear what he should do to staunch the bleeding and effect a successful turnaround for GameStop.

He took a deep breath. “Easy, Georgie Boy,” he told himself, part of a calming mantra his Colonel had taught him years ago intended to lighten the mood in times of high pressure and stress. He opened his laptop, fired up Outlook and composed an email:

To: Sarah Beattie (MBA) <sbeattie@gamestop.com>

Subject: Plan

Sarah,

Looking over the latest results. Even worse than expected. Gather your team, clear your schedules, and meet me in Conference Room 2 this morning at 10.

-George.

## **Company History**

GameStop traces its history back to 1984, when Harvard Business School classmates James McCurry and Gary Kusin had a vision for capitalizing on the emerging personal computing boom of the early 1980's. McCurry and Kusin shared a passion for early home arcade-style consoles like the Atari 2600, and recognized an opportunity to create a new retail niche around the emerging technology. Backed by legendary American businessman Ross Perot, the two opened their first store in 1984 in Dallas, Texas under the name "Babbage's" – an ode to Charles Babbage, the originator of the concept of a digital programmable computer.

Their timing couldn't have been better. Nintendo had just launched their smash hit console the Nintendo Entertainment System. Super Mario Bros. became a household name shortly thereafter and Babbage's rode this cultural tidal wave to the bank; the company went public in 1988.

Mismanagement in the mid-'90s saw the company fall on hard times, with a succession of leadership challenges, failed mergers and financing challenges leading the company to file Chapter 11 bankruptcy in 1996. The assets were purchased by Leonard Riggio, chairman

and principal shareholder of Barnes & Noble Booksellers for \$58.5 million USD. Riggio oversaw the restructuring of the company's finances, the launch of Babbage's re-brand to GameStop, and ultimately the company's sale to Barnes & Noble in October of 1999 for \$215 million USD. With new management at the helm and GameStop trading profitably once again, Barnes & Noble listed GameStop on the New York Stock Exchange in February 2002 under the ticker "GME".

The early 2000s to mid-2010s proved fruitful for the newly-minted public company. Revenues grew rapidly on the back of the next wave of gaming console popularity. The growth of North American mall culture intersected with the booming popularity of Microsoft's Xbox and Sony's PlayStation, among others. Gamers had an insatiable appetite for the myriad of new game titles and GameStop was well-positioned to capitalize. Gamers could purchase gaming consoles, newly-released games, game collectibles and - most significantly for GameStop's model – could sell their used games to GameStop who would then resell to other gamers at significant margins.

Revenues supported a series of acquisitions, giving GameStop a foothold in Europe, Canada, Australia and New Zealand. GameStop also experimented with gaming studios, digital distribution, early browser-based games and various ancillary retail ventures including the ill-fated purchase of 163 RadioShack locations and 507 AT&T retail locations in an attempt to diversify away from their gaming industry focus.

Today, GameStop operates 5,830 locations worldwide, 3,846 of which are in the United States, with another 1,984 locations spread across Canada, Australia, New Zealand, Austria, Denmark, Finland, France, Germany, Ireland, Italy, Norway Sweden and Switzerland<sup>1</sup>.

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<sup>1</sup> GameStop Corp. 2018 Annual Report. Retrieved September 5, 2019.

## Modern-day GameStop

Today's GameStop is a traditionally structured multi-channel retailer. The 5,830 stores include the core GameStop-branded stores which focus on gaming consoles, games, and paraphernalia; sub-brands EB Games and Micromania that operate in Canada and Europe with a similar focus; ThinkGeek, which sells pop culture collectibles; *Game Informer*<sup>TM</sup> magazine and e-zine; and online websites and e-stores for each brand. The 5,830 retail locations, plus distribution centres and head office account for 16,000 full-time employees and an additional 23,000-45,000 part-time employees, depending on the time of year<sup>2</sup>.

At the traditional physical retail locations, GameStop (and sub-brands EB Games and Micromania) sells new video game hardware, new video game software, pre-owned video game software, accessories, digital currency for online games, and collectibles. Customers can also try select new game titles in-store before they purchase.

Though it represents only 22.5% of net sales, GameStop's pre-owned segment is a point of significant differentiation; GameStop will purchase used games from customers at a steep discount and re-sell those same games in-store at high margins. The policy has proven hugely popular with customers, though it has attracted the ire of game publishers who complain they don't reap any reward for the secondary sale even though the used games are displayed alongside the publisher's new copies.

GameStop's 5,830 stores average 1,700 square feet, and are located in high-traffic, high visit-frequency shopping centres. Their sales per square foot metrics are competitive; GameStop earns on average \$657/sqft (for comparison: Lululemon averages \$1,491/sqft; BestBuy

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<sup>2</sup> GameStop Corp. 2018 Annual Report. Retrieved September 5, 2019.

averages \$769/sqft; Foot Locker averages \$503/sqft; Claire's averages (\$472/sqft)<sup>3</sup>. As with other major retailers, locations are chosen based on extensive demographic research.

## **The Changing Nature of the Video Game Industry**

The video game market has evolved significantly since the early days of Babbage's and the Atari 2600. What was once a market dominated by adolescent teens has grown into a multi-billion-dollar global market with an average participant age of 31<sup>4</sup>. This growth in market size – estimated at \$18 billion USD/year for new video game products and an additional \$25-32 billion USD/year for “digital game content” (full games and add-on content) in the markets GameStop operates in<sup>5</sup>, and growing 9.6% YoY<sup>6</sup> - has gone hand-in-hand with an evolution away from traditional “shrink-wrapped” video game titles, and towards online-first, downloaded or streamed experiences. Gaming has of course always been an “indoors activity”, but this shift to online-first games – and resulting online gaming communities emerging around the most popular game titles – has further entrenched this phenomenon, with gamers largely no longer physically required to venture to the local mall to procure the latest title unless they choose to.

This shift was exemplified by international game-publishing giant EA, who reported that digital delivery had comprised the majority of their revenue since 2013<sup>7</sup>. Industry results show this is not a temporary blip, but rather a continuing trend, with other major publishers reporting

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<sup>3</sup> <https://www.camoinassociates.com/average-square-footage-and-retail-sales-square-foot-across-major-brands>. Retrieved September 19, 2019.

