

GameStop Corp.

Initiating Coverage with BUY and \$30 Target

Stock attractive as low valuation and high cash flow likely to drive upside to share price. We recommend the stock and believe its valuation will increase as visibility to digital opportunities improves.

COVERAGE INITIATION

Rating: Buy

Ticker: GME

Price: \$24.01

Target: \$30.00

Leading U.S. video game retailer: GameStop is the world's largest specialty retailer of video games with 6,627 stores (including 4,460 stores in the U.S. and ~25% U.S. market share). The company has grown significantly over the past several years, gaining market share and driving solid revenue and earnings growth.

Upcoming earnings likely to show solid EPS growth: GameStop will report its Q4 FY11 results on March 22, 2012. We expect GameStop will report Q4 results in line with our and consensus estimates, and within its updated guidance. We expect management to provide initial FY12 guidance close to our estimates for revenue of \$9.7 billion, comps of +0.1%, and EPS of \$3.20.

New hardware cycle likely to drive 2013: We expect that the next hardware console cycle (beginning this holidays with the WiiU and followed by an expected launch of the next Xbox and PS4 in holidays 2013) should drive solid video games sales over the next several years.

Competition and changes in demand are concerns: Competition in video game retailing is high from traditional retailers along with online or direct distribution. The video game industry is tied closely with consumer preferences which are constantly changing and hard to predict.

Declining industry sales and digital threat: Video game industry sales have been in a decline over the past three years, particularly for handhelds and casual video games, and have started off weak in 2012. In addition, there are concerns that video game software distribution will transition to digital (from physical) in the near future (including speculation that the next Xbox and PS4 may not include a physical software component).

However, concerns outweighed by valuation and cash flow: We believe that attractive valuation (GameStop is trading well below its peers) and strong cash flow generation should offset concerns. Since January 2010, GameStop's stock and debt buybacks have totaled almost \$1 billion. We believe GameStop can return \$500 million in free cash flow annually to shareholders through dividends or share repurchases.

Digital opportunities: Investments in Kongregate for online games, Spawn Labs for cloud gaming, and Impulse for PC games downloads are helping to expand in digital, social and mobile gaming.

Current valuation attractive: We looked at GameStop's valuation three ways (P/E, EV/Revenue, EV/EBITDAS) and each suggested that its current valuation is attractive compared with its peers. Our \$30 price target is calculated by applying a target P/E multiple of 9.5x our FY12 EPS estimate of \$3.20, which is a 25% discount to the peer group median (12.5x) and we believe appropriately balances out the risks with its growth prospects.

Company Description

Based in Grapevine, TX, GameStop is the world's largest specialty retailer of video game and personal computer (PC) entertainment products.

March 21, 2012

Edward Woo, CFA
(949) 259-4932
ewoo@ascendant.com

Stock Data

Exchange:	NYSE
52-week Range:	\$18.34 - 28.66
Shares Outstanding (million):	140
Market cap (\$million):	\$3,361
EV (\$million):	\$3,043
Debt (\$million):	\$125
Cash (\$million):	\$443
Avg. Daily Trading Vol. (\$million):	\$75
Float (million shares):	134
Short Interest (million shares):	55
Incorporation:	Delaware
Public auditor:	BDO USA, LLP

Revenues (US\$ million)

	<u>2009A</u>	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>
Q1 Apr	1,981A	2,083A	2,281A	2,277E
Q2 Jul	1,739A	1,799A	1,744A	1,754E
Q3 Oct	1,835A	1,899A	1,947A	1,943E
Q4 Jan	<u>3,524A</u>	<u>3,693A</u>	<u>3,660E</u>	<u>3,728E</u>
Total	9,078A	9,474A	9,631E	9,702E
EV/Revs	0.3x	0.3x	0.3x	0.3x

Earnings per Share (pro forma)

	<u>2009A</u>	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>
Q1 Apr	0.43A	0.48A	0.56A	0.59E
Q2 Jul	0.23A	0.26A	0.22A	0.26E
Q3 Oct	0.32A	0.38A	0.39A	0.46E
Q4 Jan	<u>1.29A</u>	<u>1.55A</u>	<u>1.76E</u>	<u>1.90E</u>
Total	\$2.27A	\$2.67A	\$2.92E	\$3.20E
P/E	11x	9x	8x	8x

EBITDAS (US\$ million)

	<u>2009A</u>	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>
Q1 Apr	174A	174A	182A	187E
Q2 Jul	119A	120A	106A	114E
Q3 Oct	141A	147A	134A	159E
Q4 Jan	<u>404A</u>	<u>425A</u>	<u>444E</u>	<u>466E</u>
Total	837A	866A	866E	926E
EV/EBITDAS	3.6x	3.5x	3.5x	3.3x

EBITDAS defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

Important Disclosures

Ascendant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 22.

CONTENTS

INVESTMENT THESIS.....	3
INVESTMENT HIGHLIGHTS.....	4
INVESTMENT CONCERNS.....	5
NEW VIDEO GAME CONSOLE CYCLE.....	6
VALUATION.....	7
COMPANY HIGHLIGHTS.....	9
PRODUCT MIX.....	11
INDUSTRY HIGHLIGHTS.....	13
COMPETITION.....	15
FINANCIALS.....	17
FINANCIAL MODEL.....	19
ANALYST CERTIFICATION.....	22
IMPORTANT DISCLOSURES.....	22

Exhibit 1: GameStop Stock Price (Five Years)



Source: Nasdaq.com

INVESTMENT THESIS

We are initiating coverage of GameStop with a BUY rating and a 12-month price target of \$30.

GameStop is the world's largest specialty retailer of video game and personal computer (PC) entertainment products with 6,627 stores around the world (including 4,460 stores in the U.S. and ~25% U.S. market share). The company has grown significantly over the past several years (gaining market share and driving solid revenue and earnings growth) as it benefited from the current video game console cycle (PS3, 360, Wii) which drove strong video games sales. Investments in Kongregate for online games, Spawn Labs for cloud gaming, and Impulse for PC games downloads are helping to expand in digital, social and mobile gaming, areas that have significant growth opportunities. We expect that the next hardware console cycle (beginning this holidays with the WiiU and followed by an expected launch of the next Xbox and PS4 in holidays 2013) should drive solid video games sales over the next several years.

However, there are concerns as video game industry sales have been in a decline over the past three years, particularly for handhelds and casual video games. In addition, there are concerns that video game software distribution will transition to digital (from physical) in the near future, including speculation that the next Xbox and PS4 may not include a physical software component. Despite these concerns, we believe that attractive valuation and strong cash flow generation should offset concerns about current industry weakness, digital distribution shift, and competition in video games retailing.

Our \$30 price target is calculated by applying a target P/E multiple of 9.5x our FY12 EPS estimate of \$3.20. This multiple is a 25% discount to the peer group median (12.5x), which we believe appropriately balances out the risks with its growth prospects.

We believe the current valuation is attractive.

We looked at GameStop's valuation three ways, and each suggested that GameStop is undervalued:

- 1) EV is at 0.3x FY11E revenues and 0.3x FY12E revenues, versus a comp group median of 0.5x 2012E and 0.5x 2013E;
- 2) EV is at 3.5x FY11E EBITDAS and 3.3x FY12E EBITDAS, versus a comp group median of 7.0x 2012E and 6.6x 2013E; and
- 3) P/E of 8.2x FY11E EPS and 7.5x FY12E EPS, versus a comp group median of 12.5x 2012E and 11.5x 2013E.

INVESTMENT HIGHLIGHTS

Largest U.S. Video Game Retailer

GameStop is the world's largest specialty retailer of video game and personal computer (PC) entertainment products with 6,627 stores around the world (including 4,460 stores in the U.S. and ~25% U.S. market share). We believe its large size allows it the resources to be competitive in an industry that is requiring increasing scale and brand awareness to compete against mass market retailers. GameStop has over 14.5 million PowerUp Rewards members (its customer loyalty program), positioning it well in an overall growing and profitable video game industry. We believe its leading market position, customer loyalty, and solid recent financial performance should alleviate concerns regarding industry growth rates, retail and consumer weakness, and potential technological disintermediation.

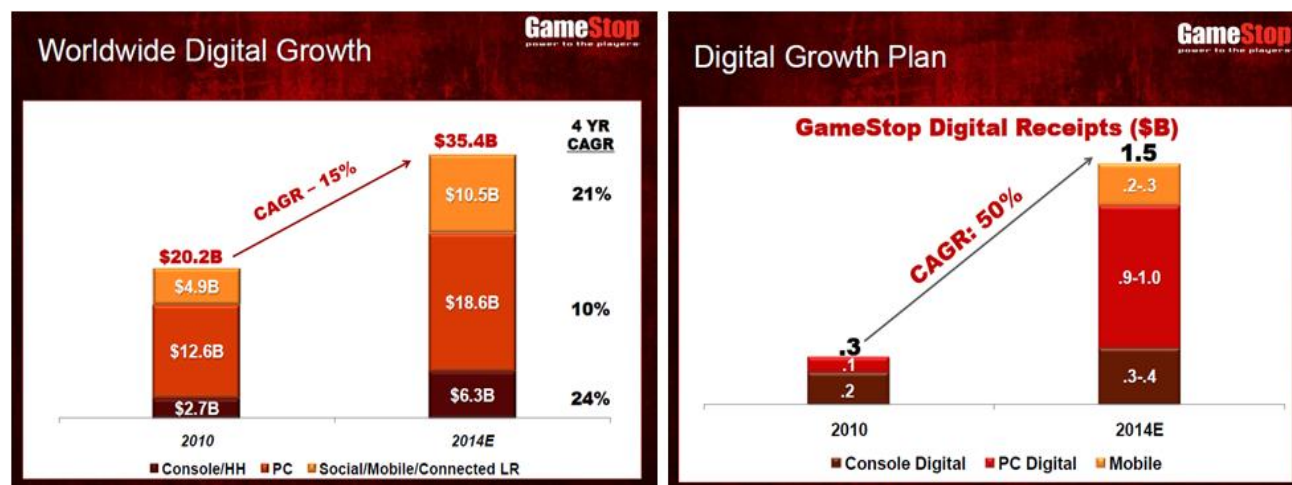
Leading Market Share For New And Used Games

GameStop's market share for the sale of new video games (those within two months of release) is estimated to be 50% in the U.S. We note that most games sell 75% of their lifetime sales (in dollars) within 3 months of release, so early strong sales of a game is important. This compels video game publishers to provide high levels of marketing support and product availability to GameStop. GameStop also has a large market share in the sale of used video games (estimated to be 75% in the U.S.) The company is one of the few retailers that buy and sell used video game products (both hardware and software). With used video game margins of 45 – 50%, this is a very profitable part of GameStop's business (accounting for 25% of sales and 50% of profits) and is a key differentiator to its competitors as used video games typically sell for 20% less than new games.

