Title: Investment banker MIL sent me an article on why I should sell GME, here's my response
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My MIL sent me an article outlining "3 Reasons to Sell GameStop in 2022", I don't want to grace their site with the traffic so I placed their arguments above my responses.

Here's my response, TL;DR at the bottom:

Unsurprising take on the GameStop situation, but it's fundamentally flawed and fails to dive any deeper than the surface level analytics in any of the three areas it attempts to address.

> 1. The Company's Mounting Operating Costs
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>In GameStop's first three quarters of 2021, it lost $234 million on the bottom line. That's after it lost $296 million during the same time the prior year. GameStop operates brick-and-mortar retail stores that sell video games, consoles, and accessories. Folks were visiting stores less often even before the outbreak, and now that a potentially deadly virus is in circulation, store traffic is down considerably. Meanwhile, rent and lease payments are due every month regardless of how many customers are visiting the stores.
>
>Similarly, during the first three quarters of 2021, GameStop lost $324 million in cash from operations. That's significantly higher than the $41 million it lost in cash from operations in the same period of 2020.
>
>The losses are not all due to the effects of the coronavirus pandemic. GameStop reported losses in 2019 as well.

The base assessment here is factual, GameStop did lose $234 million on operating costs (still a $60 million improvement from 2020) and lost $324 million in cash from operations, but it's pretty dishonest and shortsighted not to look at the rest of the numbers from their Q3 Earnings report as well as GameStop's explanations and future plans.

* Net sales increased from $1.004 billion in 2020 to $1.297 billion in 2021 showing an almost $300 million increase
* Their current cash on hand is $1.468 billion, almost triple the $602 million from the same time last year.
* A reduction in debt from $216 million in 2020 to a single $44.8 million low-interest loan associated with the French government's Covid-19 response
* A $280 million increase in inventory from $861 million to $1.141 billion stated to be to meet increased demand and mitigate supply chain issues (btw when inspecting their balance sheets this accounts for the $324 million in cash spent on operations)
* Additionally GameStop secured a new $500 million Asset-based lending facility with "improved liquidity and terms, including reduced borrowing costs, lighter covenants and additional flexibility."

Overall these numbers point to a fairly strong Q3 Earnings that strongly hints that a company that was on the verge of bankruptcy only a year ago is actually successfully managing to transition into a more profitable future. Additionally it should be expected that a company attempting a complete overhaul of their business model will need to spend large amounts of money and there is clear proof that GameStop is financially sound enough to handle those expenditures. There's a lot more pointing to that successful transition that I'll address in the next point as well but just by the numbers we can see that the situation is not deteriorating but markedly improving YOY.
(https://gamestop.gcs-web.com/, earnings release and Form 10-Q)

> 2. Poor Positioning with Adverse Industry Trends
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>As I mentioned earlier, GameStop operates brick-and-mortar stores. However, consumers are increasingly moving their spending to e-commerce channels. GameStop has a website, too, but the expenses generated by its thousands of brick-and-mortar stores are weighing on its operating performance.
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>Moreover, GameStop's business model is based on selling physical copies of games. GameStop is on the wrong side of that trend, too. Video games for computers and consoles are available for download. Customers have a choice of driving or walking to the closest GameStop or another video game retailer to buy a copy, or buying the game, downloading it, and starting to play in less time than it would take to go to the nearest store. That convenience advantage is unlikely to reverse.
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>Indeed, these two trends are the leading causes for GameStop's revenue declining at a compounded annual rate of 6% in the last decade.

I'm not going to address the belittling and gross oversimplification that is the author's statement "GameStop has a website, too", and instead address the heart of the point which is that GameStop is a brick-and-mortar retailer in a growing e-commerce world during a global pandemic.

