Title: Gamestop's $400 Billion NFTransformation
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TA;CR: Ape always ask 'Wen Moon', but not 'How Moon?' This is the way to 'How Moon'.

The financial media's criticism of Gamestop for the past year and a half was the lack of direction and forward statements from the company outlining a path to profitability. The developments from the company show that it is well on the way to addressing a share of a digital gaming assets and collectibles market worth well over $400 billion with a double digit industry CAGR. In other words, the NFT marketplace is positioned under a ton of rocket fuel, and Gamestop is one of the first movers in this space. The bear thesis is heavily reliant on Gamestop being left behind as gaming turns digital. This bull thesis is predicated on Gamestop becoming the next destination for all things gaming and collectible.

In this DD, I will be examining the rise and fall of Gamestop, which forms the bear thesis. I will then rend and tear the bear thesis brick by brick using verifiable, factual information from official statements, channel partners, market research, and the company reports. Don't trust me, read it for yourself and make your own decisions because it's your money, your investment, and you are the only one responsible for the soundness of your investment. I am too retarded to give financial advice and like the stock. I believe that hype can only move a stock price so far, the company needs fundamentals to stand on in order to bring long term value. Today, I present those fundamentals. Buckle up.

Part I, The Rise and Fall of Gamestop

Once upon a time in 1984, two dudes from Harvard opened up a video game retailer named after an ancient computer nerd, Babbage's. It became a major player in the sale of video game cartridges in the United States, providing market data like this chart here from 1994:

[From EGM 68](https://preview.redd.it/4t980cqptnk91.jpg?width=1844&format;=pjpg&auto;=webp&s;=3831a176129bffd741af9ffec971639d401dd29c)

Through a series of sales and mergers, it became the Gamestop we know today. In the cartridge and disc era of gaming (from 8 bit consoles up to the Wii), Babbage's became a major retailer that saw up to 75% of sales coming from video games. It would later acquire rival retailer Electronics Boutique in 2005 and consolidated the brand under Gamestop worldwide in 2021. Games were bought, sold, rented, and resold as physical media:

[Before the internet, you had to talk to strangers!](https://preview.redd.it/iw741i7ttnk91.jpg?width=1389&format;=pjpg&auto;=webp&s;=c9488e6972d01cff6d39e467d7e47e7615eb631a)

Digital distribution was still in its infancy from the 1990s, with shareware software titles barely making a dent in the gaming industry market share compared to console sales. This also gave Gamestop, the largest video game retailer, some marketing clout with midnight launches and preorders of consoles and games, which may be sold out for weeks after the initial launch. Digital launches of games have made the midnight launch events for software a relic of the past. Console hardware shortages are still a problem down to this day. However, the profit on consoles are slim with single digit percentage margins. During Gamestop's best years, 2005-2009, sales of used games and gaming accessories brought in billions of dollars for the company, with used game sales being the high margin cash cow.

This report: https://www.gamedeveloper.com/pc/analysis-gamestop-profit-margin-on-used-almost-50-

gives us a snapshot of Gamestop’s revenue streams during its best years. The margins were high for Gamestop because the used game business model was notorious for its poor value proposition to customers, which saw low values for trade-ins (slightly lower if you were a rewards member and got Game Informer) and used games selling for almost the same price as new games. Since few places offered trades for games, Gamestop min-maxed their business model by giving customers the lowest value possible and maximizing profits by selling used games for only a few dollars below new games. Turnaround on titles like EA Sports Roster: Shovelware Edition (we buy: $4, we sell: $55 used, $60 new) brought in big bucks. More importantly, the game developers never saw a dime from the resale of used games. It all went to Gamestop. This is a key point of contention, one that ultimately fueled the bear thesis for Gamestop, the migration of games to digital distribution, and the removal of disc drives from consoles.

