

Mossberg's Investor Digest

Best Idea Profile

GameStop Corp. (NYSE: GME)

DESCRIPTION:

Headquartered in Grapevine, TX, GameStop is the world's largest multichannel video game retailer. GameStop has approximately 6,600 company-operated stores located in 15 countries. In its stores and on its electronic commerce websites, including GameStop.com and ebgames.com, GME sells and trades new and used video game hardware, physical and digital video game software and other related accessories and merchandise. GameStop also publishes *Game Informer* magazine, the third largest physical magazine in the nation and the largest paid digital subscription in the world. It operates a leading browser-based video gaming site and digital PC distribution platforms. GameStop was founded in 1994.

KEY INVESTMENT CONSIDERATIONS:

Impact of game console introductions – Many analysts believe the game console industry is nearing the end of an unusually long cycle and on the verge of multiple new console introductions. As they have in the last three console cycles over the past 15 years, Console introductions in late 2012 or 2013 should accelerate same store sale comparisons and drive accelerated growth in earnings and cash flow. GameStop's market share is roughly double what it was during the last wave of console launches so it is well positioned to benefit.

Positioned to Embrace Technology – GameStop is driving the expansion into downloadable content as it also continues to build on its ability to sell digital content in stores and online. New consoles are likely to still require discs as the density and complexity of the games increase. As technology catches up with the functional requirements of these games, GameStop will be well positioned to adapt.

New businesses continues to ramp – GameStop is aggressively pursuing the mobile business and has stated its goal of \$150-\$200 million in revenue from this segment. Since sequential-quarter sales doubled for this segment in the latest quarter, this target appears achievable. Digital and mobile businesses did not exist for GameStop two years ago and now they represent 10% of sales. Digital sales in the second quarter were up 27% year over year as the company applied its buy/sell/trade heritage to iDevices. Trades of iDevices represent 10% of trades received during the second quarter and have been increasing weekly. GameStop also began to take the most popular 43 Android devices and the Kindle Fire in trade.

Used video games are the key to GameStop's competitive moat – As the largest retailer of used video games, GameStop has a substantial competitive advantage over other video game retailers, one that would be very difficult to duplicate.

PowerUp Rewards program dominates competition – PowerUp Rewards continues to be the primary driver of pre-owned sales and the program recently reached 20 million members. The PowerUp community represents 74% of sales year to date and they continue to transact at a rate roughly five times that of nonmembers. Average transaction frequency is once every 47 days and the collective game library hosted online holds over 334 million games. Global loyalty programs give the company a unique competitive weapon.

VALUATION:

Management's stated intent is to **return more than 100% of free cash flow to shareholders** through dividends and share repurchases. GameStop generates significant free cash flow and has no debt, which will allow it to return the entire enterprise value to shareholders over the next five years. With recent stock declines, the net book value of the stock exceeds the market cap. The 5% yield of makes the stock an interesting bet on the positive impact of new consoles on sales, profitability, and quarterly comparisons.

GameStop Corp. (NYSE: GME) Investment Data (as of 10/04/12)

Recent Price	\$22.37
52-Week Range	15.32 - 26.66
Fiscal Year End	January
Dividend	\$1.00
Yield	4.7%
Shares Outstanding	123 M
Average Trading Volume (3 mos)	3 M
Market Capitalization	2.7 B
Cash	139 M
Long Term Debt	0
Enterprise Value (EV)	2.5 B
LT Debt/ Equity	N/A
BV/ Share	22.4
TTM Revenue	9.1 B
P/ Revenue	0.3x
TTM EPS	2.38
P/ EPS	9.2x
TTM EBITDA	800 M
EV/ TTM EBITDA	3.1x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.