Digital Gaming Opportunities

The fastest growing segments of the video game industry are digital games (distributed online), social games (played on Facebook or other social networks) and mobile games (played on smartphones or tablets). We estimate that the digital, social, and mobile games market in the U.S. is approximately \$6 billion and will grow at a 15% annual rate over the next five years. With Facebook at over 800 million users, and Apple selling 37 million iPhones and 15 million iPads in the December 2011 quarter alone, there are tremendous growth prospects for games to be played on these platforms. While GameStop is still relatively new and small in these markets, we believe it is well-positioned to capitalize on this growth given its leading market share and brand awareness for traditional video games. Investments in Kongregate for online games, Spawn Labs for cloud gaming, and Impulse for PC games downloads are helping GameStop to expand in digital, social and mobile gaming (targeting \$1.5 billion in digital sales in FY14, up from \$290 million in FY10).

Exhibit 2: Digital Growth Opportunities (\$ billions)



Source: GameStop Analyst Day Presentation (April 2011)

High Cash Generation And Returns To Shareholders

Since January 2010, GameStop's stock and debt buybacks have totaled just under \$1 billion. GameStop generates ~\$600 million a year in operating cash flow. With a target of zero net store growth, we believe this allows for \$500 million in free cash flow that could potentially be returned to shareholders through dividends or share repurchases. In November 2011, GameStop announced a new \$500 million share and debt repurchase program, and in February 2012, initiated a quarterly dividend of \$0.15/share.

INVESTMENT CONCERNS**Technological Disintermediation**

The biggest concern for GameStop is that video game software distribution will transition from physical to digital, and thereby render its physical store network obsolete (a similar pattern to record and movie rental stores). PC software, social, and mobile games are already predominantly digitally distributed, but current console video games (which comprise over 65% of industry sales) are still physical media based. As hard drives on video game consoles get larger and Internet download speeds get faster, the technological barriers to video game downloads decrease. The next console video game cycle is likely to begin in 2012, and there is speculation that the next Xbox and PS4 (expected to launch in 2013) may not include a physical software component.

Reliance on Video Game Manufacturers and Publishers

GameStop is dependent on video game console manufacturers and publishers to constantly introduce new products and games to drive consumer demand. The video game industry is tied closely with consumer preferences which are continuously changing and difficult to predict. New video games and consoles require product development and marketing investments which can be lengthy and costly. Multiplayer, online play, and expansion packs have all increased the playing time of games, causing consumers to purchase fewer games and less often. A difficult issue for GameStop and its relationship with video game publishers has been its success in selling used video games; the publishers dislike this due to the potential cannibalization of new game sales.

Competition Is High

Competition in the video game retailing business is intense from mass market and specialty video game and electronics retailers. Competition also includes video game console manufacturers (Sony, Microsoft, and Nintendo) and publishers such as Activision Blizzard and Electronic Arts (the two leading U.S. video game publishers), along with a wide range of companies including international, privately-held, smaller, or new companies (particularly for PC, social, and mobile games where the barriers and cost of entry are much lower).

Changing Video Game Industry

According to The NPD Group, U.S. video game software sales in 2011 were \$9.3 billion (packaged goods only, not including digital games), down 8% from 2010. The declines were even greater for games on the Nintendo Wii and DS platforms, which were down 53% and 74%, respectively, in the important holiday December 2011 month, and will likely continue their decline due to new consoles (the WiiU expected this holidays, and the 3DS which launched in March 2011). Offsetting this decline is strong growth in digital, social, and mobile gaming, which is estimated to have grown 20% in 2011. We believe that GameStop will have to effectively manage this changing video game landscape in order to be successful.

High Short Interest

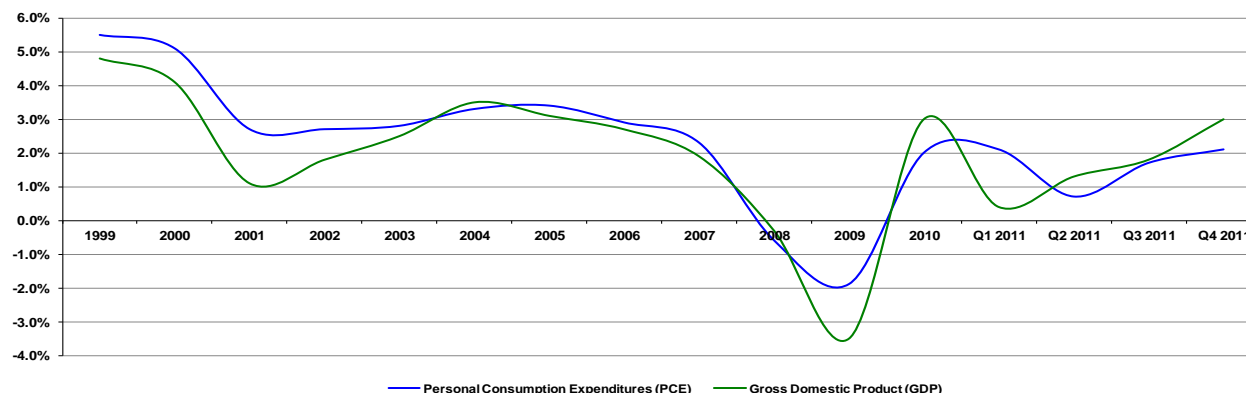
Because of concerns of technological disintermediation, we note that GameStop's stock is heavily shorted, with 55 million shares short (or ~1/3 of share float and outstanding shares, representing 19 days to cover (Short Interest Ratio)). Due to the high short interest, volatility in the trading price of the stock may be amplified in the near term.

Economic Uncertainty

Consumer spending is highly correlated with economic activity and discretionary income levels. Deterioration in economic conditions tends to result in an overall decline in consumer spending, as was demonstrated during the 2008 and 2009 Great Recession and global economic slowdown. While consumer spending levels have improved relatively in 2010 and 2011, the global

macroeconomic environment remains fragile (particularly in Europe). Further economic weakness may result in depressed consumer spending levels, which may have a negative impact on GameStop's business.

Exhibit 3: U.S. Consumer Spending and U.S. Economic Growth (GDP)



Source: U.S. Bureau of Economic Analysis

NEW VIDEO GAME CONSOLE CYCLE

A discussion about the value of GameStop typically leads to a discussion of trends in video game demand and hardware console cycle. A typical video game cycle lasts five years and would start with slow sales in the first year due to low installed base and game availabilities, but would grow significantly each year before peaking in year 4, after which sales would start to decline in anticipation of the next hardware cycle. Our current hardware cycle (Wii, PS3, 360) has lasted longer than normal and is in its seventh year (since the launch of the Xbox 360 in 2005), but is expected to end this year with the launch of the WiiU this holidays.

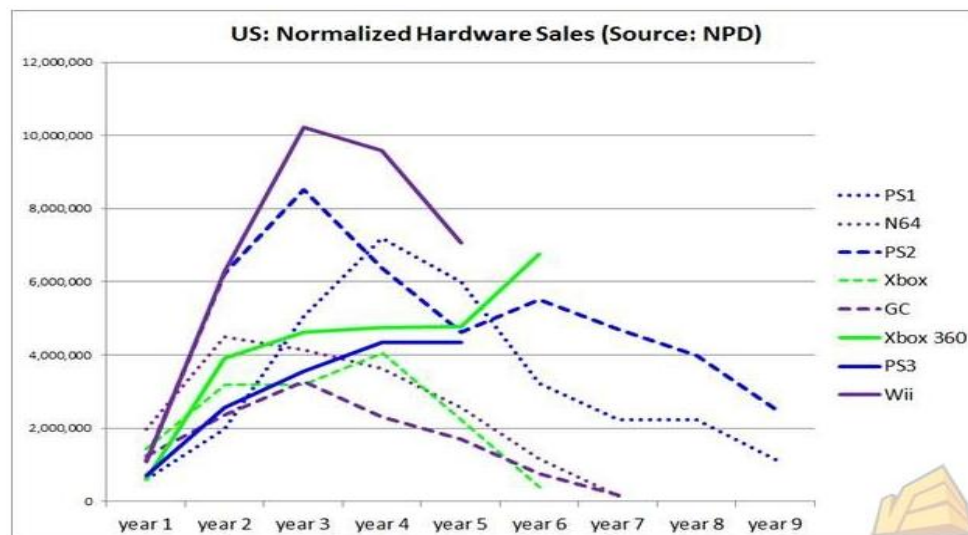
The U.S. hardware installed base is currently at 167 million current generation consoles (including handhelds) as of the end of December 2011 (DS 51 million, 3DS 4 million, PSP 20 million, Xbox 360 33 million, PS3 20 million, Wii 39 million). The worldwide installed base is currently at 463 million current generation consoles (including handhelds) as of the end of December 2011 (DS 151 million, 3DS 15 million, PSP 74 million, Xbox 360 66 million, PS3 62 million, Wii 95 million).

We note that pricing on the PS3 and Xbox 360 are still much higher than they have been in prior cycles. This is due to the increased functionality and technological specifications (along with product upgrades) of the current systems as compared to prior systems. The PS2 (2000) and the Xbox (2001) were \$299 at launch, which compares with current prices for the PS3 of \$249 (launched 2006 at \$499) and the Xbox 360 of \$299 (launched 2005 at \$299).