Customers were angry at Gamestop for a poor customer experience when buying and selling games. Developers / publishers were angry at the used game market undercutting their sales. When internet speeds around the world improved to the point where video could be streamed and digital storefronts like the Epic Games Store, Steam, and GOG became more attractive options for both customers and developers, it left Gamestop and its 2 billion used copies of Fallout 76 in the dust (just kidding, they were new). Many customers no longer had the need to go to Gamestop and preorder a game, especially when the larger developers like EA and Blizzard had their own digital storefronts, where disappointments like Warcraft 3: Reforged would hide behind a thin veneer of marketing instead of occupying an entire warehouse full of physical disc returns. When consoles started shipping without physical disc drives, this was just another nail in the coffin for Gamestop’s outdated business model. Then, in 2020, a global pandemic with an unknown virus and no known cure at the time drove fear to an all-time high and lowered all foot traffic to stores as one place after another instituted lockdowns. The Gamestop management at this time forced stores to stay open, getting a ton of bad press. In the middle of all this misery was a rainbow colored bear, happy to profit off the impending bankruptcy of one of the most hated and irrelevant companies now on its death throes. The fabulous bear would call out to many hedgies and have them short the stock to the point where it was cellar boxed, never close or disclose their positions, many of them sold naked, and to never pay tax on their ill-begotten gains. Here is the bear’s thesis:

1) **Gamestop is a dying brick and mortar company with an outdated business model**

2) **The transition to digital distribution will reduce revenue across all its stores and make Gamestop increasingly irrelevant in the market that it operates and remove its major driver of profits, used physical copies of games**

3) **The last major pandemic lasted 3 years, at which point the lockdowns will have long bankrupted Gamestop, which was severely handicapped under an existing loan agreement and lacking funds to execute any kind of turnaround plan**

4) **Gamestop is hated by customers, developers, and employees alike. Everyone wants to see this ship burn and sink.**

Fabulous Bear: Sounds like easy money, doesn’t it? To minimize risk, Gamestop and other brick and mortar companies like it, were put into massive basket swaps that bet on many or all of these companies going to zero. Some firms may have shorted the stock like crazy by a variety of means because these companies are already on shaky ground and cannot secure the funding they need to defend themselves, because the same firms control the funding sources. It’s as easy as taking money from a retarded ape. The only way this plan could go tits up is if somehow, some way, a massive amount of retail investors don’t give in to fear, change sentiment on the company and refuse to sell, allowing the company to fund itself out of bankruptcy using the sale of its own stock like a car crash victim flipping over a burning car by brute force and then putting out the fire with its own piss. But that’s a viral black swan event that has never happened before in the history of stocks, so why worry, right? Retail traders will just take their lumps, sell, and move on, wiser and poorer like they always do, amirite? Amirite?!

Narrator: The bear was not right. Ladies, gentlemen, degenerates, and apes, we have entered the other side of the trade we were never supposed to see. But first, a message from Little Johnny, the 12 year old gamer who goes to Gamestop.

Part II – The Liquidity Problem

It is 2009. Meet Little Johnny, a 12 year old American boy with no job, no income outside of household chores, shoveling snow, or selling lemonade. Oh, and birthdays and Christmases. Johnny has a Playstation 3 (2007 was the best Christmas ever) and a small library of games. Johnny has beaten all of those games and he's bored of them. Johnny's only source of new games are birthdays and Christmases, but 2008 was hard on everyone, and instead of a new Wii, he got a copy of Lee Carvallo's Putting Challenge. Uncharted 2 came out, and he wants to play it. Badly. His parents say no, he has enough games already. Well, how about he trades them in at Gamestop for a copy of Uncharted 2? The parents are spared from paying anything, so the next time at the mall, Little Johnny trades in his pile of used games for a slightly used, but very playable, copy of his next game. Little Johnny is an asset provider, and hundreds of thousands of gamers like him once made up the asset pool of used games, which Gamestop arbitraged to maximum advantage to reap billions in profit. Not one cent goes to the developers. Keep this core concept in mind, that the customer is the asset provider, Gamestop is the platform to execute the trade, and the game developer is the one who mints the game's asset supply, because this is the basis of Gamestop's NFT marketplace. In 2009, this trading relationship was flawed. The asset provider, Johnny, and the supply minter, the developer, suffered under the massive arbitrage of Gamestop's trading platform.

