

Title: Inside Out

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Linked Post Content:

I came across this twitter thread (<https://twitter.com/DOMOCAPITAL/status/1377823138004803585>) on Thursday, and I was trying to post it on r/GME since then, kept getting auto-deleted for an unknown reason. I tried contacting the mods on several occasions, and never got an answer. I guess they were busy or something?

Anyway, it's my second time starting over in a new subreddit, you'll get used to it.

Here goes:

I decided to dig a little deeper as I didn't fully understand what was going on.

Kurt Wolf is a Managing Member, CIO and founder of Hestia Capital

(<https://www.linkedin.com/in/kurt-wolf-b0a412b/>)(<https://www.linkedin.com/in/kurt-wolf-b0a412b/>)).

It is fascinating to look back at the ~~events~~ WWF-style Royal Rumble that took place in the boardroom. This timeline is extracted mostly from Hestia/Permit's proxy statement filing to the SEC dated April 24, 2020. ([DEFC14A - Definitive proxy statement, contested solicitations](https://www.sec.gov/Archives/edgar/data/0001326380/000092189520001185/defc14a12166002_04242020.htm)). I added notes and references as needed.

>Permit and Hestia are long-term stockholders that have been invested in GameStop since 2011 and 2012, respectively. Throughout this period, we have repeatedly attempted to engage constructively with GameStop's management and Board.

* February 12, 2019: Hestia and Permit, wrote a letter to the board of directors in which it suggested they get their act together and fucking focus on being a videogame store ([https://mma.prnewswire.com/media/821185/Hestia_Capital_Letter_to_GameStop_Board.pdf](https://mma.prnewswire.com/media/821185/Hestia_Capital_Letter_to_GameStop_Board.pdf)).

>In the letter, Hestia urged the Board to return significant capital to stockholders through a tender offer, hire the right CEO, whose pay should be properly aligned with stockholders and seek efficiencies and cost savings in SG&A.; The Company responded with an offer to schedule a meeting after their earnings were announced on April 2, 2019.

* March 7, 2019: Permit and Hestia formally agreed to join forces and work together as a group.

* March 13, 2019: ***"We are not typical activist investors"*** Hestia and Permit (who owned about 1.3% of the float at this point) write another letter to the GameStop Board calling out their inaction in relation to the feb. letter. They expressed their shared concerns regarding the dramatic underperformance of the Company's stock. They urged them to address the company's ongoing value destruction by bringing in new and independent Board members and tendering for up to \$700 million of the Company's common stock. Since GameStop leadership refused to work together with Hestia and Permit, they would just oust some existing leaders and propose new, independent candidates up for all GameStop shareholders to vote. This is called a proxy ([https://mma.prnewswire.com/media/835320/GameStop_Letter_03_13_19_Final_Version.jpg?p=pdf](https://mma.prnewswire.com/media/835320/GameStop_Letter_03_13_19_Final_Version.jpg?p=pdf)).

* March 14 to March 29, 2019: A lot of calls and letters were exchanged, and the short of it (hehe ■) is this:

1. Hestia and Permit expressed their strong desire to add new directors to the Board from Hestia's slate of directors
2. Hestia and Permit expressed their disappointment that the Board would not directly engage with them and would only communicate through its advisors

3. Hestia and Permit encouraged the Board to consider adding Kurt Wolf to the Board as a stockholder representative with a meaningful ownership position in the Company. Hestia and Permit offered to agree to a two-year standstill period in which they would not be able to speak publicly or take certain other actions, if a stockholder representative would be added to the Board. The Board rejected Mr. Wolf's candidacy.

4. Frustrated at being shut out, Hestia/Permit sent a letter on March 28, 2019 (the "2019 Nomination Letter" [Bloomberg - Permit Enterprise and Hestia Capital Announce Nomination of a Slate of Highly-Qualified, Independent Individuals for Election](<https://www.bloomberg.com/press-releases/2019-03-28/permit-enterprise-and-hestia-capital-announce-nomination-of-a-slate-of-highly-qualified-independent-individuals-for-election-t>)) nominating Don C. Bell III, Christopher P. Carvalho, Lizabeth Dunn, and Kurtis J. Wolf for election to the Board at the 2019 Annual Meeting of Stockholders. March 28, 2019 was the nomination deadline for the 2019 Annual Meeting. They made the nomination letter and the Board's refusal to meaningfully engage to avoid a contested election, except through advisors, public.