While the installed base is large, hardware and software sales have been declining recently (a rather precipitous 20 – 40% so far in 2012) indicating that the current console cycle is slowing and may be near its end. The DS was released in 2004, the PSP and Xbox 360 in 2005, and the PS3 and Wii in 2006. More recently, the 3DS and PSVita launched in 2011. Nintendo will release the WiiU this holidays (pricing has not been disclosed) and speculation is that Sony and Microsoft may release new consoles in 2013. Part of the success of the Xbox 360 was the lead it had over the PS3 by launching a year earlier. We believe that neither Sony nor Microsoft would want to play catch-up in the next cycle.

There have been increasing media reports about the new PS4 and next Xbox, and there will likely be more throughout this year. However, we do not expect a formal announcement until early 2013 because consumer demand for current consoles will likely decline significantly in anticipation of the new consoles.

Exhibit 4: Video Game Hardware Cycles



Source: The NPD Group, and VE3D/IGN Entertainment (as of June 2011)

Exhibit 5: Video Game Hardware Console Price History

Nintendo DS

Nov-04 Launched at \$149
Jun-11 DS Lite cut to \$99

Sony PSP

Mar-05 Launched at \$249
Feb-11 PSP cut to \$129

Nintendo 3DS

Mar-11 Launched at \$249
Aug-11 Cut to \$169

Sony PSVita

Feb-12 Launched at \$249 (wifi)

Sony PS2

Oct-00 Launched at \$299
Apr-09 Cut to \$99

Microsoft Xbox 360

Nov-05 Launched at \$299 (Core)/399 (Pro 20Gb)
Jun-10 Launched 360 Slim (250Gb) at \$299
Aug-10 Launched 4GB Xbox 360 S Arcade \$199

Sony PS3

Nov-06 Launched at \$499 (20Gb)/599 (60Gb)
Aug-11 160 Gb cut to \$249

Nintendo Wii

Nov-06 Launched at \$249
May-11 Cut to \$149

Source: Company reports and Ascendant Capital Markets estimates

VALUATION

We are initiating coverage of GameStop with a BUY rating and a 12-month price target of \$30, which reflects a target P/E multiple of 9.5x our FY12 EPS estimate of \$3.20. The 9.5x forward P/E multiple is a 25% discount to the peer group median (12.5x), which we believe appropriately balances out the risks with its growth prospects. We compare GameStop to a peer group of publicly traded video game and electronics retailing companies, and believe that electronics retailers are the most comparable, but note that multiples vary significantly between companies. The multiple is also well below one of the more recent major public video game

company acquisitions in this industry, the acquisition in August 2011 of privately-held PopCap Games by Electronic Arts for \$750 million at a reported 10 – 20x EBIT.

On most valuation metrics, GameStop is trading well below its peers. On an EV/Revenue basis, GameStop is trading at 0.3x 2013E revenue compared with the median of 0.5x. On a P/E basis, GameStop is trading at 7.5x 2013E EPS compared with the median of 11.5x. On an EV/EBITDAS basis, GameStop is trading at 3.3x 2013E EBITDAS compared with the median of 6.6x. We note that there is a wide discrepancy in valuation between video game companies (which have higher valuation multiples) and video game retailers (which have much lower valuation multiples). To the extent that a greater value of GameStop is placed on its digital, social and mobile initiatives versus traditional retailing, it is likely that GameStop's valuation metrics will increase as well.

Exhibit 6: Comparable Companies

In millions (unless otherwise noted), excluding per share data

Price																											
Ticker	FYE	Rating	Price Target	as of close		52 Week Range		Diluted Shares	Market Cap	Enterprise Value (EV)	Earnings / Share		Price / EPS		Revenues		Ent Val (EV) / Rev		EBITDAS		Ent Val (EV) / EBITDAS						
				3/20/12	3/20/12	Low	High				2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E	2012E	2013E					
GameStop	GME	Jan	Buy	\$30	\$24.01	\$18.34	\$28.66	140	3,361	3,043	\$2.92	\$3.20	8.2x	7.5x	9,631	9,702	0.3x	0.3x	866	926	3.5x	3.3x					
Video Game Related																											
Activision Blizzard	ATVI	Dec	Not Rated	N/A	\$12.52	\$10.40	\$14.40	1,147	14,360	10,819	\$0.95	\$1.06	13.2x	11.8x	4,585	4,758	2.4x	2.3x	1,627	1,808	6.7x	6.0x					
Electronic Arts	EA	Mar	Not Rated	N/A	\$17.01	\$16.05	\$26.13	338	5,749	4,492	\$0.86	\$1.15	19.8x	14.8x	4,170	4,493	1.1x	1.0x	558	712	8.1x	6.3x					
Glu Mobile	GLUU	Dec	Not Rated	N/A	\$3.91	\$1.80	\$6.10	63	246	214	\$(0.19)	\$0.19	n/m	20.6x	84	124	2.5x	1.7x	(9)	18	n/m	12.1x					
Majesco Entertainment	COOL	Oct	Buy	\$3.50	\$2.50	\$1.46	\$4.53	42	104	90	\$0.35	\$0.40	7.1x	6.3x	138	145	0.7x	0.6x	16	19	5.8x	4.8x					
Take-Two Interactive	TTWO	Mar	Buy	\$20	\$15.99	\$10.63	\$17.58	90	1,439	1,298	\$(0.62)	\$3.00	n/m	5.3x	832	1,900	1.6x	0.7x	(32)	333	n/m	3.9x					
THQ	THQI	Mar	Not Rated	N/A	\$0.61	\$0.48	\$5.99	69	42	94	\$(1.69)	\$(0.49)	n/m	n/m	808	457	0.1x	0.2x	(71)	(23)	n/m	n/m					
Zynga	ZNGA	Dec	Not Rated	N/A	\$13.39	\$7.97	\$14.62	865	11,582	9,665	\$0.26	\$0.36	51.5x	37.2x	1,419	1,732	6.8x	5.6x	363	527	26.6x	18.3x					
Median													16.5x	13.3x			1.6x	1.0x			7.4x	6.1x					
Average													22.9x	16.0x			2.2x	1.7x			11.8x	8.6x					
Retail Related																											
Amazon.com	AMZN	Dec	Not Rated	N/A	\$192.33	\$160.59	\$246.71	462	88,856	79,356	\$1.29	\$2.66	149.1x	72.3x	62,791	80,459	1.3x	1.0x	2,350	3,618	33.8x	21.9x					
Best Buy	BBY	Feb	Not Rated	N/A	\$26.29	\$21.79	\$32.98	369	9,701	8,580	\$3.38	\$3.68	7.8x	7.1x	51,609	51,892	0.2x	0.2x	3,090	3,047	2.8x	2.8x					
Radioshack	RSH	Dec	Not Rated	N/A	\$6.64	\$6.50	\$16.70	100	667	746	\$0.62	\$0.68	10.7x	9.8x	4,541	4,631	0.2x	0.2x	227	237	3.3x	3.1x					
Target	TGT	Jan	Not Rated	N/A	\$58.01	\$45.28	\$58.95	675	39,157	55,863	\$4.23	\$4.82	13.7x	12.0x	73,061	77,017	0.8x	0.7x	7,403	7,735	7.5x	7.2x					
Wal-Mart Stores	WMT	Jan	Not Rated	N/A	\$60.60	\$48.31	\$62.63	3,442	208,585	251,335	\$4.85	\$5.29	12.5x	11.5x	471,518	492,840	0.5x	0.5x	36,091	37,892	7.0x	6.6x					
Median													12.5x	11.5x			0.5x	0.5x			7.0x	6.6x					
Average													38.8x	22.5x			0.6x	0.5x			10.9x	8.4x					

Note: For companies not under coverage, Thomson Reuters estimates are used

Source: Company reports, Thomson Reuters, and Ascendant Capital Markets estimates

Exhibit 7: Recent Video Game Acquisitions

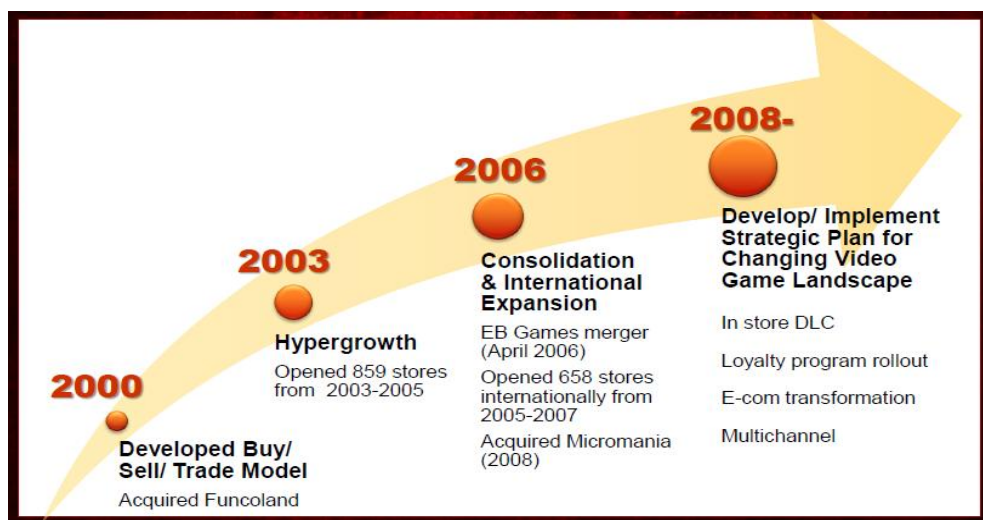
Date	Target	Acquirer	Price	Valuation Metrics
Jan-12	Double Down Interactive	International Game Technology	\$335 million	NA
Aug-11	PopCap Games	Electronic Arts	\$750 million	10 - 20x 2012 EBIT
Feb-11	Riot Games	Tencent Holdings	\$472 million	NA
Oct-10	Ngmoco	DeNA	\$300 million	10x Revenue
Aug-10	Playdom	The Walt Disney Company	\$563 million	NA
Nov-09	Playfish	Electronic Arts	\$300 million	4x Revenue
Date	Target	Acquirer	Price	Valuation Metrics
March-11	Impulse & Spawn Labs	GameStop	\$28 million	NA
July-10	Kongregate	GameStop	\$38 million	NA

