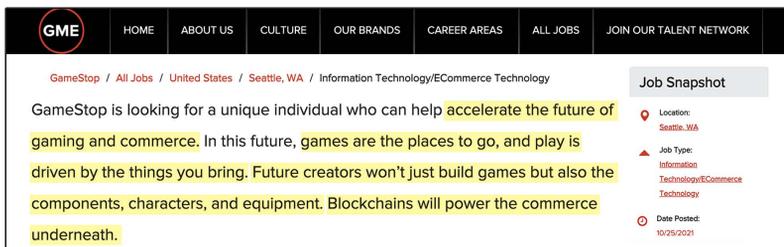


GameStop (GME) Valuation

GME Remains Undervalued; Tech Transformation Points to Bull Case Target of \$1069.00

November 16, 2021

GameStop closed on November 15, 2021 at \$209.24, **up more than 7,000%** from an all-time low of \$2.80 on April 3, 2020. Although a persistent narrative is that this rise is unsustainable and related to an ill-informed retail trading frenzy, we believe that GameStop is **rapidly transforming into a technology company**—kicking off with the **launch of an NFT marketplace in Q4 2021**—and that this move will result in a **substantial correction** from severe undervaluation based on where GameStop is quickly heading. We further believe that it currently has **significant remaining upside** in comparison to similar e-commerce and technology names that are just beginning to explore blockchain implementations and lack GameStop's industry and customer relationships in the **fast-growing gaming market**.



Although the years-long short thesis implied a terminal value of zero—bankruptcy—we see this outcome as **virtually impossible** given the current state of **GameStop's financials, digital-first and fulfillment initiatives**, and proven e-commerce results trajectory. In fact, our analysis clearly shows **3 distinct paths to sustained profitability and growth**:

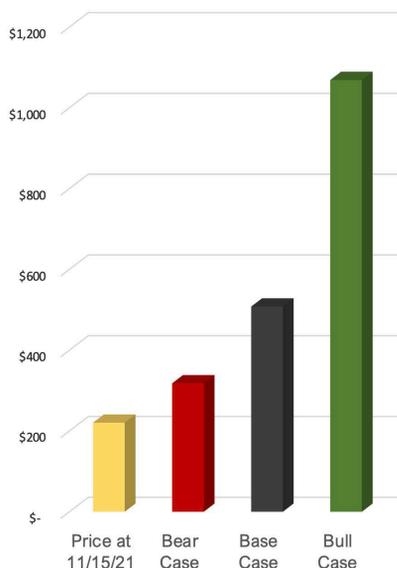
- **A Bear Case (\$304.00)** tracking a delayed or thwarted NFT project launch alongside a plunge in the crypto sector due to potential regulation, industry average e-commerce growth with majority of sales deriving from brick-and-mortar locations, and a continued market decline in physical games not offset by major business model updates.
- **A Base Case (\$498.00)** that is similar, but with a material increase in e-commerce revenue contribution, a successful but substandard NFT marketplace plus greater impact from digital revenue sharing with vendors, and some participation in other digital-first businesses.
- **A Bull Case (\$1069.00)** based on an evolution into the "technology company that delights gamers" hinted at by Ryan Cohen, with early-adoption of successfully implemented blockchain technology, a significant increase in revenue attributed to e-commerce, 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 :	\$209.24
MARKET CAP:	\$15.9B
BEAR CASE PT:	\$304.00
BASE CASE PT:	\$498.00
BULL CASE PT:	\$1069.00

¹ Prior day market close

GAMESTOP CORP (GME) PRICE TARGET



FULL-DISCLOSURE MODEL
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GameStop (GME) Valuation

Bear Case: Delayed or thwarted NFT project launch alongside a plunge in the crypto sector, industry average e-commerce growth with successful footprint rationalization, and a continued market decline in physical games not offset by major business model updates

Our downside scenario **discounts the influence of the company's initiatives** to transform into a technology company, instead operating as a legacy retailer with a gradual sales shift toward e-commerce. It also **discounts potential macro growth drivers** in the overall gaming market, such as the increasing demand for higher-margin merchandise.