<sup>4</sup> [http://www.theesa.com/wp-content/uploads/2017/04/EF2017\\_FinalDigital.pdf](http://www.theesa.com/wp-content/uploads/2017/04/EF2017_FinalDigital.pdf). Retrieved August 28, 2019.

<sup>5</sup> GameStop Corp. 2018 Annual Report. Retrieved September 5, 2019.

<sup>6,4</sup> <https://newzoo.com/insights/articles/the-global-games-market-will-generate-152-1-billion-in-2019-as-the-u-s-overtakes-china-as-the-biggest-market/>. Retrieved August 5, 2019.

<sup>77</sup> <https://arstechnica.com/gaming/2013/07/for-the-first-time-eas-real-life-money-is-mostly-from-digital-sales/>. Retrieved September 22, 2019.

similar results. To add insult to injury, in April of 2019 Sony announced a new company policy prohibiting retailers from selling digital download codes (these download codes replaced the traditional physical program disks) for its PlayStation platform. Industry rumors indicate that other publishers and platforms were intending to follow Sony's lead; the move would effectively shut GameStop out of the new industry-standard delivery channel. GameStop has thus far not been able to negotiate a respite on this policy with any of the major platforms or publishers<sup>8</sup>.

Interestingly, while the games themselves have shifted to an online-first design both in terms of access and participation, the console systems needed to play the games remain a robust market. Console sales will be the fastest-growing segment in 2020 with a CAGR of 13.4% and a global market value of \$47.9 billion USD<sup>9</sup>. This is welcome news to retailers, coming on the heels of Sony PlayStation and Microsoft Xbox both announcing that their next-generation consoles will still accommodate physical game disks in addition to digital-only games.<sup>10</sup>

## **The Rise of Online Gaming Communities and eSports**

This new style of game design, driven by the connectivity of the internet and the community-building phenomenon it empowers, has given rise to a massive new market: eSports. eSports is broadly defined as “competition, using video games”<sup>11</sup>, but encompasses both players and

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<sup>8</sup> <https://www.theverge.com/2019/3/25/18281538/sony-playstation-4-gamestop-stop-selling-game-download-codes-retailers>. Retrieved September 22, 2019.

<sup>10</sup> <https://www.businessinsider.com/gamestop-failing-store-tour-shows-flawed-business-2019-8#theres-some-good-news-for-gamestop-the-next-generation-of-game-consoles-is-coming-in-2020-and-that-means-gamestop-will-likely-last-for-at-least-another-several-years-10>. Retrieved September 29, 2019.

<sup>11</sup> Hamari, Juho; Sjöblom, Max (2016). "What is eSports and why do people watch it?". Retrieved September 5, 2019.

the fans that watch them. Tens of thousands of “competitive gamers” participate in eSports tournaments, and they competed for more than \$1.5 billion USD in prize money in 2018<sup>12</sup>. Even more staggering than the prize money statistics is the viewership numbers, with an estimated 454 million viewers worldwide tuning in to watch their favorite gamers compete, and spending more than \$1.1 billion USD in 2018 to do so – a figure that represents a 27% increase from the year before<sup>13</sup> and which is projected to increase in the years to come.

In addition to live in-person tournaments, online streaming sites have exploded in popularity in recent years. Traditional sites like YouTube began the trend, but recently Mixer, owned by Microsoft, and Twitch, owned by Amazon, have become the go-to sites. Mixer boasts 20 million monthly active users, up from 10 million monthly active users just 6 months ago, while Twitch claims over 15 million daily active users. GameStop does not currently participate in any of these markets.

## **Competitors**

GameStop competes in a large and fiercely contested market, with strong competition from traditional retailers and digital sites alike. Their strongest “bricks and mortar” competitors include:

- Best Buy: 997 locations in North America, with \$42 billion USD annual revenues in 2018<sup>14</sup>

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<sup>12</sup> <https://influencermarketinghub.com/growth-of-esports-in-2019-stats/>. Retrieved September 5, 2019.

<sup>13</sup> <https://www.reuters.com/article/us-videogames-outlook-idUSKCN1Q11XY>. Retrieved September 6, 2019.

<sup>14</sup> Best Buy Co., Inc. Form 10-K (FY February 2, 2019). U.S. Securities and Exchange Commission. Retrieved August 10, 2019.



- Target: 1,851 locations, \$75 billion USD annual revenue in 2018<sup>15</sup>
- Walmart: 11,389 locations, creating \$123 billion USD in annual revenue in 2018. Their e-commerce segment grew 37% YoY<sup>16</sup>
- Kmart: Once an American retail giant, Kmart claimed \$25 billion USD of revenue last year and is virtually bankrupt. Their store count went from 2,323 stores at their peak to just 115 locations in 2018.<sup>17</sup>

These traditional retailers stock the same titles and digital product as GameStop, with GameStop's only real product advantage found in the collectibles market.

In addition to traditional retailers, GameStop competes for sales with download sites owned and operated by the largest game publishers. Some key online competitors include:

- Origin: owned by Electronic Arts, the \$5 billion USD/year game publishing giant, Origin has 50 million registered users.<sup>18</sup>
- Uplay: owned by Massive Entertainment, a subsidiary of French publisher Ubisoft. Despite famous game titles including Assassin's Creed and the Tom Clancy series, Uplay has not been well received, with technical glitches forming the majority of the community's complaints.<sup>19</sup>

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<sup>15</sup> <https://corporate.target.com/annual-reports/2018>. Retrieved August 10, 2019.

<sup>16</sup> <https://corporate.walmart.com/newsroom/2019/05/16/walmart-releases-q1-fy20-earnings>. Retrieved August 10, 2019.

<sup>17</sup> <https://www.wesfarmers.com.au/docs/default-source/asx-announcements/2018-annual-report.pdf?sfvrsn=0>. Retrieved August 10, 2019.

<sup>18</sup> Jackson, Mike. July 23, 2013. "EA Origin passes 50 million users milestone". CVG. Retrieved July 26, 2019.

<sup>19</sup> John Walker. November 30, 2012. "Far Cry 3 Servers Down Already: Ubi, This Is A Mess". Rock Paper Shotgun. Retrieved September 3, 2019.