Remember the landing page for Gamestop NFT? It read: Power to the Players. Power to the Creators. Power to the Collectors. We are going to look at how this new mantra benefits limited asset providers like Little Johnny later.

We now return to breaking the bear thesis, brick by brick:

Part III – The Technology Company

Bear Thesis: Gamestop is a dying brick and mortar company with an outdated business model

Bull Thesis: Gamestop is evolving to a technology company with a modernized business model utilizing an NFT marketplace to tap into web3 and mobile gaming opportunities as the new, dominant revenue stream. It has increased profitability by closing down unprofitable stores upon expiry of leases and investing in logistic centers to cover the gaps in service as part of their e-commerce expansion.

The key to any transformation is understanding the core processes of the business and the needs of the customer. Netflix saw itself as an entertainment provider and transitioned from a mail order DVD rental service to a streaming platform. I believe that Gamestop sees its role as a trading platform for gamers and collectors and has taken material steps to ensure that its role as a platform will be secured in the future – by making right with the customer and the developers. This will be the fundamental change that will break the bear's back.

To succeed, according to the Gamestop chairman: "Gamestop needs to evolve into a technology company that delights gamers and delivers exceptional experiences". This is from the investor letter filed on November 16, 2020.

The hiring spree for web3 developers, the launch of the NFT marketplace and choice of channel partners to execute the NFT strategy telegraphs the next area of expansion for Gamestop, a market segment that a video game retailer and other competing brick and mortar stores cannot touch – mobile gaming. As much as true gamers want to snob mobile gaming as microtransaction riddled toilet games, the market segment can no longer be ignored as a revenue stream for those seeking profitability. Page 2 of the letter mentions of one the key squandered opportunities was "The explosion of mobile". Notable hires to Gamestop in the past year are Matt Finestone, Larry Cheng, Matt Furlong, and a parade of tech talent who have left prominent positions in larger companies to work for Gamestop, and paid mostly in stock. These people are high net worth individuals who have bet their careers and their salary on Gamestop, and they are on the board of directors.

The next indicator of a soft pivot to e-commerce is the acquisition of distribution warehouses, which will serve customers in areas where unprofitable stores have their leases closed out. While Gamestop cannot reverse the trend of brick and mortar stores dying out, one action it can take is to minimize losses from existing stores and improve delivery to retain customers in those areas. The massive uptake in web3 and logistics talent plus the acquisition of distribution centers shows that Gamestop is rapidly positioning itself to be the current and future destination for gamers.

Bear Thesis: The transition to digital distribution will reduce revenue across all its stores and make Gamestop increasingly irrelevant in the market that it operates and remove its major driver of profits, used physical copies of games

Bull Thesis: Gamestop is building a marketplace for digital gaming assets and collectibles that will capture value from the rapidly growing mobile gaming market.

Remember when Not A Cat was talking about the relevance of discs and the impact on Gamestop? He was also very close to the concept that Gamestop is now executing. In fact, on the August 3, 2020 stream, From 1:16:50-1:17:54, he speaks about Gamestop being “a clearing house for used games”. This was the right idea on the wrong side of the chart. More specifically, this one:

[Oh no, discless consoles will destroy GME!](https://preview.redd.it/vlg8oie2unk91.jpg?width=571&format;=pjpg&auto;=webp&s;=5c0d50c3fd7efc57703f9147988e2ae973ef70e6)

[When in doubt, Zoom Out!](https://preview.redd.it/dxoe4fj5unk91.jpg?width=1772&format;=pjpg&auto;=webp&s;=0f609bdbf68c7038808fb8ddad4e988f868c892b)