* April 1, 2019: After the appointment of George Sherman as CEO, GameStop calls a truce. They announce that they will appoint two new directors: one from among the candidates nominated by Hestia and Permit (other than Kurt Wolf), the other will be selected by the board in consultation with Hestia and Permit. In exchange, Hestia and Permit would drop the proxy. ([<https://news.gamestop.com/news-release-s/news-release-details/gamestop-announces-agreement-hestia-capital-and-permit>](<https://news.gamestop.com/news-releases/news-release-details/gamestop-announces-agreement-hestia-capital-and-permit>))

* April 2, 2019: GameStop's Fourth Quarter and Fiscal 2018 Results saw the biggest loss in the company's history. (<https://news.gamestop.com/news-releases/news-release-details/gamestop-reports-fourth-quarter-and-fiscal-2018-results-and>)

* April 24, 2019: Raul Fernandez and Lizabeth Dunn (from their list of nominees) are appointed to the Board of Directors. It is important to point out that limited information was given to Hestia/Permit on Fernandez, after a request was made to the Board to access to the same information that the Board received on Mr. Fernandez's candidacy, the opportunity to speak with Mr. Fernandez, information on the other candidates considered and disclosure of any relationships Mr. Fernandez may have with the Board or management

* May 13, 2019: a meeting took place between Hestia/Permit and some members of the board where they learned that Mr. Kaufman had been appointed to the new position of Chief Transformation Officer, who repeatedly said that he would be acting with urgency on costs cuts, to which Permit and Hestia said that was encouraging to hear. Permit/Hestia encouraged the Board to consider a stock buyback of at least \$500 million. The Company reiterated that they are focused on improving the profitability of the existing business and that acquisitions were off the table.

* May 30, 2019: GameStop appoints 3 new members of the board, all of which have been ousted by current management (very bullish):

1. CFO Jim - The Snake - Bell (resigned March 26 2021 <https://news.gamestop.com/news-releases/news-release-details/gamestop-announces-resignation-cfo-and-succession-plan-support>)

2. Chris Homeister, Executive Vice President and Chief Merchandising Officer, (to resign somewhere in Q2 <https://gamestop.gcs-web.com/node/18711/html>).

EDIT1 A filing on April 28, 2021 " **TRANSITION AND SEPARATION AGREEMENT** " confirms separation date of June 2, 2021 (<https://www.sec.gov/Archives/edgar/data/1326380/000132638021000052/exhibit101homeister.htm>)

3. Executive VP Frank Hamlin (resigned march 31 2021 [Insider - Another GameStop exec is resigning from the video-games retailer, just weeks after its CFO was reportedly ousted by its board](<https://www.businessinsider.com/gamestop-cco-frank-hamlin-resigns-cfo-jim-bell-game-retailer-2021-3>))

* June 5, 2019: Hestia/Permit have a discussion with Bell, Lloyd and Sherman in which the Board was asked why the dividend was cancelled, instead of being reduced. Messrs. Bell, Lloyd and Sherman provided no meaningful response. This, to me, is a meaningful turning point. I remember reading the DD about HFs sending in their own insiders to undermine the Company from the inside, and what better way to open the door than to eliminate the dividend? see the dividend DD by

[u/Leaglese](https://www.reddit.com/user/Leaglese/) here: [GME Board Actions - Dividends, Stock Splits and the potential 'Cohen Killshot' DD](https://www.reddit.com/r/GME/comments/mf6xef/gme_board_actions_dividends_stock_splits_and_the/). Correct me if I'm wrong, but the dividend would have prevented the naked shorting, FTD fiasco as it needs to be paid out quarterly. It would have at least hindered the HFs in their quest to pummel the stock to the ground. Fuckers got their agents on the inside to open the gates.

* June 6, 2019: Hestia and Permit wrote a private letter to the Board urging the company to repurchase stock after it posted poor first-quarter results and cancelled its dividend, causing the stock price to slump. The letter also states that the market's reaction to the dividend announcement provided a perfect opportunity to buy back stock aggressively. This letter was kept private as I couldn't find it anywhere.

* July 22, 2019: Hestia and Permit wrote an email to the Company stating that, "so long as the company continues to own, and regularly use, a corporate jet, it is hard for stockholders to believe that their interests are being taken seriously." In its third quarter filing 2019 10-Q, it lists its corporate jet as a \$12.8M asset held for sale, after taking a \$7.7M impairment on the asset, as of November 2, 2019.