- Steam: owned by Valve Corporation, the world's largest digital distribution platform with an estimated 75% market share<sup>20</sup>. They boast 90 million monthly active users and 2017 revenues of \$4.3 billion USD, representing 18% of global PC game sales<sup>21</sup>.

Finally, GameStop also has two additional noteworthy competitors: Gamefly and Amazon. Gamefly operates in a similar manner to Netflix's original "DVD-by-mail" service, operating a rental service for physical games for traditional consoles like the PlayStation and Xbox. Electronic Arts purchased Gamefly in 2018 for an undisclosed sum.<sup>22</sup>

The online behemoth, Amazon, also sells physical game titles, in addition to its Twitch streaming platform.

## **Retail Landscape**

While overall retail figures remain strong with US retail forecasted to rise 3.8% YoY to top \$3.8 trillion USD in 2019<sup>23</sup>, these strong overall numbers mask two important trends: a shift to online retail, and a general decline in mall-oriented foot traffic.

Online shopping now accounts for 14.3% of total retail sales and is valued at \$517 billion USD in the US alone, growing at a 15% CAGR<sup>24</sup>. Of that total figure, Amazon accounts for nearly 40% of total online sales.

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<sup>20</sup> Edwards, Cliff. November 4, 2013. "Valve Lines Up Console Partners in Challenge to Microsoft, Sony". Bloomberg. Retrieved September 5, 2019.

<sup>21</sup> Bailey, Dustin. March 22, 2018. "With \$4.3 billion in sales, 2017 was Steam's biggest year yet". PCGames. Retrieved September 5, 2019.

<sup>22</sup> <https://www.owler.com/company/gamefly>. Retrieved September 22, 2019.

<sup>23</sup> <https://www.reuters.com/article/us-usa-retail-outlook/u-s-retail-sales-expected-to-top-3-8-trillion-in-2019-nrf-idUSKCN1PU1YM>. Retrieved September 1, 2019.

<sup>24</sup> <https://www.digitalcommerce360.com/article/us-ecommerce-sales/>. Retrieved September 1, 2019.

Not coincidentally, mall visits are declining steadily year-on-year. Once a design feature of suburban America, malls now appear to be in significant decline due to changing social trends and shopping habits. A recent Credit Suisse report predicted that as much as 25% of American malls will close in the next 5 years.<sup>25</sup> 92% of GameStop's retail outlets are located in traditional retail malls.

This shift in consumer behavior has led to a massive re-structure of retail operations for major brands as the struggle for brand survival intensifies.

## **Management**

The past several years has seen a significant turnover in key management. Sherman is the 6<sup>th</sup> CEO to helm GameStop in the past 36 months after a succession of interim CEOs including long-time GameStop Executive Chairman Dan DeMatteo. With Sherman installed as full-time CEO, the Board also made a series of key hires, including:

James Bell, 51: appointed as Executive Vice President and Chief Financial Officer. Bell's most recent experience was as CFO of Wok Holdings, Inc., the parent company of P.F. Chang's, Pei Wei and True Food Kitchen restaurants, where he successfully designed and led the company's overall strategic plan and omnichannel digital transformation that resulted in over \$50 million in annual revenue growth over two years.

Chris Homeister, 50: appointed to newly created role of Executive Vice President and Chief Merchandising Officer. Previously, Homeister served as President, CEO and a member of

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<sup>25</sup> <https://money.cnn.com/2017/06/02/news/economy/doomed-malls/index.html>. Retrieved September 7, 2019.

the Board of Directors of The Tile Shop, a publicly traded specialty retailer. Earlier in his career, he held a number of senior roles at Best Buy, including SVP, Digital Merchandising & Strategic Planning and General Manager and SVP, Entertainment Business Group, where he oversaw the product categories including video games, movies, music, and eReaders and launched Best Buy's video game trade-in business.

Frank Hamlin, 50: promoted to the newly created role of Executive Vice President and Chief Customer Officer. Hamlin is a veteran in the retail space with more than 25 years of experience in retail marketing, strategy, customer loyalty and e-commerce, and he had previously served as GameStop's Chief Marketing Officer. In this newly created role, Hamlin is expected to define the company's overall customer-centric initiatives as it relates to marketing, customer loyalty, the omnichannel business, strategy and innovation.

As part of the recent management restructure, 23-year GameStop veteran – and company COO/CFO - Rob Lloyd left the company. GameStop's Board eliminated the role of COO as part of the restructure<sup>26</sup>.

## **Marketing**

GameStop operates a robust marketing program with significant reach and engagement. Their rewards program, PowerUp Rewards™ had approximately 39.6 million members as of February 2019, of which 16.2 million members had purchased at GameStop in the past year. The PowerUp Rewards™ membership totals also include 5.6 million paying members, and 20.5 million members that are marketed to on a regular basis.<sup>27</sup>

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<sup>26</sup> <https://www.globenewswire.com/news-release/2019/05/30/1859897/0/en/GameStop-Announces-New-Leadership-Appointments-and-Enhanced-Leadership-Structure.html>. Retrieved September 5, 2019.

<sup>27</sup> 2018 GameStop Annual Report. Retrieved September 5, 2019.

GameStop also publishes *Game Informer*<sup>TM</sup> magazine, the world's largest print and digital video game publication featuring reviews of new title releases, game tips and news regarding current developments in the gaming industry. It is the 5<sup>th</sup> largest consumer publication in the US and has approximately 6.6 million paid subscribers, including 2.1 million paid digital subscribers<sup>28</sup>.

The PowerUp Rewards<sup>TM</sup> program has been a recent target of market critique for its lack of customer segmentation and customization capability. The system captures purchase information but is not empowered with any "big data" analytics capability required to drive tailored engagement.

GameStop is active on all legacy social media channels: the Twitter account has 1.2 million followers, and experiences 95.48% tweet engagement; the company Facebook page has 6.8 million likes; the Instagram page has 1.3 million followers, and; the YouTube channel has 82,000 subscribers (for comparison, the top YouTube gaming channel, run by YouTuber "JuegaGerman", has 32.7 million subscribers)<sup>29</sup>.

## **Conclusion**

Sherman put down the financial reports, picked up his notepad and began furiously scribbling notes as he collected his thoughts. The situation was dire, with billions of dollars in market cap and tens of thousands of livelihoods at stake. He needed a plan, and fast.