Source: Company reports and Ascendant Capital Markets estimates

COMPANY HIGHLIGHTS

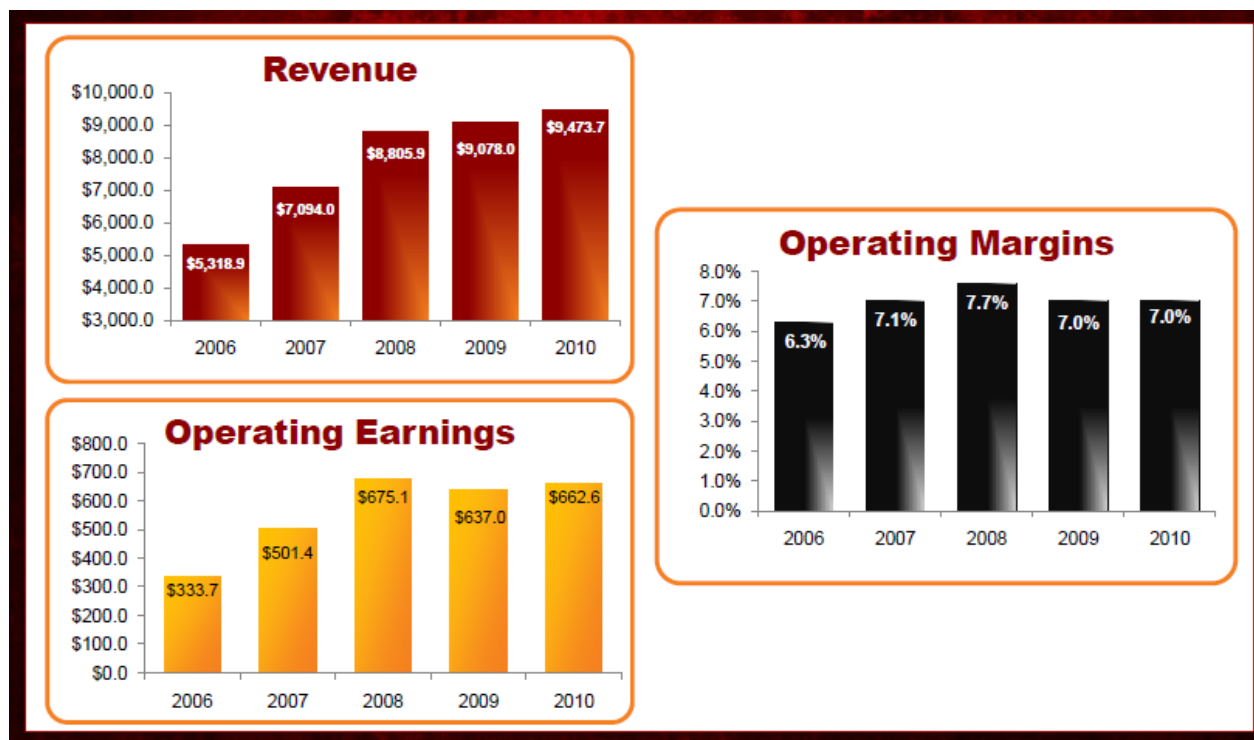
Based in Grapevine, TX, GameStop is the world's largest specialty retailer of video game and personal computer (PC) entertainment hardware, software, and accessories. The company has 6,627 stores in the U.S., Australia, Canada and Europe, under the names GameStop, EB Games and Micromania. In the U.S., GameStop has 4,460 stores and ~25% U.S. market share for the sale of video game products. GameStop has over 14.5 million PowerUp Rewards members (its customer loyalty program), and publishes *Game Informer* magazine, the largest video game magazine in the U.S. with 5.7 million subscribers. GameStop sales are split ~70% in the U.S., and ~30% international (primarily in Europe). GameStop has approximately 17,000 full-time employees and between 31,000 - 51,000 part-time employees (depending on seasonality).

Exhibit 8: GameStop's Strategy



Source: Company reports

Exhibit 9: GameStop's Financial Results (\$ millions)



2010 FYE January 2011

Source: Company reports

GameStop was formed through a series of mergers and acquisitions that began in 1994, when two software retailers, Software Etc. and Babbage's, were merged into the NeoStar Retail Group. In November 1996, Leonard Riggio formed Babbage's Etc. to purchase assets from NeoStar Retail Group out of bankruptcy, which included 467 stores. In October 1999, Mr. Riggio sold Babbage's Etc. to Barnes & Noble for \$215 million. In June 2000, Barnes & Noble acquired Funco, Inc., a publicly traded company focused exclusively on the used video game retail market, for \$162 million. Later that year in December, Barnes & Noble changed its video game retail division's name to GameStop. In February 2002, GameStop completed an initial public offering of its common stock, but continued to be a majority-owned subsidiary of Barnes & Noble until November 2004 when Barnes & Noble divested the rest of its stake.

GameStop's major acquisitions included Electronics Boutique Holdings, a 2,300-store video game retailer in the U.S. and 12 other countries (in October 2005 for \$1.4 billion), and SFMI Micromania SAS, a leading video game retailer in France with 379 stores (in November 2008 for \$580 million).

MANAGEMENT TEAM

J. Paul Raines, Chief Executive Officer, age 47. Mr. Raines has been CEO since June 2010, and was Chief Operating Officer from September 2008 to June 2010. Prior to joining GameStop in 2008, Mr. Raines spent eight years with The Home Depot in various management positions in retail operations, including Executive Vice President of U.S. Stores and President of the Southern Division. Prior to Home Depot, he spent four years in global sourcing for L.L. Bean and ten years with Kurt Salmon Associates in their consumer products group.

Tony D. Bartel, President, age 47. Mr. Bartel has been President since June 2010, and was Executive Vice President of Merchandising and Marketing from March 2007 to June 2010. Prior to that, Mr. Bartel was the Senior Vice President of International Finance, a role he held since joining GameStop in 2005. Prior to GameStop, Mr. Bartel worked at NCH Corporation, PepsiCo, Yum! Brands, and the public accounting firm of KPMG Peat Marwick.

Robert A. Lloyd, Chief Financial Officer, age 49. Mr. Lloyd has been CFO since June 2010, and was Interim CFO from February 2010 to June 2010. Mr. Lloyd served as Chief Accounting Officer from October 2005 to February 2010. Prior to that, Mr. Lloyd worked in various financial positions with GameStop or its predecessor companies since December 1996. Prior to 1996, Mr. Lloyd held various financial positions primarily in the telecommunications industry and at the public accounting firm of Ernst & Young. Mr. Lloyd is a Certified Public Accountant.

Exhibit 10: GameStop's Management Team



Paul Raines



Tony Bartel



Robert A. Lloyd

Source: Company reports

PRODUCT MIX

GameStop sells video game and personal computer (PC) entertainment hardware, software, and accessories through its network of stores and online. Its stores average 1,400 square feet and are generally located in high-traffic “power strip centers,” local neighborhood strip centers, and high-traffic shopping malls and pedestrian areas.

GameStop segments its revenue by new video game hardware, new video game software, used video game products (both hardware and software), and other (which includes PC entertainment and other software, digital products and currency, accessories and magazines). GameStop's biggest suppliers are Microsoft, Nintendo, Sony, Activision and Electronic Arts (which accounted for 18%, 16%, 16%, 12%, and 10%, respectively, of FY10 new inventory purchases). GameStop acquires used video game products from customers (trade-ins), utilizing its refurbishment centers to prepare resale of products and proprietary software to effectively manage used inventory and pricing.

The company is making a push into digital, social, and mobile gaming with recent investments in Kongregate for online games, Spawn Labs for cloud gaming, and Impulse for PC games downloads. GameStop is targeting \$1.5 billion in digital sales in FY14, up from \$290 million in FY10.

Exhibit 11: GameStop's Products (FY10)



Gross Profit % By Product Category

New video game hardware	7%
New video game software	21%
Used video game products	46%
Other	34%
Total	27%

Source: Company reports

Exhibit 12: Store Locations (as of 1/29/11)

Locations	Number of Stores
United States	4,536
Canada	345
Australia	365
New Zealand	40
Austria	24
Denmark	44
Finland	17
France	379
Germany	205
Ireland	50
Italy	371
Norway	53
Portugal	13
Spain	140
Sweden	63
Switzerland	18
United Kingdom	7
Sub-total for Europe	1,384
Sub-total for International	2,134
Total stores	6,670

Source: Company reports

INDUSTRY HIGHLIGHTS

The interactive entertainment software industry is categorized into two markets. The first market is traditional software for dedicated home and handheld console gaming systems such as the Microsoft Xbox 360, Sony PlayStation 3 and PSVita, and Nintendo Wii, DS, and 3DS. The majority of software for these platforms has historically been purchased in packaged form (a.k.a. packaged goods) through retail stores, but more recently includes software available through online networks such as Microsoft's Xbox Live, Sony's PlayStation Network, and Nintendo Network.

The second market consists of software for personal computers and mobile devices (such as smartphones and tablets). These games tend to be low-cost or free, casual in nature, and are downloadable or online games. These games often utilize customer monetization models such as advertising or as "freemium" gaming whereby a customer receives certain game functionality for free, while paying for certain content through microtransactions such as for purchase of virtual goods or to access premium game features.

U.S. video game industry revenues have declined over the past several years. According to The NPD Group, U.S. retail sales of video game software (packaged goods only and not including digital games) were \$9.3 billion in 2011, down 8% from 2010. The U.S. video game industry (including software and hardware) had retail sales in 2010 of \$18.6 billion, down 6% from 2009. Nevertheless, the digital game segment of the industry is growing rapidly. IDG estimates that worldwide retail sales of console, handheld and PC software were \$24 billion in 2011. IDG estimates that non-traditional (digital) video game software revenue surpassed \$20 billion in 2011 and will grow to over \$40 billion by 2015.

The U.S. hardware installed base is currently at 167 million current generation consoles (including handhelds) as of the end of December 2011 (DS 51 million, 3DS 4 million, PSP 20 million, Xbox 360 33 million, PS3 20 million, Wii 39 million). The worldwide installed base is currently at 463 million current generation consoles (including handhelds) as of the end of December 2011 (DS 151 million, 3DS 15 million, PSP 74 million, Xbox 360 66 million, PS3 62 million, Wii 95 million).

