

Title: GameStop Q4 Earnings Call Transcript

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## # Background

Hey, y'all! I took a few minutes to transcribe the earnings call. [If you didn't get the chance, I strongly encourage you to listen to the recording here](<https://gamestop.gcs-web.com/events/event-details/q4-2021-gamestop-corp-earnings-conference-call>).

Personally, I'm a very visual person and I have a hard time retaining audio information without anything visual to follow along with.

Earnings Calls are very interesting because, while they typically cover a subset of the data available in the [press release](<https://gamestop.gcs-web.com/news-releases/news-release-details/gamestop-reports-fourth-quarter-and-fiscal-year-2021-results>) and [10-K](<https://gamestop.gcs-web.com/node/19651/html>), they also include additional context & commentary from leadership. This can give shareholders valuable insight to better understand the leadership team's perspective, motivations, and attention.

## # Disclaimer

This is not financial or legal advice. Please do not make any decisions based on my transcript as I do not make any guarantee regarding the accuracy or completeness of my transcription.

## # Transcription

### Intro

- \* Begin by thanking team members
- \* Important period of foundation building, significant investment, and cultural change
- \* Still in early stages of our transformation
- \* Believe steps taken over the last several months will be key value drivers for quarters and years down the road
- \* First year of transformation was about starting to turn GameStop into customer-obsessed technology company
- \* Wider offerings, more competitive pricing, faster shipping, better customer service, easier shopping experience

### Recap of changes:

- \* Installed new mgmt team of tech veterans with more equity focused executive compensation to keep them in line with stockholders and the board
- \* Refreshed the board with stockholders and individuals who possess records of value creation and reducing individual director compensation
- \* Ended relationships with high-priced external consultants (lol) who were costing the company millions of per year
- \* Hired hundreds of new individuals with ecommerce, operations, and technology experience while eliminating many redundant and unnecessary roles
- \* Recapitalized the company's balance sheet after raising aprox 1.67B in capital
- \* Expanded product catalog to seize more market share in PC gaming, personal electronics, and virtual reality
- \* Invested in our fulfillment capacity with facilities in PA and NV
- \* Invested in systems and tech stack after years of decay and neglect
- \* Invested in US-based customer service with a new facility in FL
- \* Invested in dedicated Blockchain team and new capabilities to drive initiatives like the NFT marketplace which they expect to launch by the end of Q2

- \* See significant long-term potential in the more than 40B market for NFTs
- \* Keeping focus on the customer
- \* Create new offerings and make targeted bets in blockchain gaming and cryptocurrency
- \* Recognize that our special connectivity with gamers provides us with a unique opportunity in the web3 and digital asset world
- \* We have learned from our mistakes of the last decade when GameStop failed to adapt to the future of gaming.
- \* It is important to stress that GameStop has become such a cyclical business and was so capital starved that we had to rebuild it from within
- \* We had to change how we assess revenue opportunities by starting to embrace rather than run from the new frontiers of gaming
- \* Although there is a lot more hard work and execution in front of us, GameStop is a completely different company today than it was at the beginning of the fiscal year

#### Shifting to the 4th quarter

- \* Continued to establish new and expanded brand relationships including w/ PC gaming companies such as Alienware, Corsair, and Lenovo which ended up helping grow PC sales 150% for the full year
- \* Formed partnerships with Razer to support sustained growth in PC gaming and console accessories such as controllers and headsets. Now have more than 100 Razer SKUs including their new PC laptop
- \* Grew PowerUp Rewards by 31.8% in YOY basis, taking total membership to approximately 5.8 Million.
- \* Launched redesigned app w/ enhanced user interface, improved scalability for a larger product catalog, and more functionality to support exclusive offers and promotions
- \* Partnered with Immutable X intended to support the development of our NFT marketplace and provide up to \$150 IMX tokens upon completion of certain milestones
- \* Commenced discussions w/ an array of L1s and L2s about prospective partnerships that include development benefits and financial incentives.
- \* If and when more deals come to fruition, we will announce them

#### Financial Results

- \* Net sales 2.25B for the quarter
- \* First quarter where our growth topped pre pandemic levels
- \* Net sales for the FY
- \* Long term sales growth is the metric by which we think shareholders should assess our execution
- \* SG&A; was 540M or 30% of sales for the quarter compared to 419M or 20% of sales for Q4 of last fiscal year
- \* Reported net loss of 150M or \$1.94 per diluted share compared to 80M profit or 1.18 per diluted share the year prior
- \* Full year SG&A; was \$1.71B compared to \$1.51B for the last FY
- \* Net loss of \$381M compared to \$215M to FY 2020

#### Balance sheet

- \* Cash & equiv \$1.27B, 760M more than close of last year
- \* Maintain sizeable cash position while investing in inventory to drive pragmatic growth amidst global supply chain issues
- \* Intend to build up our cash position by the end of FY 2022 assuming the environment permits
- \* At the end of the year, no borrowings under ADL facility and no loans except for \$44M from French government for response to COVID
- \* CapEx were 21.3M, full year CapEx was 62M. May remain elevated as we make pragmatic investments in our infrastructure and technology
- \* Q4 cashflow from operations was outflow of 110.3M compared to inflow of 164.8M during same period last year
- \* In order to meet customer demand during holiday season we maintained a higher inventory level. We believe level remains prudent given operating headwinds and increased customer demand. Ended the year with \$915M in inventory compared to \$602.5M at close of 2020
- \* To put things into context, the combination of supply chain issues and the omicron variant had a

sizeable impact on this year's holiday season.

\* We made conscious decision to lean in and absorb higher costs to meet customer demand. We felt and continue to feel that investing in our customers and rebuilding brand loyalty right now is in the company's best interest over the long term

## Outlook

\* WRT an outlook, we are not providing guidance at this time. We feel it isn't prudent to give guidance this early in our transformation and with the current global backdrop.

\* But we are comfortable saying is that we anticipate growth across our stores, ecommerce property, and blockchain gaming offering

\* We know investments and sacrifices made in FY2021 will take time to yield tangible value but we are completely comfortable with that.

\* If GameStop is going to once again become a market leader in gaming and also realize new revenue opportunities across emerging communities we needed to lay a lasting foundation instead of taking shortcuts. That's what we've done over the last year as we started to transform into a tech company

\* Appreciate enthusiasm of our customers, employees, and stockholders