He found himself in a peculiar scenario. On the one hand, he was surrounded on all sides: a legacy business built on a crumbling physical retail outlook; surrounded by a management

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<sup>28</sup> 2018 GameStop Annual Report. Retrieved September 5, 2019.

<sup>29</sup><sup>29</sup> <https://ceoworld.biz/2019/04/05/10-most-subscribed-youtube-gaming-channels-as-of-april-2019/>. Retrieved August 20, 2019.

team not of his choosing; a seismic shift in industry structure that significantly reduces if not eliminates the need for GameStop's retail locations; ruthless competition from traditional and online retailers alike.

On the other hand, he recognized the immense value of his engaged customer base; despite all the bad press, GameStop still produced significant revenues, which gave Sherman optionality. There was still room to move – just no room left to make a mistake.

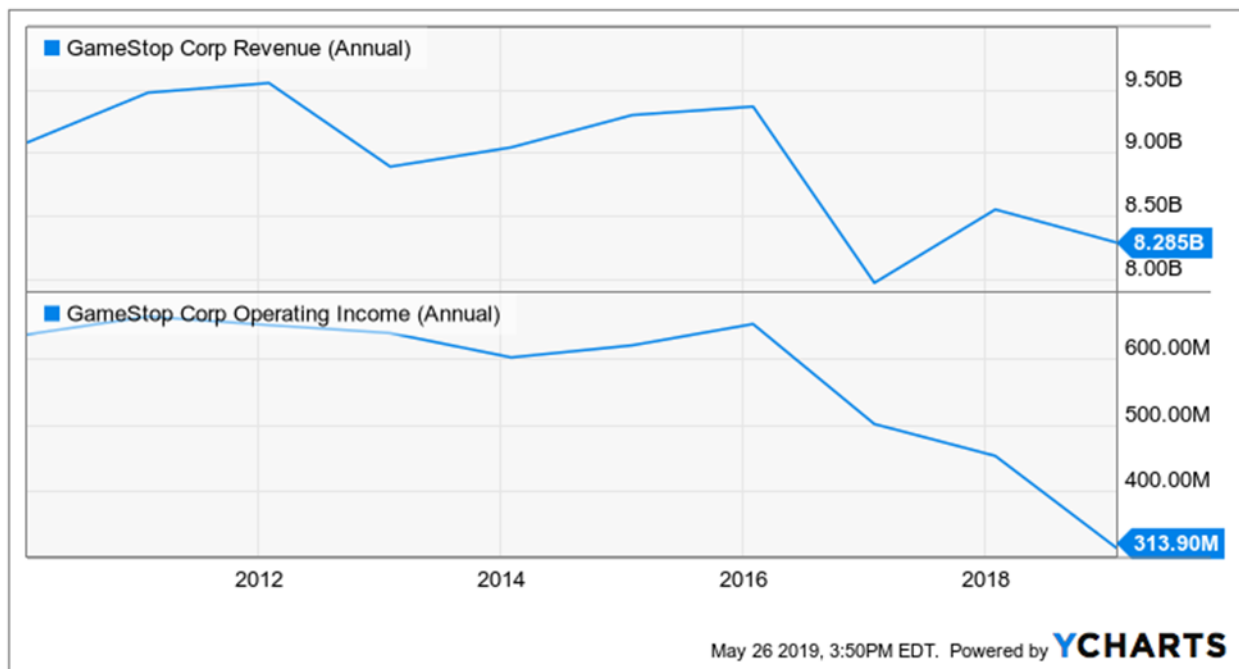
Alone with his thoughts, he pondered GameStop's place in this new, digital-first economy. GameStop was structured, like all legacy retailers, to optimally deliver physical product to retail locations for purchase by consumers. In a world where product was ubiquitous across retailers and consumers no longer needed to visit a store to purchase new product, what relevance did GameStop possess?

As he fleshed out his notes, he started creating the typical headings: sell; merge; acquire; downsize; pivot. He couldn't help but feel like the situation called for something more innovative than the usual strategies, but what? He knew that whatever he settled on, the plan would need to be rock-solid and defensible in order to calm both the Board and the market...

His musing was broken by the buzzing of his iPhone, giving him a 5-minute warning for the upcoming strategy session with his team. He launched himself enthusiastically out of his chair, grabbed his notepad and what was left of his now-cold Starbucks and bounded out the door for Conference Room 2 to meet Sarah and the team.

## Exhibits

Exhibit 1: GameStop Revenue and Operating Income, 2011-2019



## Exhibit 2: GameStop Income Statement, 2018

### GAMESTOP CORP. CONSOLIDATED STATEMENTS OF OPERATIONS (in millions, except per share data)

	Fiscal Year		
	2018	2017	2016
Net sales	\$ 8,285.3	\$ 8,547.1	\$ 7,965.0
Cost of sales	5,977.2	6,062.2	5,465.1
Gross profit	2,308.1	2,484.9	2,499.9
Selling, general and administrative expenses	1,888.6	1,909.6	1,861.9
Depreciation and amortization	105.6	122.3	136.7
Goodwill impairments	970.7	—	—
Asset impairments	45.2	13.8	19.6
Operating (loss) earnings	(702.0)	439.2	481.7
Interest income	(5.7)	(1.5)	(0.8)
Interest expense	56.8	56.8	53.8
(Loss) earnings from continuing operations before income taxes	(753.1)	383.9	428.7
Income tax expense	41.7	153.5	124.2
Net (loss) income from continuing operations	(794.8)	230.4	304.5
Income (loss) from discontinued operations, net of tax	121.8	(195.7)	48.7
Net (loss) income	\$ (673.0)	\$ 34.7	\$ 353.2
Basic (loss) earnings per share:			
Continuing operations	\$ (7.79)	\$ 2.27	\$ 2.94
Discontinued operations	1.19	(1.93)	0.47
Basic (loss) earnings per share	\$ (6.59)	\$ 0.34	\$ 3.42
Diluted (loss) earnings per share:			
Continuing operations	\$ (7.79)	\$ 2.27	\$ 2.93
Discontinued operations	1.19	(1.93)	0.47
Diluted (loss) earnings per share	\$ (6.59)	\$ 0.34	\$ 3.40
Weighted-average shares outstanding:			
Basic	102.1	101.4	103.4
Diluted	102.1	101.5	103.8