Source: Mobile Gamers Whitepaper by Newzoo

This shows how big mobile gaming happens to be. It’s now the largest segment of the gaming industry. Aside from Fortnite Funko Pops and gift cards, Gamestop currently sees no revenue from mobile games. The mobile gaming market also functions very differently from console gaming, with most games being free to download instead of charging $60-$70 a copy. There is no value in selling a copy of titles like Candy Crush Saga because the game itself is free. Instead, games like these are loaded with microtransactions like power ups, battle passes, and ingame equipment with separate bonus rolls, all paid for with ingame currency, which can either be earned ingame or purchased outright. The key point we want to focus on here is purchased outright – because all phones now come attached with a wallet connected to a payment method, like Google Pay, iTunes, or Apple Pay. There is also a lower barrier to entry for mobile games since they do not require purchase of a separate console to play. The games also come with inherent problems, like randomized loot drops and equipment set bonuses for said randomized drops, which compels the player to sink in more and more money. All this revenue is cut between the developer and the app store.

If we go back and look at 12 year old gamer Little Johnny, 2022 edition, we now have a problem. All his money is sunk into one mobile game, and there’s no way he can sell his in-game assets to provide liquidity for the new mobile game all his friends are playing. There are third party websites where whole accounts can be sold, but these are against the developer’s terms of service and give horrible trade in values that are pennies on the dollar or less – much worse than 2009 Gamestop trade in values. Also, he hates the loot box mechanic because it’s basically a Skinner Box with some shiny loot on the cover.

Enter Gamestop NFT and Immutable X. They are currently building games that are free to download and play, with the items earned in each game as a digital asset in the form of a non-fungible token, or NFT. Gamers who play these games, whether on mobile, console, or PC, can now earn in-game rewards, use them for loot boxes, and then sell those digital assets to players who don’t like loot box mechanics. If players like Little Johnny want to migrate to a new game, he can sell some or all of his in-game assets on Gamestop NFT with a marketplace fee that Gamestop collects, and then use the tokens in his Gamestop Wallet to purchase loot in another game. The developer makes money on the initial sale of digital currency, and then recurring revenue on the resale of the ingame assets via Gamestop NFT. The players gain liquidity that was previous sunk into one game's economy. This will be how Power to the Creators, Power to the Players, Power to the Collecters plays out.

For proof, here's the Immutable marketplace:

[The Multiverse of gaming and collectibles is here!](https://preview.redd.it/iymanu19unk91.jpg?width=2228&format;=pjpg&auto;=webp&s;=f1d2561bcd218b0d8b70b519e1838b195d8c9d61)

You can pick up any game, like Gods Unchained, win some cards through card packs, and then sell those cards (which exist as NFTs) for IMX tokens or another cryptocurrency, and then use the wallet funds to buy items in another game like Guild of Guardians (or cash out for fiat currency). This is currently done via Metamask and integration with the IMX wallet, but improvements made on the marketplace now include the Gamestop Wallet, which launched this year. Liquidity for games has gone digital, with Gamestop once again becoming the place to go for exchanging games, or in this case, the digital assets within free to install games.

Another key metric that would have supported the bear thesis is consistently declining sales revenue per quarter. If we examine the most recent Gamestop form 10-Q, the opposite is true. Sales revenue has consistently increased Y2Y per quarter since the pandemic, which indicates that the publicity received by the sneeze had an overall positive effect on the brand. Gamestop's diversification into trades of digital gaming assets via mobile gaming and improving sales revenue disproves this part of the thesis.

Bear Thesis: The last major pandemic lasted 3 years, at which point the lockdowns will have long bankrupted Gamestop, which was severely handicapped under an existing loan agreement and lacking funds to execute any kind of turnaround plan.

Bull Thesis: The pandemic lockdowns have mostly ended. Gamestop raised enough money to sustain operations through sale of stock. It is currently executing a turnaround plan centered around growing ecommerce and web3.