[Jets are very important](https://preview.redd.it/prygerv9cer61.jpg?width=1577&format=pjpg&auto=webp&s=fe32d2f366435977f2f7290999e49d1b2d2d7a70)

September 10, 2019: GameStop Reboot strategic plan unveiled at Q2 earnings call. The reboot involved closing down about 200 stores and laying off 14% of staff at that time. It is important to note that none of this had any lasting impact on performance, and the stock continued to flounder as if doomed to go bankrupt.

[Fancy graphics](https://preview.redd.it/f1z3vb0dcer61.jpg?width=829&format=pjpg&auto=webp&s=46dfabb4d95f1946259c49412b3a9c6dbf405942)

* By December 2019, the company was still losing money, and holiday 2019 didn't paint a much prettier picture, though GameStop leaders continued to rally its shareholders around the banner of cost-cutting measures as the way forward. At this point, Hestia/Permit had increased their ownership to 7.5% of the company's total shares.

* January to March 2019: Hestia and Permit had numerous discussions with the Board regarding the nomination of new board members. 3 days before the expiry of the cooperation agreement, on March 9 2020, the Board appointed three new directors to the Board. In conjunction with the new appointments, four incumbent directors, Daniel A. DeMatteo, Steven R. Koonin, Gerald R. Szczepanski and Mr. Zilavy, announced their intention to not stand for re-election at the Annual Meeting. Two incumbent directors, Jerome Davis and Thomas Kelly, announced their intention to not stand for re-election at the Company's 2021 Annual Meeting. You read that right. It's as if GameStop was not supposed to survive until its annual meeting in June 2021. Most likely due to its poor performance (intentionally mismanaged by bought board) and bond expiry in March 2021. In short: Bankruptcy Jackpot.

* March 23, 2020: With the cooperation agreement now expired, it was proxy time once again. Hestia and Permit announced their intentions to nominate Kurt Wolf and Paul Evans to GameStop's Board of Directors (the "2020 Nomination Letter" [EX-99.1 2 ex991da312166002\ _03232020.htm LETTER TO THE STOCKHOLDERS](https://www.sec.gov/Archives/edgar/data/1326380/000119380520000384/ex991da312166002_03232020.htm)) . Given the recent turnover of the Board of Directors, the replacement of two additional GameStop nominated directors could result in a massive swing in how the future Board of Directors arrives at decisions that are crucial to GameStop's future. The vote could easily go either way which makes it important for every shareholder to ensure that they have the right to vote. Every vote matters.

>We strongly believe that the two lame-duck directors should come off now, *rather than later*, and our two nominees who have continuing interests in helping GameStop succeed, should be added to the Board.

* Also on March 23, 2020: Hestia/Permit formally announced their counter to GameStop Reboot, called Restore GameStop, in a scathing 85-slide-long presentation to shareholders outlining everything they saw wrong with the company in the last several years. This is a masterpiece of boardroom smackdown badassery, read it here: [Restore GameStop](https://www.sec.gov/Archives/edgar/data/1326380/000092189520001510/ex1todfan14a12166002_051920.pdf). You should seriously take a look, it is a sight to behold. In it, they criticize everything from the falling stock prices, the fact that the company was struggling to make money, the board of directors having no real financial reason to care about its future, and

management's sky-high pay. They emphasized that they felt the company had plenty of potential, but was being led by leadership with "irrelevant skillsets" and had been too slow to react to changes in the technology and retail environments over the last decade. The report foreshadowed some very important decisions that the company would soon take. For one, it referenced the company's "Tulsa experiment" a project GameStop had begun in Tulsa, Oklahoma where it was trialing new stores based around "experiences" on top of the business of buying and selling. (This is now at the core of the company's transformation). Even more interesting, in retrospect, are the multiple slides that point out the company's growing short interest versus its dropping stock prices. They pointed out that the growing short interest suggested shareholders were becoming more and more pessimistic with the current plan, and that markets were betting against the company. Ultimately, Hestia and Permit's point was pretty simple: everyone, including customers, employees, shareholders, and vendors, thought GameStop was going to fail. To save the company, drastic changes needed to be made, and they were the ones in a position to make them.