### Exhibit 3: GameStop Cashflow Statement, 2018

#### GAMESTOP CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS (in millions)

	Fiscal Year		
	2018	2017	2016
Cash flows from operating activities:			
Net (loss) income	\$ (673.0)	\$ 34.7	\$ 353.2
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities:			
Depreciation and amortization (including amounts in cost of sales)	126.9	151.9	166.7
Provision for inventory reserves	57.3	59.1	48.6
Goodwill and asset impairments	1,015.9	395.1	33.8
Stock-based compensation expense	10.7	25.6	17.8
Deferred income taxes	(4.1)	(107.9)	(37.2)
Excess tax benefits related to stock-based awards	—	—	0.8
Loss on disposal of property and equipment	2.0	8.5	10.4
Gain on divestiture	(100.8)	(6.4)	—
Other	(36.2)	(34.2)	(33.1)
Changes in operating assets and liabilities:			
Receivables, net	(34.4)	35.7	(43.9)
Merchandise inventories	(44.7)	(256.3)	14.7
Prepaid expenses and other current assets	2.2	(1.2)	(11.4)
Prepaid income taxes and income taxes payable	(18.7)	(24.7)	(49.1)
Accounts payable and accrued liabilities	17.1	169.8	64.1
Changes in other long-term liabilities	4.9	(14.8)	1.7
Net cash flows provided by operating activities	325.1	434.9	537.1
Cash flows from investing activities:			
Purchase of property and equipment	(93.7)	(113.4)	(142.7)
Acquisitions, net of cash acquired	—	(8.5)	(441.2)
Proceeds from divestiture, net of cash sold	727.9	58.5	—
Other	1.3	2.8	6.5
Net cash flows provided by (used in) investing activities	635.5	(60.6)	(577.4)
Cash flows from financing activities:			
Repayment of acquisition-related debt	(12.2)	(21.8)	(0.4)
Repurchase of common shares	—	(22.0)	(63.1)
Dividends paid	(157.4)	(155.2)	(155.5)
Proceeds from senior notes	—	—	475.0
Borrowings from the revolver	154.0	373.0	545.0
Repayments of revolver borrowings	(154.0)	(373.0)	(545.0)
Payments of financing costs	—	—	(8.1)
Issuance of common stock, net of share repurchases for withholding taxes	(5.1)	(3.5)	(8.4)
Excess tax benefits related to stock-based awards	—	—	(0.8)
Net cash flows (used in) provided by financing activities	(174.7)	(202.5)	238.7
Exchange rate effect on cash and cash equivalents and restricted cash	(24.7)	28.0	21.1
Decrease (increase) in cash held for sale	10.2	(5.4)	(2.2)
Increase in cash and cash equivalents	771.4	194.4	217.3
Cash and cash equivalents and restricted cash at beginning of period	869.1	674.7	457.4
Cash and cash equivalents and restricted cash at end of period	\$ 1,640.5	\$ 869.1	\$ 674.7
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Interest paid	\$ 53.5	\$ 53.4	\$ 38.0
Income taxes paid	\$ 122.9	\$ 168.3	\$ 230.1

## Exhibit 4: GameStop Balance Sheet, 2018

### GAMESTOP CORP. CONSOLIDATED BALANCE SHEETS (in millions, except par value per share)

	February 2, 2019	February 3, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,624.4	\$ 854.2
Receivables, net	134.2	138.6
Merchandise inventories, net	1,250.5	1,250.3
Prepaid expenses and other current assets	118.6	115.2
Assets held for sale	—	660.1
Total current assets	3,127.7	3,018.4
Property and equipment:		
Land	18.7	19.9
Buildings and leasehold improvements	638.2	651.8
Fixtures and equipment	900.2	914.6
Total property and equipment	1,557.1	1,586.3
Less accumulated depreciation	1,235.8	1,235.3
Property and equipment, net	321.3	351.0
Deferred income taxes	147.3	158.2
Goodwill	363.9	1,350.5
Other intangible assets, net	33.5	92.5
Other noncurrent assets	50.6	71.0
Total noncurrent assets	916.6	2,023.2
Total assets	\$ 4,044.3	\$ 5,041.6
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,051.9	\$ 892.3
Accrued liabilities	752.8	950.1
Income taxes payable	27.2	37.5
Current portion of debt, net	349.2	—
Liabilities held for sale	—	50.9
Total current liabilities	2,181.1	1,930.8
Deferred income taxes	0.1	5.0
Long-term debt, net	471.6	817.9
Other long-term liabilities	55.3	73.4
Total long-term liabilities	527.0	896.3
Total liabilities	2,708.1	2,827.1
Commitments and contingencies (Notes 8, 11 and 12)		
Stockholders' equity:		
Class A common stock — \$.001 par value; authorized 300.0 shares; 102.0 and 101.3 shares issued, 102.0 and 101.3 shares outstanding, respectively	0.1	0.1
Additional paid-in capital	27.7	22.1
Accumulated other comprehensive (loss) income	(54.3)	12.2
Retained earnings	1,362.7	2,180.1
Total stockholders' equity	1,336.2	2,214.5
Total liabilities and stockholders' equity	\$ 4,044.3	\$ 5,041.6

## Exhibit 5: GameStop US Locations by State

*Domestic Locations.* The table below sets forth the number and locations of our domestic stores included in the United States segment as of February 2, 2019:

Alabama .....	61	Kentucky .....	71	North Dakota .....	8
Alaska .....	6	Louisiana .....	61	Ohio .....	169
Arizona .....	73	Maine .....	11	Oklahoma .....	48
Arkansas .....	31	Maryland .....	83	Oregon .....	41
California .....	374	Massachusetts .....	78	Pennsylvania .....	179
Colorado .....	58	Michigan .....	101	Rhode Island .....	12
Connecticut .....	47	Minnesota .....	44	South Carolina .....	68
Delaware .....	15	Mississippi .....	44	South Dakota .....	11
Florida .....	242	Missouri .....	66	Tennessee .....	94
Georgia .....	137	Montana .....	12	Texas .....	374
Guam .....	2	Nebraska .....	21	Utah .....	32
Hawaii .....	17	Nevada .....	38	Vermont .....	4
Idaho .....	17	New Hampshire .....	26	Virginia .....	121
Illinois .....	143	New Jersey .....	114	Washington .....	76
Indiana .....	94	New Mexico .....	25	West Virginia .....	29
Iowa .....	31	New York .....	211	Wisconsin .....	56
Kansas .....	31	North Carolina .....	131	Wyoming .....	8
<b>Total Domestic Stores</b>					<b>3,846</b>