While the installed base is large, we note that hardware sales have been declining recently indicating that the current console cycle is slowing and may be near its end. The DS was released in 2004, the PSP and Xbox 360 in 2005, and the PS3 and Wii in 2006. More recently, the 3DS and PSVita launched in 2011. Nintendo will release the WiiU this upcoming holidays and speculation is that Sony and Microsoft may release new home consoles in 2013.

While traditional console sales have slowed, there continues to be a rapid rise in smartphones, tablets, and users of social media (dominated by Facebook). We believe that gaming is a major usage for many of these users, which should drive continued strong growth in this area. We estimate that the social and mobile games market in the U.S. is approximately \$4 billion, and will grow at a 15% annual rate over the next five years. This should offset modest declines expected for traditional software in the U.S, driving overall growth in the U.S. total video game market.

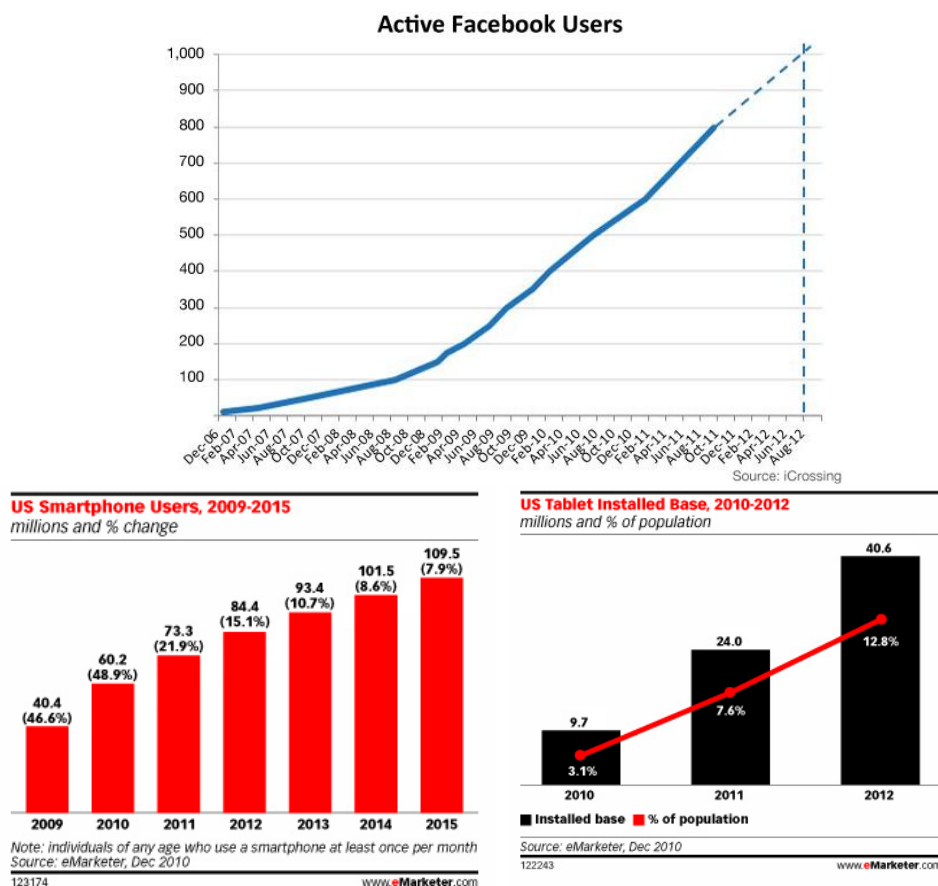
There is an active marketplace for used video games, with sales of used titles dominated by GameStop. Margins on these products typically average 40 – 50% for retailers (with nothing for the publishers), and on average, sell for somewhere between 50% and 80% of the price of new titles. In addition, software piracy is a major concern for video game publishers given that their products are digital. Due to the low or no-cost nature of social and mobile games, used games and piracy issues are much less of a concern than for traditional games.

Exhibit 13: U.S. Toy and Video Game Industry Sales

SUPERCATEGORY	ANNUAL DOMESTIC SALES DATA							
	2010	2009	2008	2007	2006	2005	2004	2003
Action Figures, Accessories and Role Play	\$1.4 B	\$1.6 B	\$1.5 B	\$1.5 B	\$1.4 B	\$1.5 B	\$1.3 B	\$1.3B
Arts & Crafts	\$2.8 B	\$2.8 B	\$2.6 B	\$2.6 B	\$2.7 B	\$2.6 B	\$2.6 B	\$2.6B
Building Sets	\$1.2 B	\$1.1 B	\$0.9 B	\$0.7 B	\$0.7 B	\$0.7 B	\$0.6 B	\$0.6 B
Dolls	\$2.8 B	\$2.6 B	\$2.7 B	\$3.0 B	\$3.1 B	\$3.2 B	\$2.8 B	\$2.9B
Games/Puzzles	\$2.2 B	\$2.4 B	\$2.3 B	\$2.3 B	\$2.4 B	\$2.5 B	\$2.7 B	\$2.7B
Infant/Preschool Toys	\$3.2 B	\$3.0 B	\$3.1 B	\$3.2 B	\$3.4 B	\$3.3 B	\$3.1 B	\$3.1B
Youth Electronics	\$0.6 B	\$0.7 B	\$0.9 B	\$1.0 B	\$1.0 B	\$0.9 B	\$0.9 B	\$0.8 B
Outdoor & Sports Toys	\$2.8 B	\$2.6 B	\$2.7 B	\$2.9 B	\$3.0 B	\$2.9 B	\$2.9 B	\$2.9B
Plush	\$1.7 B	\$1.5 B	\$1.7 B	\$1.4 B	\$1.4 B	\$1.4 B	\$1.6 B	\$1.7B
Vehicles	\$1.8 B	\$1.8 B	\$1.9 B	\$2.3 B	\$2.1 B	\$2.1 B	\$2.1B	\$2.2B
All Other Toys	\$1.5 B	\$1.4 B	\$1.3 B	\$1.4 B	\$1.6 B	\$1.6 B	\$2.3 B	\$2.1B
TOTAL TRADITIONAL TOY INDUSTRY*	\$21.9 B	\$21.5 B	\$21.6 B	\$22.2 B	\$22.7B	\$22.7B	\$23.0B	\$22.9B
Video Games**	\$18.6 B	\$19.7 B	\$21.4 B	\$18.0 B	\$12.5B	\$10.5B	\$9.9B	\$10.0B

Source: The NPD Group and Toy Industry Association

Exhibit 14: Rise of Smartphone, Tablets, and Facebook



Source: www.emarketer.com, iCrossing

COMPETITION

GameStop competes primarily in the interactive entertainment industry. On a broad level, GameStop competes for the leisure time and discretionary spending of consumers against a wide variety of products including computer products, electronic and online games, mobile platforms, and entertainment products. GameStop's main competitors in video game retailing are Wal-Mart Stores, Target, and Best Buy in the U.S., and Game Group, Media Markt, and Carrefour in Europe.

GameStop is also increasingly competing with its key suppliers in the video game industry including many first-party (Microsoft, Sony, and Nintendo) and third-party (Activision Blizzard and Electronic Arts) publishers and developers as they try to sell directly to consumers and bypass video game retailers. In the digital segment, there is a wider range of competitors including Crowdstar, Electronic Arts' Playfish and PopCap Games, GaiKai, Gameloft, Glu Mobile, OnLive, ngmoco, Disney's Playdom, Rovio and Zynga.

Based in the U.K., GAME Group plc is Europe's leading PC and video games specialty retailer with 1,300 stores under the GAME and Gamestation brands. GAME Group's recent financial performance has been poor due to a combination of weak industry sales and high levels of competition in its main U.K. market. Its weak financial position has caused a recent rash of suppliers to stop supplying inventory, prompting rampant speculation that it may enter bankruptcy soon (including the company's recent statement on

Wednesday that it will file for bankruptcy soon). GameStop has been mentioned as a possible acquirer of GAME's business though we believe that any sale of the company is likely done in bankruptcy due to the current fragile and damaged state of GAME.

Following are several of GameStop's largest retail competitors:

Amazon.com [NASDAQ: AMZN - Not Rated]

Based in Seattle, WA, Amazon.com is one of the world's largest online retailers. Amazon sells a wide range of products including video games. Amazon.com had 2011 (ending December 31, 2011) sales of \$48 billion (of which \$27 billion was from the U.S.)

Best Buy [NYSE: BBY - Not Rated]

Based in Richfield, MN, Best Buy is one of the world's largest consumer electronics specialty retailers with over 4,300 stores in the U.S. and internationally (mainly Europe). Best Buy had FY11 (ending February 28, 2011) sales of \$50 billion (of which \$37 billion was from the U.S.)

Radioshack [NYSE: RSH - Not Rated]

Based in Fort Worth, TX, Radioshack is one of the world's leading consumer electronics specialty retailers with 4,500 stores in the U.S. Radioshack had 2011 (ending December 31, 2011) sales of \$4.4 billion (mainly from the U.S.)

Target [NYSE: TGT - Not Rated]

Based in Minneapolis, MN, Target is one of the world's largest mass market retailers with 1,800 stores in the U.S. Target sells a wide range of products including video games. Target had FY11 (ending January 31, 2012) sales of \$70 billion (all from the U.S.)

Wal-Mart Stores [NYSE: WMT - Not Rated]

Based in Bentonville, AR, Wal-Mart is the world's largest mass market retailer with over 10,000 stores in the U.S. and internationally. Wal-Mart sells a wide range of products including video games. Wal-Mart had FY12 (ending January 31, 2012) sales of \$444 billion (of which \$318 billion was from the U.S.)

Following are several key video game companies:

Activision Blizzard [NASDAQ: ATVI - Not Rated]

Based in Santa Monica, CA, Activision Blizzard is the largest 3rd party developer, publisher, and distributor of interactive entertainment software for PCs, home consoles, handheld devices, and the Internet. Its key brands include *Call of Duty* and *World of Warcraft*. Activision is majority controlled by Vivendi (with ~60% ownership). Activision had 2011 (ending December 31, 2011) sales of \$4.5 billion (of which \$2.3 billion was from the U.S.)