* May 2020: Faced with an effective 95 Theses of no-holds-barred critique on its strategy, leadership, and decision-making, GameStop decided that rather than address most of it, it would simply try to puff up its own image. Its rebuttal (here: [Driving Value for All Stockholders May 2020 - GameStop](<https://news.gamestop.com/static-files/09f9491c-d15e-4db2-acab-3a356289db5d>)) was about half the length of Hestia and Permit's presentation, and focused on emphasizing its efforts in 2019 to work together with the shareholders, sharing positive metrics that made the business situation look far less dire, reiterating its Reboot plan, and promoting its own board candidate's resumes. It also attempted to give Hestia and Permit the slightest taste of their own medicine by pointing out neither Evans nor Wolf had any retail, video game, or public company management experience -- essentially a massive, "No you," to Hestia and Permit calling the GameStop board unqualified.

* Also May 2020: Hestia and Permit clapped back again, as had become the norm at this point, accusing GameStop of manipulating its performance analysis and using misleading comparisons in its rebuttal to puff itself up. See the slideshow in all its glory here: [GameStop's Investor Presentation Reinforces the Need for More Change](https://www.sec.gov/Archives/edgar/data/1326380/000092189520001599/ex1todfan14a12166002_052620.pdf)).

[Frustration timeline](<https://preview.redd.it/117afpzecer61.jpg?width=1564&format=pjpg&auto=webp&s=f6cfc3ce2371fd4777e78419b991413a25440fb7>)

After some back and forth, Kurt Wolf was voted in by shareholders on June 12, 2020 to the Board of Directors ([SC 13D/A 1 sc13da512166002_06122020.htm AMENDMENT NO. 5 TO THE SCHEDULE 13 D](https://www.sec.gov/Archives/edgar/data/1326380/000092189520001762/sc13da512166002_06122020.htm)). We all know the rest of this story, Ryan Cohen stepped in and is most likely being helped by Hestia and Permit as they share the same vision for GameStop's future.

Now you can read the tweets and enjoy their full value.

<https://preview.redd.it/7ebv3q6hcer61.jpg?width=601&format=pjpg&auto=webp&s=9801486f5924d1579ab67b3ff449e46b0413548e>

<https://preview.redd.it/fpr5iycicer61.jpg?width=604&format=pjpg&auto=webp&s=917dfe521263e957aa1a7949d58676ab59236e84>

Links to the three SEC FORM 4 filings mentioned above:

2020-06-18: <https://www.secform4.com/filings/1326380/0001192482-20-000528.htm#F3>

2021-01-14: <https://www.secform4.com/filings/1326380/0000899243-21-002090.htm#F7>

2021-04-01: <https://www.secform4.com/filings/1326380/0001326380-21-000037.htm>

<https://preview.redd.it/hk07awnjcer61.jpg?width=603&format=pjpg&auto=webp&s=51687d0b386cd8bc54107a6243c84613536b182d>

<https://preview.redd.it/jzqsjwvkcer61.jpg?width=603&format=pjpg&auto=webp&s=af7eade518e02c01a56b1e36962acc8be4474c86>

<https://preview.redd.it/5zsrcj3ncer61.jpg?width=604&format=pjpg&auto=webp&s=3a7132062f636f83e85004fc35b3751eb3a4b4e9>

<https://preview.redd.it/hwg037zncer61.jpg?width=601&format=pjpg&auto=webp&s=23252da17a3eb19c591746b16470a17efa611d26>

<https://preview.redd.it/q7fzpk1pcer61.jpg?width=603&format=pjpg&auto=webp&s=85f4f66e8b7ca9e96907223b86f9034e02c81f6d>

<https://preview.redd.it/0djd0ycqcer61.jpg?width=604&format=pjpg&auto=webp&s=5e9636366065fa260b67b24ea8fa3b8c3b51ea51>

After this deep dive, I just have to tip my cap to Hestia Capital and Permit Capital. They identified the inability (or unwillingness?) of the board of directors to effectively steer the ship, and recognized the true value that lies within. They also honed in on the 'GameStop Experience' which is the cornerstone of the franchise's turnaround which is fully underway.

It is clear to me now that Kurt did us a SOLID by covertly selling the shares under his management.

Hestia and Permit were fighting the good fight before we were led here by a certain cat. I am using my platform in this post to salute their efforts!

Also, Justin from Domo is just killing it.

As far as I am concerned, you are and always will be apes like us.

■■■■■

EDIT1: fixed the broken shortened links. General formatting. ■