## Exhibit 6: GameStop International Locations by Country

	Number of Stores
Canada .....	311
<b>Total Stores - Canada Video Game Brands</b>	<b>311</b>
Australia .....	419
New Zealand .....	43
<b>Total Stores - Australia Video Game Brands</b>	<b>462</b>
Austria .....	25
Denmark .....	34
Finland .....	16
France .....	420
Germany .....	208
Ireland .....	50
Italy .....	361
Norway .....	28
Sweden .....	52
Switzerland .....	17
<b>Total Stores - Europe Video Game Brands</b>	<b>1,211</b>
<b>Total International Stores</b>	<b>1,984</b>
<b>Total Stores</b>	<b>5,830</b>



## Exhibit 7: GameStop Lease Expiration Schedule

Lease Terms to Expire During <sup>(1)</sup>	Number of Stores
Fiscal 2019 .....	2,004
Fiscal 2020 .....	1,040
Fiscal 2021 .....	766
Fiscal 2022 .....	646
Fiscal 2023 and later .....	1,374
<b>Total .....</b>	<b>5,830</b>

## Exhibit 8: GameStop Revenue by Segment

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
New video game hardware <sup>(1)</sup> .....	\$ 1,767.8	21.3%	\$ 1,791.8	21.0%	\$ 1,396.7	17.5%
New video game software .....	2,449.7	29.6	2,582.0	30.2	2,493.4	31.3
Pre-owned and value video game products .....	1,866.3	22.5	2,149.6	25.2	2,254.1	28.3
Video game accessories .....	956.5	11.5	784.3	9.2	676.7	8.5
Digital .....	194.0	2.3	189.2	2.2	181.0	2.3
Collectibles .....	707.5	8.5	636.2	7.4	494.1	6.2
Other <sup>(2)</sup> .....	343.5	4.3	414.0	4.8	469.0	5.9
<b>Total .....</b>	<b>\$ 8,285.3</b>	<b>100.0%</b>	<b>\$ 8,547.1</b>	<b>100.0%</b>	<b>\$ 7,965.0</b>	<b>100.0%</b>

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
New video game hardware <sup>(1)</sup> .....	\$ 150.0	8.5%	\$ 163.1	9.1%	\$ 154.2	11.0%
New video game software .....	525.6	21.5	590.3	22.9	600.4	24.1
Pre-owned and value video game products .....	810.4	43.4	977.1	45.5	1,044.1	46.3
Video game accessories .....	312.5	32.7	255.0	32.5	235.2	34.8
Digital .....	171.6	88.5	162.4	85.8	155.5	85.9
Collectibles .....	233.3	33.0	208.2	32.7	171.6	34.7
Other <sup>(2)</sup> .....	104.7	30.5	128.8	31.1	138.9	29.6
<b>Total .....</b>	<b>\$ 2,308.1</b>	<b>27.9%</b>	<b>\$ 2,484.9</b>	<b>29.1%</b>	<b>\$ 2,499.9</b>	<b>31.4%</b>

(1) Includes sales of hardware bundles, in which physical hardware and digital or physical software are sold together as a single SKU.

(2) Includes the operations of our Simply Mac stores and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

## Exhibit 9: GameStop Financials YoY

### Fiscal 2018 Compared to Fiscal 2017

	Fiscal Year		Change	
	2018	2017	\$	%
	(\$ in millions)			
Net sales	\$ 8,285.3	\$ 8,547.1	\$ (261.8)	(3.1)%
Cost of sales	5,977.2	6,062.2	(85.0)	(1.4)
Gross profit	2,308.1	2,484.9	(176.8)	(7.1)
Selling, general and administrative expenses	1,888.6	1,909.6	(21.0)	(1.1)
Depreciation and amortization	105.6	122.3	(16.7)	(13.7)
Goodwill impairments	970.7	—	970.7	—
Asset impairments	45.2	13.8	31.4	227.5
Operating (loss) earnings	(702.0)	439.2	(1,141.2)	(259.8)
Interest expense, net	51.1	55.3	(4.2)	(7.6)
(Loss) earnings from continuing operations before income taxes	(753.1)	383.9	(1,137.0)	(296.2)
Income tax expense	41.7	153.5	(111.8)	(72.8)
Net (loss) income from continuing operations	(794.8)	230.4	(1,025.2)	(445.0)%
Income (loss) from discontinued operations, net of tax	121.8	(195.7)	317.5	(162.2)%
Net (loss) income	\$ (673.0)	\$ 34.7	\$ (707.7)	(2,039.5)%