In this case, we assume **industry-standard growth in e-commerce**, and GameStop's investments throughout 2021 into fulfillment and customer service do not accelerate results or allow the company to catch-up to e-commerce peers.

Line of Business	Category	CAGR			Bear Case		
		Bear	Base	Bull	2021	2022	2023
Brick & Mortar	Retail	-6.00%	3.00%	12.00%	\$3,440,000,000	\$2,939,636,364	\$2,763,258,182
eCommerce	eComm	7.50%	15.00%	30.00%	\$1,860,000,000	\$1,999,500,000	\$2,149,462,500
NFT Marketplace	Web 3.0	82.00%	164.00%	328.00%	\$100,000,000	\$182,000,000	\$331,240,000
Digital Partnerships	Software	5.00%	10.00%	15.00%	\$6,890,000	\$7,234,500	\$7,596,225
eSports	eSports	12.00%	24.00%	48.00%	\$0	\$1,575,000	\$1,764,000
PowerUp & AdTech	Software	0.00%	10.00%	40.00%	\$345,000,000	\$345,000,000	\$345,000,000
Total Revenue					\$5,751,890,000	\$5,474,945,864	\$5,598,320,907
Adjusted Revenue Attributable To					2021	2022	2023
	Retail				\$3,440,000,000	\$2,672,396,694	\$2,283,684,448
	E-Com				\$1,860,000,000	\$1,817,727,273	\$1,776,415,289
	Web 3.0				\$100,000,000	\$165,454,545	\$273,752,066
	eSports				\$0	\$1,431,818	\$1,457,851
	Software				\$351,890,000	\$320,213,182	\$291,401,839
Total Adj. Rev					\$5,751,890,000	\$4,977,223,512	\$4,626,711,493
P/S					2.69	3.11	3.34
SHARE PRICE IMPLIED BY LINE-OF-BUSINESS COMPS							
	Category	P/S			2021	2022	2023
	Retail	0.95			\$42.72	\$33.19	\$28.36
	eComm	4.05			\$98.48	\$96.25	\$94.06
	Web 3.0	41.5			\$54.26	\$89.77	\$148.53
	eSports	36.08			\$0.00	\$0.68	\$0.69
	Software	6.5			\$39.10	\$35.58	\$32.38
Implied Share Price					\$235	\$255.46	\$304.02
Implied P/S					3.12	3.93	5.03

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 tepid moves into higher-margin digital businesses such as customer loyalty, adtech, eSports, and NFTs.

OUR TAKE AND PROBABILITIES

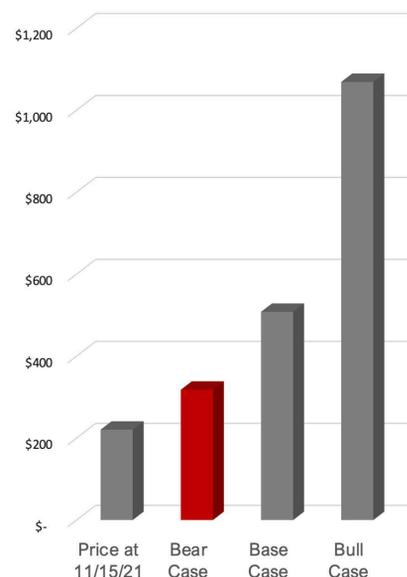
- Our bear case is presented to reflect the existing state of the **legacy brick & mortar business** and a gradual transition to e-commerce. There is clear profitability for years, even if management's efforts in 2021 do not yield acceleration in e-commerce.
- Based on the recent actions of Ryan Cohen 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 is still **meaningfully below fair market value** given the legacy businesses and conservative estimates for management's success in **digital-first and Web 3.0 efforts**.

VALUATION

RATING:	UNDERVALUED
PRICE ¹ :	\$209.24
MARKET CAP:	\$15.9B
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¹ Prior day market close

GAMESTOP CORP (GME) PRICE TARGET



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GameStop (GME) Valuation

Base Case: Material increase in e-commerce revenue contribution, a successful but substandard NFT marketplace that grows on-par with the overall industry, greater impact from digital revenue sharing with vendors, improved customer support, fulfillment, and some participation in other digital-first businesses

Our base scenario assumes a reduced but continued rate of growth in e-commerce (web, mobile, and “web-in-store” endless aisle), culminating in a **conservative 40% of physical goods revenue by 2025**. It also accounts for **expansion of private label brands** and macro gaming market tailwinds such as the increasing demand for higher-margin items, and enhanced pre-owned inventory velocity & scale through innovative self-service automation.