Electronic Arts [NASDAQ: EA - Not Rated]

Based in Redwood City, CA, Electronic Arts develops, publishes, and distributes interactive entertainment software for personal computers, home consoles, handheld devices, and the Internet. Its key brands include *Battlefield*, *EA Sports*, and *The Sims*, though the company has also made a major push into social and casual games with the acquisitions of Playfish (in 2009) and PopCap Games (in 2011). EA had FY11 (ending March 31, 2011) sales of \$3.8 billion (of which \$1.8 billion was from the U.S.)

Glu Mobile [NASDAQ: GLUU - Not Rated]

Based in San Francisco, CA, Glu Mobile designs, markets, and sells casual and traditional mobile games worldwide. Some of its key games include *Bonsai Blast*, *Gun Bros*, *Super K.O. Boxing*, and *Zombie Isle*, along with licensed games *Call of Duty*, *Deer Hunter*, *Diner Dash*, and *Guitar Hero*. Glu had 2011 (ending December 31, 2011) sales of \$66 million (of which approximately 50% was from the U.S.)

Majesco Entertainment [NASDAQ: COOL - BUY]

Based in Edison, NJ, Majesco Entertainment is a global developer and publisher of interactive entertainment software and accessories. Its key games include *Cooking Mama* and *Zumba*. Majesco had FY11 (ending October 31, 2011) sales of \$125 million (of which \$110 million was from the U.S.)

Take-Two Interactive Software [NASDAQ: TTWO - BUY]

Based in New York, NY, Take-Two Interactive Software publishes, develops, and distributes interactive entertainment software worldwide. Its key brands include *Grand Theft Auto*, *Sid Meier's Civilization*, *Max Payne*, *Midnight Club*, and *Red Dead Revolver*. Take-Two had FY11 (ending March 31, 2011) sales of \$1.1 billion (of which \$635 million was from the U.S.)

THQ [NASDAQ: THQI - Not Rated]

Based in Agoura Hills, CA, THQ develops, publishes, and distributes interactive entertainment software for various game systems, personal computers (PC), wireless devices, and the Internet. Its key games include *WWE*, *UFC*, *Red Faction*, *Saints Row*, and *Homefront*. THQ had FY11 (ending March 31, 2011) sales of \$802 million (of which \$525 million was from the U.S.)

Zynga [NASDAQ: ZNGA - Not Rated]

Based in San Francisco, CA, Zynga is the largest developer, marketer, and operator of online social games, social networking sites, and mobile platforms. Its key brands include *FarmVille*, *CityVille*, and *Words with Friends*. Zynga recently had its IPO in December 2011, selling 100 million shares at \$10/share, raising \$1 billion and valuing the company at \$7 billion. Zynga had 2011 (ending December 31, 2011) sales of \$1.1 billion (of which \$734 million was from the U.S.)

FINANCIALS

GameStop's fiscal year span the 52 (or sometimes 53 weeks) ending on the Saturday closest to January 31. Its business is seasonal with a large portion of revenue occurring in its Q4 (ending January) which coincides with the holidays (35 – 40% of full-year revenues). Like most retailers, GameStop recognizes revenue (and gets cash) at the time of sale to consumers, but typically pays vendors for inventory on 30 – 60 day terms. Inventory management is important as a lack of product will reduce sales and too much unsold products will reduce cash flow. Video game companies typically sell products on a no-return basis, but retailers get price protection (a.k.a. reserves that allow them a credit against amounts they owe) on unsold products to allow the retailers to discount and sell the products. However, that may not be enough to drive sales or maintain margins.

Recent Results (Q3 FY11 ending October 2011)

In November, GameStop reported generally in line fiscal Q3 (October) 2011 results, with revenue and EPS in line with expectations and guidance, but comps (comparable same-store-sales) below guidance. Revenue was \$1.95 billion, compared with consensus of \$1.96 billion. Comps were -0.6%, compared with guidance of +2.0 – 4.0%. EPS was \$0.39, compared with consensus of \$0.37, and guidance of \$0.38 – 0.41. GameStop had better-than-expected new video game hardware and software sales (+1% and +5% y-o-y, respectively, and both gaining market share), but weaker than expected used video game products sales (up only 3% y-o-y).

The company lowered FY11 guidance for revenue to \$9.7 – 9.8 billion (+2.0 – 3.0%) from \$9.9 – 10.1 billion (+4.5 – 6.5%), and for comps to a new range of -1% to flat from +1.0 – 3.0%, but maintained EPS guidance of \$2.82 – 2.92. The difficult retail and consumer sales environment for video games and the uncertain economy contributed to the lowered guidance. Initial Q4 guidance was for comps of flat to +2.0%, and EPS of \$1.66 – 1.76.

In early January, GameStop reported mixed sales results for the nine-week holiday period ended December 31, 2011. Total sales were \$3.0 billion, a slight increase compared to the 2010 holiday sales period. Total comps were -0.3% (+0.3% in the U.S. offset by -1.5% international).

Based on the holiday sales results, GameStop lowered comps guidance for both Q4 and FY11 to a new range of -2.0% to -1.0% (was for FY11 of -1% to flat, and for Q4 of flat to +2.0%), but maintained EPS guidance for FY11 of \$2.82 – 2.92 and for Q4 of \$1.66 - 1.76.

Exhibit 15: Consensus Expectations

	Revenue			EPS	
	2011E	2012E		2011E	2012E
Q1 Apr	\$2,281A	\$2,270E	Q1 Apr	\$0.56A	\$0.59E
Q2 Jul	\$1,744A	\$1,788E	Q2 Jul	\$0.22A	\$0.25E
Q3 Oct	\$1,947A	\$2,005E	Q3 Oct	\$0.39A	\$0.43E
Q4 Jan	\$3,718E	\$3,826E	Q4 Jan	\$1.72E	\$1.92E
Total	\$9,695E	\$9,929E	Total	\$2.87E	\$3.16E

**Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.*

Source: Company report, Thomson Reuters, and Ascendant Capital Markets estimates

GameStop will report its fiscal Q4 (January) 2011 results before market open on Thursday, March 22, 2012, with a conference call at 8:00am PT (888-228-5274 passcode 7593644). We expect GameStop will report Q4 results in line with our and consensus estimates and within its updated guidance. Our and consensus estimates for revenue are \$3.7 billion. Our estimate for EPS is \$1.76 while consensus is \$1.72. Although video game industry sales were weak in January (-37% in the U.S. per The NPD Group), we believe that GameStop gained market share and that its holiday sales (which has a much larger impact on Q4 sales) were in line with its updated guidance.

We expect management to provide initial FY12 (ending January 2013) guidance close to our estimates for revenue of \$9.7 billion, comps of +0.1%, and EPS of \$3.20. (Consensus is for revenue of \$9.9 billion and EPS of \$3.16.) We expect the company to be positive about upcoming hardware (Nintendo's WiiU) and software (Microsoft's *Halo 4*, Activision Blizzard's *Call of Duty Black Ops 2* (our guess), Electronic Arts' *Madden NFL 13*, and Ubisoft's *Assassin's Creed 3*). The company should benefit from lower interest expense as it retires its debt and a lower share count as it buys back stock. Our FY12 EPS estimate is for 10% earnings growth over our estimated FY11 EPS of \$2.92 (which is at the high end of guidance).

We believe that the biggest potential variable in our financial model is the timing of the launch of the next generation of video game consoles. Although the WiiU is expected to launch this holidays, we believe the new cycle will start in full when the PS4 and the next Xbox will launch (which we estimate will be in FY13). If there is much news about these new consoles this year and the systems do not launch until late next year, then earnings for GameStop are likely to decline as consumers wait for the new systems. However, if consumers do not stop their purchases of video games or wait for the new consoles, we expect GameStop's earnings to be in line with our expectations for solid growth. Given our current channel checks, game release slate, and our expectation of the timing of new consoles announcements, we believe that the latter scenario is more likely than the former.

The company's balance sheet is solid with \$443 million in cash, and \$125 million in debt as of October. Inventory turns in Q3 FY11 were 3.1x and slightly better than the 2.8x in Q3 FY10. This equated to \$268,000 in inventory per store, which we believe is reasonable as the company headed into its big holidays selling season. In November 2011, GameStop announced a new \$500 million share and debt repurchase program, and in February 2012, initiated a quarterly dividend of \$0.15 per share.

FINANCIAL MODEL

GameStop Corp.