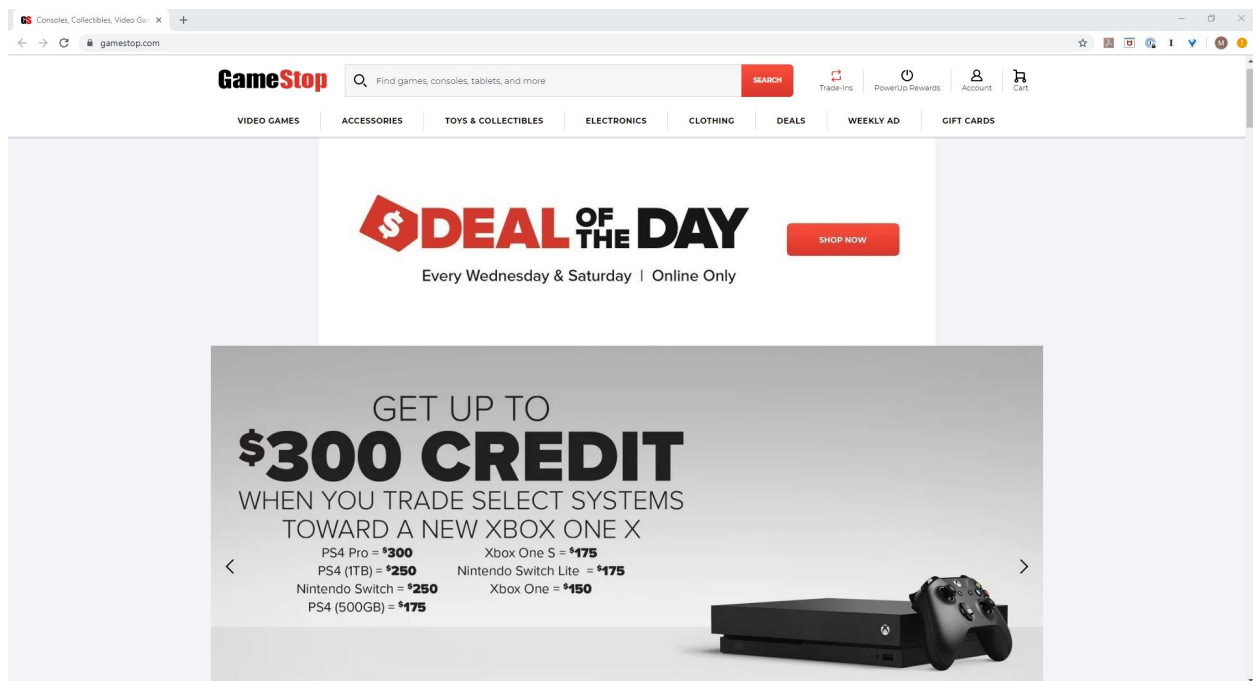
	Net Sales		Change	
	Fiscal Year 2018	Fiscal Year 2017	\$	%
	(\$ in millions)			
New video game hardware <sup>(1)</sup>	\$ 1,767.8	\$ 1,791.8	\$ (24.0)	(1.3)%
New video game software	2,449.7	2,582.0	(132.3)	(5.1)
Pre-owned and value video game products	1,866.3	2,149.6	(283.3)	(13.2)
Video game accessories	956.5	784.3	172.2	22.0
Digital	194.0	189.2	4.8	2.5
Collectibles	707.5	636.2	71.3	11.2
Other <sup>(2)</sup>	343.5	414.0	(70.5)	(17.0)
Total	\$ 8,285.3	\$ 8,547.1	\$ (261.8)	(3.1)%

	Gross Profit		Change	
	Fiscal Year 2018	Fiscal Year 2017	\$	%
	(\$ in millions)			
New video game hardware <sup>(1)</sup>	\$ 150.0	\$ 163.1	\$ (13.1)	(8.0)%
New video game software	525.6	590.3	(64.7)	(11.0)
Pre-owned and value video game products	810.4	977.1	(166.7)	(17.1)
Video game accessories	312.5	255.0	57.5	22.5
Digital	171.6	162.4	9.2	5.7
Collectibles	233.3	208.2	25.1	12.1
Other <sup>(2)</sup>	104.7	128.8	(24.1)	(18.7)
Total	\$ 2,308.1	\$ 2,484.9	\$ (176.8)	(7.1)%

(1) Includes sales of hardware bundles, in which physical hardware and digital or physical software are sold together as a single SKU.

(2) Includes the operations of our Simply Mac stores and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

## Exhibit 10: GameStop website



## Exhibit 11: Origin website (www.origin.com)

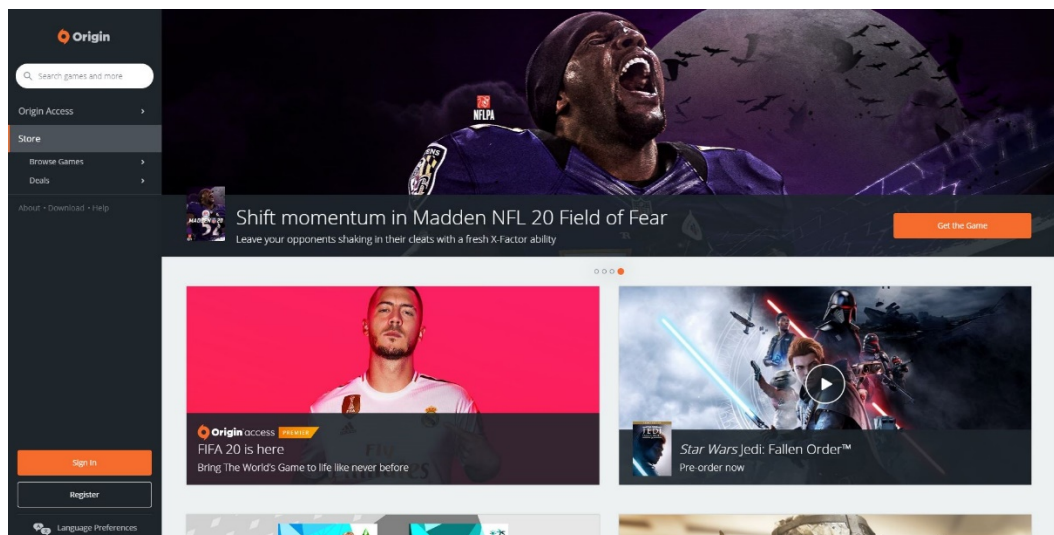




Exhibit 12: UPlay website (www.uplay.ubisoft.com)