It also accounts for a **middling NFT Marketplace** – one which grows at a rate similar to the overall market for NFTs, but **does not seize any meaningful market share** from existing platforms or help accelerate NFT adoption among new users.

Line of Business	Category	CAGR	CAGR			Base Case		
			Bear	Base	Bull	2021	2022	2023
Brick & Mortar	Retail	-6.00%	3.00%	12.00%	\$3,440,000,000	\$3,543,200,000	\$3,649,496,000	
eCommerce	eComm	7.50%	15.00%	30.00%	\$1,860,000,000	\$2,139,000,000	\$2,459,850,000	
NFT Marketplace	Web 3.0	82.00%	164.00%	328.00%	\$6,000,000	\$264,000,000	\$696,960,000	
Digital Partnerships	Software	5.00%	10.00%	15.00%	\$6,880,000	\$7,579,000	\$8,336,900	
eSports	eSports	12.00%	24.00%	48.00%	\$0	\$3,150,000	\$3,936,000	
PowerUp & AdTech	Software	0.00%	10.00%	40.00%	\$345,000,000	\$379,500,000	\$417,450,000	
Total Revenue					\$5,751,880,000	\$6,336,429,000	\$7,235,998,900	
Adjusted Revenue Attributable To					2021	2022	2023	
	Retail				\$3,440,000,000	\$3,221,090,909	\$3,016,112,397	
	E-com				\$1,860,000,000	\$1,344,545,455	\$2,032,933,884	
	Web 3.0				\$100,000,000	\$240,000,000	\$578,000,000	
	eSports				\$0	\$2,863,636	\$3,228,099	
	Software				\$351,880,000	\$351,890,000	\$351,890,000	
	Total Adj. Rev				\$5,751,880,000	\$5,760,399,000	\$5,980,164,380	
P/S					2.69	2.68	2.58	
SHARE PRICE IMPLIED BY LINE-OF-BUSINESS COMPS								
	Category	P/S			2021	2022	2023	
	Retail	0.95			\$42.72	\$40.01	\$37.46	
	eComm	4.05			\$96.48	\$102.96	\$107.64	
	Web 3.0	41.5			\$54.28	\$130.21	\$312.51	
	eSports	36.08			\$0.00	\$1.35	\$1.52	
	Software	6.5			\$36.10	\$39.10	\$39.10	
	Implied Share Price				\$235	\$313.63	\$498.24	
	Implied P/S				3.12	4.16	6.37	

In this case, **digital shifts contribute meaningfully** to margin and CLV improvements, while more successful entries into new digital-first and Web 3.0 business segments **more than double the potential valuation**.

OUR TAKE AND PROBABILITIES

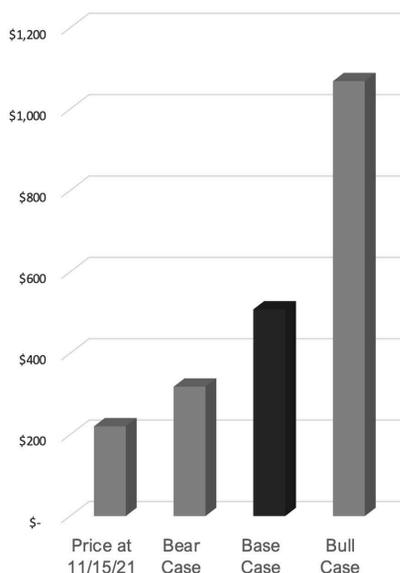
- Our base case is presented to model a **conservative transformation of GameStop** into an e-commerce retailer with some exposure to new markets.
- Assumes growth in NFT & Web 3.0 on-par with the broader NFT market and no accretive benefit from existing industry or customer relationships.
- Although we believe this case is far **more likely than the bear scenario**, the entrepreneurial history of Ryan Cohen and experience of the Matthew Finestone-led blockchain team still indicates that our **bull case is the most likely at this time**.