Income Statement (\$ millions)	Apr-10	Jul-10	Oct-10	Jan-11	2010	Apr-11	Jul-11	Oct-11	Jan-12	2011	Apr-12	Jul-12	Oct-12	Jan-13	2012
Fiscal Year End: January 31	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
Total Revenue	2,082.7	1,799.1	1,899.2	3,692.8	9,473.7	2,281.4	1,743.7	1,946.8	3,659.5	9,631.4	2,276.9	1,753.7	1,943.0	3,728.1	9,701.7
Cost of sales	1,511.9	1,282.3	1,352.8	2,789.1	6,936.1	1,661.2	1,200.5	1,373.9	2,714.1	6,949.7	1,650.7	1,233.0	1,358.3	2,749.9	6,991.9
Gross profit	570.8	516.8	546.3	903.7	2,537.6	620.2	543.2	572.9	945.4	2,681.7	626.2	520.7	584.6	978.2	2,709.7
Selling, General & Admin expen:	396.5	396.7	399.9	478.9	1,672.0	437.8	437.5	438.8	501.4	1,815.5	439.4	406.3	425.9	512.6	1,784.3
Depreciation & Amortization	42.5	42.2	44.7	45.3	174.7	46.4	47.1	47.0	50.0	190.5	50.0	50.0	50.0	50.0	200.0
Stock-based comp	7.3	8.3	9.0	5.0	29.6	4.9	5.0	4.5	9.8	24.2	8.5	8.3	9.3	9.8	35.9
Restructuring & Other Charges															0.0
Operating Income	124.4	69.6	92.8	374.5	661.4	131.1	53.6	82.6	384.2	651.5	128.3	56.1	99.5	405.8	689.6
Interest expenses (income)	9.6	10.0	9.7	6.0	35.3	6.1	6.3	5.2	(0.3)	17.3	(0.5)	(0.4)	(0.5)	(0.4)	(1.7)
Other expenses (income)	(0.3)	(0.5)	5.6	0.0	4.7	(0.4)	(0.3)	0.6	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Total non-operating (income)/ex	9.2	9.5	15.2	6.0	40.0	5.7	6.0	5.8	(0.3)	17.2	(0.5)	(0.4)	(0.5)	(0.4)	(1.7)
Pretax Income	115.2	60.1	77.6	368.5	621.3	125.4	47.6	76.8	384.5	634.3	128.7	56.5	100.0	406.2	691.3
Provision for income taxes	40.0	19.8	22.8	131.9	214.5	45.0	16.7	23.1	138.4	223.2	47.0	20.6	36.5	148.2	252.3
Net Income	75.2	40.3	54.7	236.6	406.8	80.4	30.9	53.7	246.1	411.1	81.8	35.9	63.5	257.9	439.0
Nonrecurring expense/(income)	0.0	0.0	(4.2)	0.3	(3.9)	0.0	0.0	(0.2)	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0
Net Income (pro forma)	75.2	40.3	58.9	236.3	410.7	80.4	30.9	53.9	246.1	411.3	81.8	35.9	63.5	257.9	439.0
EBITDAS	174.2	120.2	146.5	424.8	865.7	182.4	105.7	134.1	444.0	866.2	186.8	114.4	158.8	465.6	925.5
Basic Shares	153.6	151.3	150.7	150.9	151.6	142.7	141.0	138.8	138.8	140.3	137.8	136.8	135.8	134.8	136.3
Diluted Shares	156.5	154.2	153.3	152.1	154.0	143.7	142.2	139.8	139.8	141.1	138.8	137.8	136.8	135.8	137.3
Basic EPS (GAAP)	0.49	0.27	0.36	1.57	2.68	0.56	0.22	0.39	1.77	2.93	0.59	0.26	0.47	1.91	3.22
Diluted EPS (GAAP)	0.48	0.26	0.36	1.56	2.64	0.56	0.22	0.38	1.76	2.91	0.59	0.26	0.46	1.90	3.20
Basic EPS (pro forma)	0.49	0.27	0.39	1.57	2.71	0.56	0.22	0.39	1.77	2.93	0.59	0.26	0.47	1.91	3.22
Diluted EPS (pro forma)	0.48	0.26	0.38	1.55	2.67	0.56	0.22	0.39	1.76	2.92	0.59	0.26	0.46	1.90	3.20
Income Statement Ratios															
Gross margin	27.4%	28.7%	28.8%	24.5%	26.8%	27.2%	31.2%	29.4%	25.8%	27.8%	27.5%	29.7%	30.1%	26.2%	27.9%
SG&A	19.0%	22.0%	21.1%	13.0%	17.6%	19.2%	25.1%	22.5%	13.7%	18.8%	19.3%	23.2%	21.9%	13.8%	18.4%
Depreciation&Amortization	2.0%	2.3%	2.4%	1.2%	1.8%	2.0%	2.7%	2.4%	1.4%	2.0%	2.2%	2.9%	2.6%	1.3%	2.1%
Stock-based comp	0.4%	0.5%	0.5%	0.1%	0.3%	0.2%	0.3%	0.2%	0.3%	0.3%	0.4%	0.5%	0.5%	0.3%	0.4%
Operating margin	6.0%	3.9%	4.9%	10.1%	7.0%	5.7%	3.1%	4.2%	10.5%	6.8%	5.6%	3.2%	5.1%	10.9%	7.1%
Net margin	3.6%	2.2%	2.9%	6.4%	4.3%	3.5%	1.8%	2.8%	6.7%	4.3%	3.6%	2.0%	3.3%	6.9%	4.5%
Tax Rate	34.7%	32.9%	29.5%	35.8%	34.5%	35.9%	35.1%	30.1%	36.0%	35.2%	36.5%	36.5%	36.5%	36.5%	36.5%
Year-over-Year Changes															
Comps	-1.6%	0.9%	1.1%	2.6%	1.1%	5.3%	-9.1%	-0.6%	-1.2%	-1.4%	-1.5%	-1.0%	-1.0%	2.0%	0.1%
Store unit growth	3.9%	3.4%	3.4%	3.4%	3.4%	1.3%	0.5%	0.3%	0.4%	0.4%	1.7%	1.5%	0.9%	-0.1%	-0.1%
Net Sales	5.1%	3.5%	3.5%	4.8%	4.4%	9.5%	-3.1%	2.5%	-0.9%	1.7%	-0.2%	0.6%	-0.2%	1.9%	0.7%
Cost of goods sold	5.1%	3.2%	3.1%	5.3%	4.4%	9.9%	-6.4%	1.6%	-2.7%	0.2%	-0.6%	2.7%	-1.1%	1.3%	0.6%
Gross Profit	5.3%	4.3%	4.4%	3.4%	4.2%	8.7%	5.1%	4.9%	4.6%	5.7%	1.0%	-4.1%	2.1%	3.5%	1.0%
SG&A	7.8%	5.3%	4.6%	1.8%	4.7%	10.4%	10.3%	9.7%	4.7%	8.6%	0.4%	-7.1%	-2.9%	2.2%	-1.7%
Depreciation&Amortization	12.4%	6.4%	7.4%	4.4%	7.5%	9.1%	11.5%	5.2%	10.4%	9.0%	7.8%	6.2%	6.4%	0.0%	5.0%
Operating Income	-3.1%	-1.9%	2.8%	7.8%	3.8%	5.4%	-23.0%	-11.0%	2.6%	-1.5%	-2.2%	4.7%	20.4%	5.6%	5.8%
Net Income	4.1%	4.3%	9.4%	9.4%	7.9%	7.0%	-23.4%	-8.5%	4.1%	0.1%	1.7%	16.0%	17.8%	4.8%	6.7%
Diluted EPS	11.7%	13.7%	20.0%	20.6%	17.6%	16.5%	-17.0%	0.3%	13.3%	9.3%	5.3%	19.7%	20.4%	7.9%	9.7%
Diluted Shares Outstanding	-6.8%	-8.3%	-8.8%	-9.2%	-8.3%	-8.2%	-7.8%	-8.8%	-8.1%	-8.4%	-3.4%	-3.1%	-2.1%	-2.9%	-2.7%

Source: Company reports and Ascendant Capital Markets estimates

GameStop Corp.

Balance Sheet (\$ millions)	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Jan-13
Fiscal Year End: January 31	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4E	Q1E	Q2E	Q3E	Q4E
Assets												
Cash and equivalents	431.9	289.3	181.1	710.8	395.8	224.8	442.6	760.7	585.4	843.2	605.4	1,153.2
Account receivable, net	36.0	44.3	58.8	65.5	50.6	44.2	58.1	58.6	55.4	49.1	54.4	59.6
Inventories	1,152.0	1,129.5	1,942.4	1,257.5	1,306.1	1,059.9	1,778.3	1,248.5	1,254.5	937.1	1,412.7	1,264.9
Prepaid expenses and other current assets	99.8	103.3	95.9	92.2	106.2	156.4	126.7	146.4	154.8	119.3	132.1	149.1
Deferred tax assets	<u>16.6</u>	<u>19.3</u>	<u>21.8</u>	<u>28.8</u>	<u>24.1</u>	<u>24.6</u>	<u>30.4</u>	<u>58.6</u>	<u>45.5</u>	<u>35.1</u>	<u>38.9</u>	<u>59.6</u>
Total Current Assets	1,736.3	1,585.8	2,300.0	2,154.8	1,882.8	1,509.9	2,436.1	2,272.7	2,095.7	1,983.8	2,243.4	2,686.6
Property and equipment, net	575.3	575.3	606.1	613.8	619.4	614.9	602.9	600.3	587.5	574.6	564.7	561.6
Goodwill, net	1,941.3	1,924.2	2,004.6	1,996.3	2,081.2	2,073.2	2,060.3	2,060.3	2,060.3	2,060.3	2,060.3	2,060.3
Other non-current assets	<u>282.4</u>	<u>277.6</u>	<u>304.3</u>	<u>298.9</u>	<u>344.0</u>	<u>341.4</u>	<u>333.3</u>	<u>14.6</u>	<u>389.8</u>	<u>300.2</u>	<u>332.6</u>	<u>14.9</u>
Total Assets	\$4,535.4	\$4,363.0	\$5,215.1	\$5,063.8	\$4,927.4	\$4,539.4	\$5,432.6	\$4,947.9	\$5,133.2	\$4,918.9	\$5,201.1	\$5,323.4
Liabilities and Shareholders' Equity												
Accounts payable	767.5	625.0	1,514.6	1,028.1	872.2	469.7	1,464.3	878.3	1,001.8	771.6	1,010.3	894.7
Accrued liabilities	517.9	529.4	564.3	719.7	629.1	672.0	709.8	709.8	709.8	709.8	709.8	709.8
LT Debt - Current	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>124.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Current Liabilities	1,285.4	1,154.4	2,078.9	1,747.8	1,501.3	1,141.7	2,298.8	1,588.1	1,711.6	1,481.4	1,720.1	1,604.5
LT debt	447.6	447.8	248.9	249.0	249.2	249.3	0.0	0.0	0.0	0.0	0.0	0.0
Other LT liability	<u>122.5</u>	<u>118.8</u>	<u>118.0</u>	<u>171.1</u>	<u>177.2</u>	<u>168.3</u>	<u>172.3</u>	<u>172.3</u>	<u>172.3</u>	<u>172.3</u>	<u>172.3</u>	<u>172.3</u>
Total Liabilities	1,855.5	1,721.0	2,445.9	2,167.9	1,927.7	1,559.3	2,471.1	1,760.4	1,883.9	1,653.7	1,892.4	1,776.8
Preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Class A common stock	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Class B common stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	1,091.9	1,046.8	1,034.9	928.9	823.1	799.4	762.0	762.0	762.0	762.0	762.0	762.0
Accumulated other loss	115.4	82.8	167.6	162.5	292.3	265.9	230.0	230.0	230.0	230.0	230.0	230.0
Retained earnings(deficit)	1,472.9	1,513.3	1,568.0	1,805.8	1,886.2	1,917.1	1,971.0	2,197.1	2,258.8	2,274.7	2,318.2	2,556.1
Treasury Stock	<u>(0.5)</u>	<u>(1.0)</u>	<u>(1.4)</u>	<u>(1.4)</u>	<u>(2.0)</u>	<u>(2.4)</u>	<u>(1.6)</u>	<u>(1.6)</u>	<u>(1.6)</u>	<u>(1.6)</u>	<u>(1.6)</u>	<u>(1.6)</u>
Stockholders' Equity	2,679.9	2,641.9	2,769.2	2,895.9	2,999.7	2,980.1	2,961.5	3,187.6	3,249.3	3,265.2	3,308.7	3,546.6
Tot. Liabilities/Stockholders' Equity	\$4,535.4	\$4,363.0	\$5,215.1	\$5,063.8	\$4,927.4	\$4,539.4	\$5,432.6	\$4,947.9	\$5,133.2	\$4,918.9	\$5,201.1	\$5,323.4