The truth is that, yes, GameStop has always been a brick-and-mortar chain and will need to transition to e-commerce to maintain viability in the market, but the author fails to address the many steps GameStop has already undertaken and continues to undertake in that transition. First off, let's acknowledge the fact that GameStop knows this is the case and is actively pursuing that transition, they even state in their Form 10-Q " We are evolving from a video game retailer to a technology company that connects customers with games, entertainment and a wide assortment of products." Now let's look at what they've already done and are continuing to do in pursuit of that evolution:

* In the past 2 years, GameStop has seen a major transition in it's C-suite and executives most notable with Ryan Cohen (founder and previous CEO of Chewy.com) acquiring a 12% stake in the company and becoming Board Chairman. Ryan has specifically said his goal and focus is to transition GameStop into an e-commerce and tech company. Ryan already successfully did this with Chewy.com even in direct competition with Amazon, who's to say GameStop is any different.
* Ryan has spurred the hiring of over 30 executives from companies like Chewy, Amazon, Zulily, and more. These hires bring a wealth of knowledge from successful e-commerce companies that put GameStop in a prime position to transition into e-commerce especially considering the cash on hand available to them. (https://gmedd.com/report-model/ scroll to "GameStop Tech and E-commerce Hires")
* In the last year, GameStop has acquired 2 new fulfillment centers (Pennsylvania, 700k sq-ft, and Nevada, 530k sq-ft) expected to be operational this year to support its growing online presence and improve speed of delivery. (https://news.gamestop.com/news-releases/news-release-details/gamestop-continues-expansion-fulfillment-network-new-facility)
* The gaming industry is one of the fastest growing markets in the world, projected to be over $500 billion by 2028. (https://www.globenewswire.com/news-release/2021/09/22/2301712/0/en/Gaming-Market-Worth-545-98-Billion-by-2021-2028-Fortune-Business-Insights.html) GameStop is in a prime position to capitalize on this market. I'll agree with the author when he says that GameStop may have trouble getting into the market for digital games (although some speculation to the contrary below), but no other company is better situated to grab the electronics hardware market (already accounts for 51.7% of their sales). Especially considering the bankruptcy of Fry's Electronics and Best Buy's failure to transition to E-commerce as well. The main competition is Amazon (Chewy.com faced the same opposition and won) and they're not exactly a favorite of the gaming community.
* Finally something the author was likely not aware of at the time of their writing (though the internet figured it out months ago so they should have done some journalistic digging), GameStop is entering the NFT and Crypto currency markets (https://www.wsj.com/articles/gamestop-entering-nft-and-cryptocurrency-markets-as-part-of-turnaround-plan-11641504417). Now you may look at NFT's and Crypto as a big scam or just a fad and for much of the existing market you'd probably be right, but there

are real world applications that could easily be capitalized on especially in the gaming industry.
* In case you're unfamiliar, NFT's are, simply put, a verifiable, digital, proof of ownership for some asset. They are non counterfeitable (not going to explain how here but it is true) and decentralized meaning the ownership is not licensed to you by some company, it's directly held by you. Currently NFT's are mostly used for digital art (like stupid pictures of Apes), and there's not doubt GameStop could enter this area as well as most of the existing NFT marketplaces are poorly run or badly optimized and not backed by a multi billion dollar company, but the applications to games are also real and potentially very useful.
* Currently if I buy a digital game I do it through some digital client: Steam, Epic, Origin, etc. That game is licensed to me and I can play it as much as I want, however it has no resale value of any kind and even once I beat the game I can't do anything with it, it just sits in my "library"
* Now with NFT's I could apply a digital ownership that is transferable and therefore sellable. This ownership is independent and non counterfeitable. This would enable me to re-sell my digital games to others and since they're digital there's no real loss in value and all the while the marketplace, aka GameStop, takes a cut of each transaction.
* This same concept can also be applied to in game items, a market that's already pushing $15 billion today (https://www.statista.com/statistics/829395/consumer-spending-loot-boxes-skins/)

Ultimately yes, GameStop has its work cut out for them in terms of this transition, but there's no doubt that they are uniquely situated to take advantage of these opportunities and they are already making huge strides in that direction. So no, GameStop doesn't *just* have a "website, too."

>3. A stock that's too expensive
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>GameStop's astronomical stock price increase has its shares trading at unreasonably high levels. Before the meme stock frenzy, GameStop's stock had not traded above $100 in the last decade. As of this writing, GameStop is selling for $154.
>
>Worse still, the business is in a fundamentally weaker position than it was at any time before the outbreak. The mismatch between business and stock price performance is another reason investors should steer clear of GameStop stock.