When Gamestop sold off its stock, it used the funds and cash on hand to pay off its debt obligation early. The obligation effectively crippled the company and prevented it from issuing dividends and a slew of other actions that could have been used to service the debt. This obligation was critical to containing Gamestop under the bear thesis and ensuring that the company collapsed under the load, just like Blockbuster – Netflix did not kill Blockbuster, it was the debt bomb during the IPO that did. With interest rates rising, any companies that have a heavy debt load are looked upon less favorably since that debt is now harder to service. Other than retail leases and some covid assistance loans, Gamestop holds no significant debts. This effectively kills the 'death by crushing debt burden' part of the bear thesis. Furthermore, the pandemic lockdowns did not last as long as the analysts expected.

Gamestop has used its new lease on life to soft pivot to ecommerce and create a marketplace that targets two new market segments in gaming and collectibles that it plans to monetize. These two sectors are mobile gaming and digital collectibles.

With Gamestop's entry into the mobile market, it looks to address a segment that now makes up 52% of all total gaming revenue. More people are getting smartphones compared to consoles, with the console market actually shrinking 6% YoY due to hardware shortages, while mobile gaming revenue has a forecast CAGR of 12.2% to 2030. Mobile games have shorter development times compared to most console games and the ubiquitous nature of smartphones creates an environment where games can generate record revenue in a very short period of time. Games like Genshin Impact took a bit over 5 months to reach $1 billion in sales. PUBG and Candy Crush Saga still make over a billion dollars revenue a year. By comparison, Bethseda's lifetime revenue on Steam, totaling 12 years, took in $714 million (source: https://vginsights.com/developer/14012/bethesda-game-studios). It's fair to say Gamestop is jumping in a much bigger pond. To date, the only blockchain mobile game to surpass $1 billion in revenue is Axie Infinity, and it's not even a AAA title by any stretch. Gamestop's marketplace will really take off when more players realize they are being screwed out of liquidity by developers under the current model and more developers realize they have a recurring revenue stream through a digital marketplace. This is taken from the landing page of Immutable’s flagship game, God’s Unchained:

[Power to The Players, once more!](https://preview.redd.it/shz76n9dunk91.jpg?width=2068&format;=pjpg&auto;=webp&s;=c6d5c9db2bea6d42e614e9178cb7d6b5245ca5fa)

The days of stranded cash shop assets in closed gaming economies are numbered. Players deserve better, and Gamestop is a brand they have always trusted to get value for their gaming assets.

The other half of the equation is the NFT collectibles market. Despite claims that the NFT market is dead, total market size grew 28% from last year. This is in line with the analyst predicted CAGR of 30-33% of the NFT market, expected to top $120 billion by 2026 (probably much sooner if the backwards hoodie guy markets the Wu-Tang album). Even if you are a skeptic and believe NFTs are nothing more than digital POGs, it’s worth noting that from 1994 to 1998, pretty much every movie, TV show, and major brand had its own POGs and spent hundreds of millions of dollars marketing cardboard tiddly winks. Some of those complete sets are still worth money today and appreciated in value. Once major brands start using the technology as part of their marketing efforts or to authenticate high end merchandise, the same people who couldn’t see past the ugly, overpriced apes will be part of the same myopic crowd who thought the internet was nothing more than a fad with a bunch of dancing hamsters.

Not only is Gamestop not going bankrupt any time soon, it is positioning itself to be a major player in the digital gaming assets and digital collectibles markets, which has a total projected market value of $400 billion by 2030 and double digit CAGRs. By comparison the bear thesis sees Gamestop dying by losing more and more of its market share in the shrinking $50 billion console gaming market. Based on Gamestop’s most recent balance sheet and future market ambitions, no part of this section of the bear thesis can be defended.

The next part of this DD will cover the Transformation in Action and The Forward Looking Bull Thesis. Stay tuned.