

Title: GameStop 2022 Q2 Earnings Transcription

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[Editors note: Please forgive any misspellings. I've made best efforts to spell the named members correctly. I will continue to review and make edits if I see that they are needed. Please comment with any input you might have.]

[Unnamed Host]

Good afternoon and welcome to GameStop's second quarter, 2022, earnings conference call. Please note that certain statements made during the call constitute forward looking statements made pursuant to the [Safe Harbor Provisions of the Private Securities Litigation Act of 1995](<https://www.sec.gov/Archives/edgar/data/1345111/000119312509225453/dex99.htm>), as amended. Such forward looking statements are subject to both known and unknown risk and uncertainties that could cause actual results to differ materially from such statements. These risks and uncertainties are described in the companies Earnings Release press, Earnings Press Release, and its filings with the SEC. The forward looking statements today are made as of the date of this call and the company does not undertake any obligation to update the forward looking statements. I will now turn the call over to GameStop's CEO, Matt Furlong.

[Matthew Furlong]

Thank you and good afternoon everyone. I want to begin by reiterating the deep appreciation we have for our stockholder's unrivaled enthusiasm, passion, and support. As we work to transform GameStop, these remain unique tailwinds for us; Ones we always recognize and value. I also want to take this opportunity to thank everyone across the organization for bringing continued focus and intensity to our mission. Particularly during an active Q2 that represented a transitional quarter for us.

Before covering the quarter's specific initiative and results, I want to provide a high level update on where we have been and where we are looking to go as our transformation progresses. When our board began turning over early last year, GameStop was saddled with significant debt, decaying systems, limited employee depth, and a host of other issues. This is why we spent the second half of 2021, and the first half of 2022, making up for years of under-investment and modernizing the business. The upshot is we now have a more diversified product catalog, strengthened fulfillment network, improved tech stack and e-commerce presence, and fortified corporate infrastructure. Thanks to these improvements, including our [SAP implementation](https://en.wikipedia.org/wiki/SAP_implementation)^{**}, we are able to start focusing on a new set of priorities that include achieving profitability, launching proprietary products, leveraging our brand in new ways, and investing further in our stores.

During Q2, we took steps to support each of these new priorities. With respect to pursuing profitability in the coming quarters, we right-sized corporate expenditures, and head count, following a period in which the company had hired more than 600 new individuals. These actions, combined with the elimination of one time expenses in Q1, contributed to a 14.3% reduction in [SG&A;](<https://www.investopedia.com/terms/s/sga.asp>). We have done this while improving our e-commerce experience and reducing free shipping to customers to 1-3 days. We are going to retain a strong focus on cost containment and continue promoting an ownership mentality across the organization.

On the product front, our enhanced tech capabilities allowed us to follow the launch of our digital wallet with the launch of our new marketplace that allows gamers, creators, collectors, and others to buy, sell, and trade NFTs. The launch of our NFT Marketplace supports GameStop's pursuit of long-term growth in the cryptocurrency, NFT, and Web3 gaming verticals. All of which we expect to be increasingly relevant for the collectors and gamers of the future.

When it comes to our creative partnerships, we have been actively exploring opportunities to strengthen

GameStop's offerings and increase brand visibility. We are building on the momentum established by our previously disclosed partnerships with organizations like Immutable and Loopring. Whether it be through new relationships that support our commerce business, blockchain group, or both. The deal we just announced with [FTX](<https://news.gamestop.com/news-releases/news-release-details/gamestop-forms-partnership-ftx>) is a by-product of our commerce and blockchain team working together to establish something unique in the retail world.

Lastly, when it comes to investing in our stores, we rolled out an improved compensation model for US Store Leaders. Each of these Store Leaders is being given a Time-Based Equity Grant of \$21,000 that vests over 3 years, as well as the opportunity to earn additional compensation every quarter via a Performance-Based Equity Grant. In conjunction, we are raising hourly pay for certain Store Associates. These steps were taken to help with enhanced retention, and recruitment, of passionate, quality talent. When we think about the GameStop of the future, we expect our stores to help us maintain direct connectivity to customers and sustain localized order fulfillment capabilities across more geographies. This is why, even as we continue evolving our e-commerce and digital asset offerings, stores will remain a critical piece of the companies value proposition. Taken together, we believe the aforementioned steps can help us attain profitability in the coming quarters and produce additional revenue growth over the long term.

Let me now turn to our financial results for Q2.

Net Sales were \$1.136 Billion for the quarter compared to \$1.183 Billion in the prior year's second quarter. Sales attributable to new and expanded brand relationships remains strong. It is also worth noting that sales attributable to collectibles, which is a segment we intend to grow over the long term, were \$223.2 Million for the quarter compared to \$177.2 Million in the prior year's second quarter.

SG&A; was \$387.5 Million, or 34.1% of sales, compared to \$378.9 Million, or 32% of sales, in last year's second quarter. As noted, we had a strong reduction in SG&A; on a sequential basis versus Q1 of this year and we are taking further steps to reduce SG&A; on a go-forward basis.

We reported a Net Loss of \$108.7 Million, or \$0.36 per diluted share, compared to a Net Loss of \$61.6 Million, or a loss per diluted share of \$0.21 in the prior year's second quarter. There were no major one time transformation, transaction, or related costs during the period.

Turning to the balance sheet, we ended the quarter with cash and cash equivalence of \$908.9 Million. We continue to maintain a sizeable cash position even while investing in inventory to sustain strong In Stock levels and mitigate the full impact of lingering supply chain issues.

At the close of the second quarter, we had no borrowings under our [ABL facility](<https://www.investopedia.com/terms/a/assetbasedlending.asp>) and no debt, other than a low interest, unsecured, term-loan associated with the French government's response to COVID-19. Total liabilities, compared to the second quarter of last year, were down \$237.8 Million. [Capital expenditures](<https://www.investopedia.com/terms/c/capitalexpenditure.asp>) for the quarter were \$20.5 Million, up \$7 Million from last year's second quarter, reflecting investments in our technology and enterprise systems. We anticipate CapEx will remain at modest levels.

In the second quarter, cash flow from operations was an outflow of \$103.4 Million compared to an outflow of \$11.5 Million during the same period last year. Inventory was \$734.8 Million at the close of the quarter compared to \$596.4 Million at the close of the prior year's second quarter.

In terms of an outlook, we are not providing formal guidance at this time. It is worth noting, however, that our ongoing engagement with key suppliers is positioning us to receive stronger supply of next generation consoles in the months ahead.

I want to finish by reinforcing that we are working to accomplish something unprecedented in our industry:

Transform a legacy brick and mortar retailer into a technology led organization that meets customer's needs through stores, e-commerce properties, and both digital marketplaces and new online communities.

Our path to becoming a more diversified and tech-centric business is one that obviously carries risk and will take time. This said, we believe GameStop is a *much* stronger business than it was 18 months ago. I will leave it there for this quarter. We look forward to driving more progress in Q3. Thank you.

[Unnamed Host]

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

^** This is an educated guess on what SAP means.

Changelog:

@21:25 GMT: Linked FTX announcement from GameStop.

@21:35 GMT: Linked SEC for Safe Harbor Act.