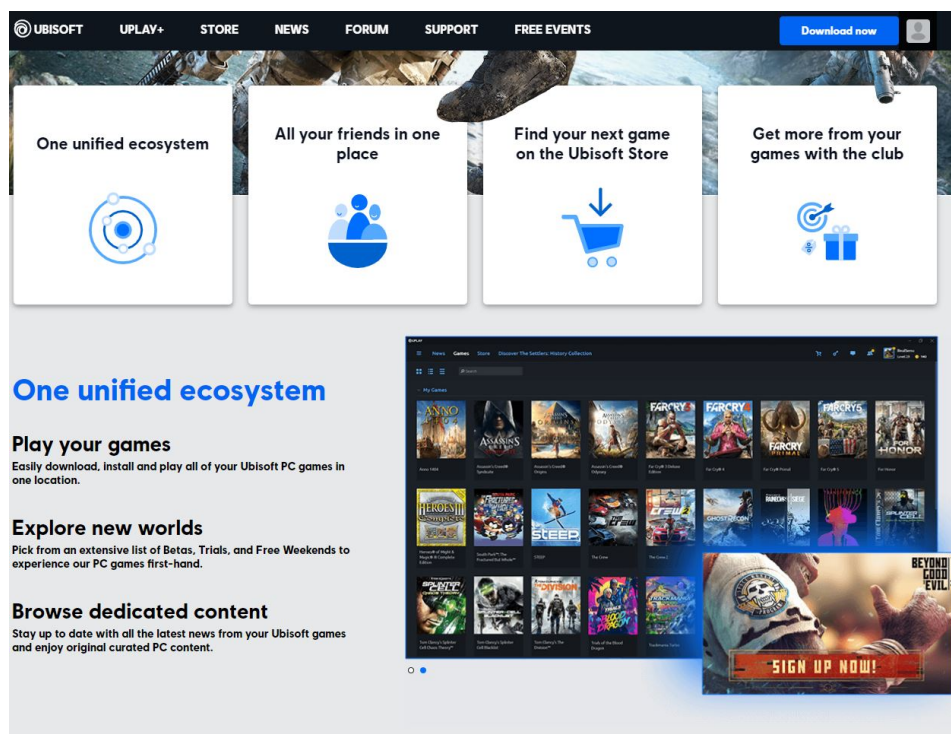


Exhibit 13: Steam website (www.store.steampowered.com)

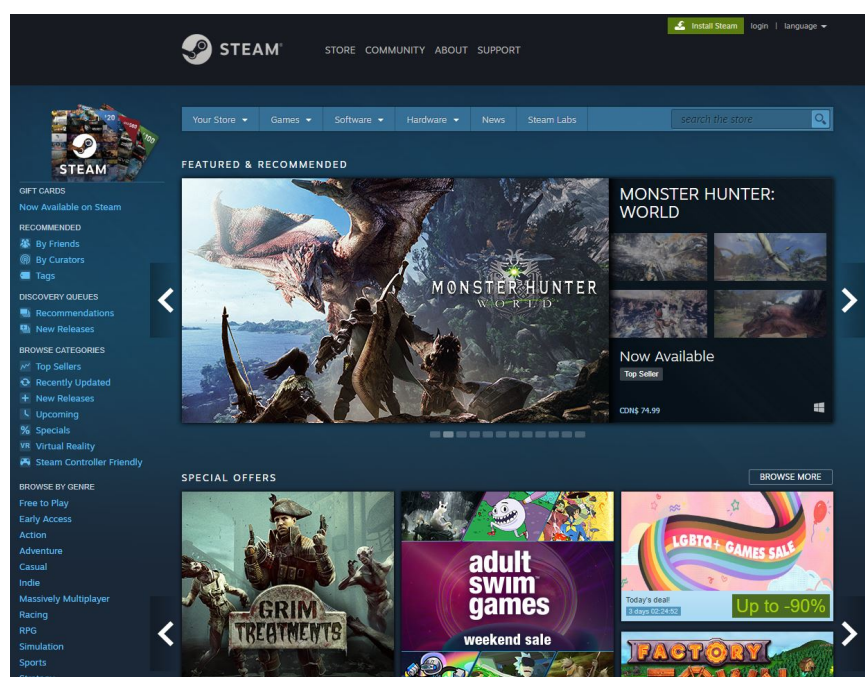


Exhibit 14: Mixer website (www.mixer.com)

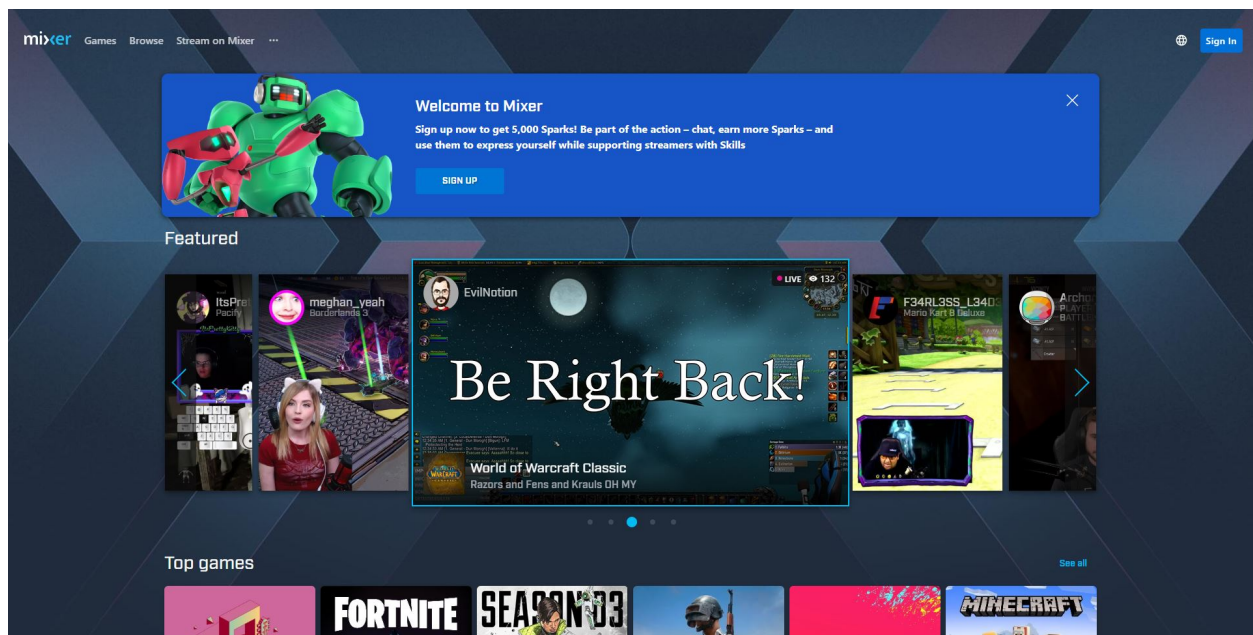


Exhibit 15: Typical GameStop retail location