Alright, now let's get to the crux of the author's point and arguably the whole reason they wrote the article to begin with. So first let's try and understand how GameStop went from a $20 value one year ago to a $130 value today with a peak value of $483 back on 1/28. There is a lot of information I could get into here. The SEC itself investigated the January spike and many of the numbers and dates below come from their report. (https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf)

Throughout 2020 GME's reported short interest hovered around 100% which is generally unprecedented (SEC). The reported short interest peaked at 122% in January 2021 (SEC). In September of 2020 Ryan Cohen disclosed a 10% stake in GameStop giving the stock a bump. In December of 2020 retail investors on Reddit's /r/wallstreetbets and elsewhere began to notice the high short interest and invest heavily in the stock. In January these investments began to show as the price began to rise even more, jumping to $40 on 1/13/21. Short positions noticing the trend began to cover on 1/22 (SEC), but stopped on 1/27 (SEC) as the price began to rise precipitously. The public, noticing the situation due to considerable social media attention (Elon Musk), began to jump on board driving the price to over $400 on 1/28. It's on this day that brokerages, starting with Robinhood, turned off the buy button for retail investors and severely hampering additional retail investment (questionable legality here) leading to a similarly precipitous decline to $60 in the following days.

Now how does that lead to the $130 price today?

As stated there was 120% reported short interest in January. Per the SEC's own report it appears the events in January only covered about 35% of the outstanding short positions. The vast majority of the volume was retail trading, leading the SEC to conclude that "a short squeeze did not appear to be the main driver of events, and a gamma squeeze less likely". Now retail investors didn't have this report until

October 2021, but they believed through their own research that shorts had not been able to cover and kept the buy pressure on despite the reported short interest dropping below 20% (shouldn't even be possible given the data in the SEC report)

There are a number of other theories regarding ways to hide short positions (including options, ETF shorts, blatant false reporting of which many previous examples exist) but most of them require pages of explanation and some even border on conspiracy. Ultimately though, many retail investors still believe GME is heavily shorted, the reported short interest does not accurately reflect this, and they have a significant amount of well documented research to support these claims. Additionally they have the added validation of a current DOJ probe into illegal short selling practices (https://www.bloomberg.com/news/articles/2021-12-10/hedge-funds-ensnared-in-expansive-doj-probe-into-short-selling)

Retail believes they own over 100% of the float for GME and are waiting for a short squeeze trigger like the Porsche acquisition of 75% of Volkswagen triggered their short squeeze in 2008. Many investors believe this trigger may come in the form of an NFT dividend (non fungible meaning there can only be so many as there are outstanding shares) similar to what Overstock attempted to do (https://www.irmagazine.com/technology-social-media/how-overstock-used-blockchain-distribute-its-digital-dividend) while others believe by Direct Registering their shares with the transfer agent Computershare thereby removing them from the possession of the Depository Trust Company and Cede & Co. (https://en.wikipedia.org/wiki/Cede_and_Company) and proving the existence of counterfeit shares. Either way regardless of what any one individual believes there are a significant number of credible theories based on evidence that suggest a short squeeze has not yet occurred and holding or buying more shares is the smart move.

So in the end, yes, the GME price may seem highly inflated, but the high price is linked to the very possible chance that a short squeeze will still occur. And even if it doesn't, to claim that GameStop is in a "fundamentally weaker position" does not appear to be the case. And should GameStop successfully pull off their transition, even $130 per share will likely be a lowball estimate for their long-term valuation. If you could go back, would you buy Apple at $130? 1 share pre-iPod would now be 56 shares valued at $170 each. What about Amazon for $130, now valued at $3,251?

TL;DR Start here

To sum it all up, yeah GameStop was a brick-and-mortar gaming retailer in a digital era during a global pandemic, but they are making massive strides towards transitioning into e-commerce and the digital market, they are one of the first major companies attempting to break into the NFT market with real world applications towards their industry, and they are primed to transition with $1.5 billion dollars of cash on hand and a brand new executive team with tons of e-commerce knowledge and experience

And from a stock perspective the price may seem high, but GameStop has an entire army of internet backers who turned it into a meme and will buy each and every price dip if for no other reason than to spite the market that increasing feels rigged against them, they have a whole generation of customers with nostalgic ties to their company who want nothing more to support their childhood company while engaging in their favorite hobby, they are part of a video game industry expected to be worth over $500 billion in less than 10 years with no competition more favorably placed to take advantage of it, and all that without mentioning that the stock has a real chance of facing what would be one of the biggest short squeezes in history (Volkswagen 2008 squeeze drove the price over $1000 with only 13% short interest).

So in response to the author, no, I don't think I'm going to sell and I definitely wouldn't be caught dead betting against them.