VALUATION

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GameStop (GME) Valuation

Bull Case: Evolution into a technology company that delights gamers, early-adoption in Web 3.0 technologies benefit from industry and customer relationships, significant growth in gaming TAM, and a majority of revenue derived from digital channels

Our final scenario weighs the significant impact of the new board and senior executive hiring frenzy on Cohen's vision of transforming GameStop into a **"technology-driven sector leader"**.

In our bull case, **e-commerce revenues will grow above industry average** as GameStop's investments in **fulfillment and customer service** help accrue market share from competitors. However, physical goods retailing in both brick & mortar and e-commerce channels represent only 25% of total revenues by 2025, as **fully-evolved digital businesses become GameStop's principal focus**. This case assumes that GameStop's industry relationships and 55 million PowerUp members are successfully leveraged to grow Web 3.0, eSports, and digital businesses above industry trend, and **produce cross-selling synergies with its traditional retailing businesses**.

			2021	2022	2023
	Adjusted Revenue Attributable To	Retail	\$3,440,000,000	\$3,502,545,455	\$3,566,228,099
		E-Com	\$1,860,000,000	\$2,188,181,818	\$2,597,851,240
		Web 3.0	\$100,000,000	\$389,090,909	\$1,513,917,355
Discount Rate	10.00%	eSports	\$0	\$5,727,273	\$7,705,785
Shares as-of Nov 12	76,490,000	Software	\$351,890,000	\$446,294,091	\$566,373,574
Price as-of Nov 12	\$202.10	Total Adj. Rev	\$5,751,890,000	\$6,541,839,545	\$8,252,076,054
		P/S	2.69	2.36	1.87
SHARE PRICE IMPLIED BY LINE-OF-BUSINESS COMPS					
	Category	P/S	2021	2022	2023
	Retail	0.95	\$42.72	\$43.50	\$44.29
	eComm	4.05	\$98.48	\$116.39	\$137.55
	Web 3.0	41.5	\$54.26	\$211.10	\$821.38
	eSports	38.98	\$0.00	\$2.70	\$3.63
	Software	8.5	\$39.10	\$49.59	\$62.94
		Implied Share Price	\$235	\$423.29	\$1,069.80
		Implied P/S	3.12	4.95	9.92

Based on GameStop moves toward higher-margin technology businesses, and CEO Matt Furlong's remarks on Q2 2021 earnings call reflecting **net sales as the relevant metric for company success**, we believe a valuation multiple of 9.5x P/S is reasonable in comparison to other technology companies experimenting with Web 3.0. **This does not include a full "first-mover" scenario**, where GameStop's early entrance into the space and centrality in the gaming market allows it to **create a durable competitive advantage and its own NFT gaming ecosystem** – which would justify a still-higher valuation ratio.

OUR TAKE AND PROBABILITIES

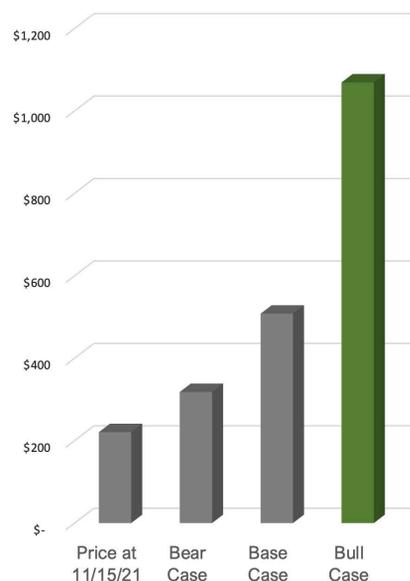
- This case models the **most likely outcome and business trajectory** given **management's observed actions** throughout 2021.
- Forecasts are based on evolution of the existing business using known elements of Cohen's business history and potential plans, as well as prevailing trends in the e-commerce, gaming, and Web 3.0 technology industries.
- Based on the hiring of 270+ e-commerce and technology executives / engineers throughout 2021, and Ryan Cohen's tenure as Board Chairman, **we firmly believe this case is the most likely outcome at this junctures**.

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