Activity Ratios												
A/P Days Payable	46	44	101	33	47	35	96	29	55	56	67	29
Inventory Turnover	5.2x	4.5x	2.8x	8.9x	5.1x	4.5x	3.1x	8.7x	5.3x	5.3x	3.8x	8.7x
Inventory Per Store	0.178	0.172	0.294	0.189	0.199	0.161	0.268	0.187	0.188	0.140	0.211	0.189
Book & Cash Value (per share)												
Book Value per Share (diluted)	\$17.13	\$17.14	\$18.07	\$19.04	\$20.87	\$20.96	\$21.18	\$22.80	\$23.41	\$23.69	\$24.19	\$26.12
Cash per Share (diluted)	\$2.76	\$1.88	\$1.18	\$4.67	\$2.75	\$1.58	\$3.17	\$5.44	\$4.22	\$6.12	\$4.43	\$8.49
Net Cash per Share	(\$0.10)	(\$1.03)	(\$0.44)	\$3.04	\$1.02	(\$0.17)	\$2.27	\$5.44	\$4.22	\$6.12	\$4.43	\$8.49

Source: Company reports and Ascendant Capital Markets estimates

GameStop Corp.

Cash Flow Statement (\$ millions)	Apr-10	Jul-10	Oct-10	Jan-11	2010	Apr-11	Jul-11	Oct-11	Jan-12	2011	Apr-12	Jul-12	Oct-12	Jan-13	2012
Fiscal Year End: January 31	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
Net Cash Flows from Operating Activities															
Net earnings	74.8	39.8	54.3	237.8	406.8	80.0	30.5	53.7	246.1	410.3	81.8	35.9	63.5	257.9	439.0
Adjs to reconcile earnings/cash:															
Depreciation and amortization	43.0	42.7	45.2	45.9	176.8	46.9	47.6	47.6	50.0	192.1	50.0	50.0	50.0	50.0	200.0
Provision for inventory				27.5	27.5				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of loan cost	0.8	0.8	2.6	0.7	5.0	0.6	0.6	1.1	0.0	2.3	0.0	0.0	0.0	0.0	0.0
Loss on disposal of property and equip	2.1	1.1	1.3	3.1	7.6	4.5	2.4	2.6	0.0	9.5	0.0	0.0	0.0	0.0	0.0
Increase in other long-term liabilities	(1.1)	0.1	(2.5)	(3.7)	(7.2)	6.4	(5.2)	0.1	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Deferred tax								(10.5)	(28.2)	(38.7)	13.0	10.5	(3.8)	(20.8)	(1.1)
Increase in other assets	(1.2)	(2.1)	3.3	38.2	38.2				318.7	318.7	(375.2)	89.6	(32.4)	317.7	(0.3)
Tax benefit & stock options	9.9	7.4	(13.6)	7.3	11.0	5.3	4.9	4.5		14.7					0.0
Other	1.8	(1.8)	(8.5)	8.5	0.0		(2.5)	2.5		0.0					0.0
Changes in net working capital:															
Receivables, net	27.6	(8.5)	(12.2)	(6.8)	0.2	16.7	5.9	(14.1)	(0.5)	8.0	3.2	6.3	(5.3)	(5.2)	(1.1)
Merchandise inventories	(101.9)	12.7	(784.0)	646.0	(227.2)	(17.1)	234.6	(719.9)	529.8	27.4	(6.0)	317.4	(475.5)	147.7	(16.4)
Prepaid expenses and other current a	(43.0)	(44.8)	31.7	68.0	11.8	(39.4)	(85.3)	28.9	(19.7)	(115.5)	(8.4)	35.6	(12.9)	(17.0)	(2.7)
Accounts payable and accrued liabilities	(270.8)	(80.8)	889.3	(397.0)	140.7	(236.4)	(326.7)	1,040.2	(586.0)	(108.9)	123.5	(230.2)	238.7	(115.6)	16.5
Net cash from Operating Activities	(257.9)	(33.3)	206.9	675.5	591.2	(132.5)	(93.2)	436.7	510.2	721.2	(118.1)	314.9	(177.7)	614.7	633.8
Net Cash Flows From Investing Activities															
Purchases of property and equipment	(35.3)	(44.9)	(61.3)	(56.1)	(197.6)	(42.4)	(45.5)	(39.4)	(47.4)	(174.7)	(37.1)	(37.1)	(40.1)	(46.9)	(161.3)
Acquisitions					0.0	(11.4)	(16.0)	(0.5)		(27.9)					0.0
Increase in other non-current assets	(0.7)	(8.5)	(32.8)	(0.5)	(42.5)	(6.3)	0.6	(1.9)	0.0	(7.6)	0.0	0.0	0.0	0.0	0.0
Net cash from Investing Activities	(36.0)	(53.4)	(94.1)	(56.6)	(240.1)	(60.1)	(60.9)	(41.8)	(47.4)	(210.2)	(37.1)	(37.1)	(40.1)	(46.9)	(161.3)
Cash Flows From Financing Activities															
Issuance of common stock					0.0				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of shares for stock options	(1.7)	0.2	30.0	0.9	29.4	6.8	6.4	1.1	0.0	14.3	0.0	0.0	0.0	0.0	0.0
Repayment of debt			(200.0)		(200.0)		10.0	(135.0)	(124.7)	(249.7)	0.0	0.0	0.0	0.0	0.0
Treasury Stock	(188.9)	(52.8)	(45.2)	(94.4)	(381.2)	(139.8)	(34.6)	(42.5)		(216.9)					0.0
Dividends									(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(80.0)
Other financing activities				(3.8)	(3.8)		(0.4)	0.4	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0
Net Cash From Financing	(190.6)	(52.6)	(215.2)	(97.3)	(555.6)	(133.0)	(18.6)	(176.0)	(144.7)	(472.3)	(20.0)	(20.0)	(20.0)	(20.0)	(80.0)
Effect of exchange rate on cash	11.0	(3.2)	(5.9)	8.0	9.9	10.6	1.7	(1.1)		11.2					0.0
Net Increase (Decrease) in Cash	(473.5)	(142.5)	(108.3)	529.7	(194.6)	(315.0)	(171.0)	217.8	318.1	49.9	(175.3)	257.8	(237.8)	547.8	392.5
Cash at beginning of period	905.4	431.9	289.3	181.1	905.4	710.8	395.8	224.8	442.6	710.8	760.7	585.4	843.2	605.4	760.7
Cash at end of period	\$431.9	\$289.3	\$181.1	\$710.8	\$710.8	\$395.8	\$224.8	\$442.6	\$760.7	\$760.7	\$585.4	\$843.2	\$605.4	\$1,153.2	\$1,153.2

Source: Company reports and Ascendant Capital Markets estimates

Public Companies Under Coverage Mentioned in this Report (priced as of close 3/21/12)

COMPANY	TICKER	RATING	PRICE	PRICE TARGET
MAJESCO ENTERTAINMENT	COOL	BUY	\$2.50	\$3.50
TAKE-TWO INTERACTIVE	TTWO	BUY	\$15.99	\$20

ANALYST CERTIFICATION

Each analyst hereby certifies that the views expressed in this report reflect the analyst's personal views about the subject securities or issuers. Each analyst also certifies that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The analyst who prepared this report is compensated based upon the overall profitability of Ascendant Capital Markets, LLC, which may, from time to time, include the provision of investment banking, financial advisory and consulting services. Compensation for research is based on effectiveness in generating new ideas for clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

IMPORTANT DISCLOSURES

This report has been distributed by Ascendant Capital Markets, LLC and is for the sole use of our clients. This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. This report contains information from various sources, including United States government publications, The Wall Street Journal and other periodicals, Yahoo! Finance and other sources, and is for informational purposes only and is not a recommendation to trade in the securities of the companies mentioned within the report. We seek to update our research and recommendations as appropriate, but the large majority of reports are published at irregular intervals as we consider appropriate and, in some cases, as constrained by industry regulations.

We may have a business relationship with companies covered in this report. Ascendant Capital Markets, LLC may make a market in the securities of the subject company. We and our affiliates, officers, directors, and employees will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this report. This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any information in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this report may fluctuate. Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the company in the past 12 months.

Following are some general risks that can adversely impact future operational and financial performance and share price valuation: (1) industry fundamentals with respect to legislation, mandates, incentives, customer demand, or product pricing; (2) issues relating to competing companies or products; (3) unforeseen developments with respect to management, financial condition or accounting policies or practices; or (4) external factors that affect the interest rates, currency, the economy or major segments of the economy. Past performance is not a guide to future performance, future returns are not guaranteed, and loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Our report is disseminated primarily electronically, and, in some cases, in printed form. Electronic dissemination is simultaneous to all clients. The information contained in this report is not incorporated into the contents of our website and should be read independently thereof. Copyright 2012 Ascendant Capital Markets, LLC. No part of this material may be copied, photocopied or duplicated by any means or redistributed without the prior written consent of Ascendant Capital Markets, LLC.

Risks & Considerations

Risks to attainment of our share price target include changes in demand for video game products, changes to game release timing, hardware console cycles, competition, piracy of software, digital distribution, and weaker macroeconomic factors.

Ascendant Capital Markets, LLC Rating System

Strong Buy:	We expect the stock to provide a total return of 30% or more within a 12-month period.
Buy:	We expect the stock to provide a total return of between 10% and 30% within a 12-month period.
Neutral:	We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.
Sell:	We expect the stock to provide a total return of minus 10% or worse within a 12-month period.
Speculative Buy:	This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below \$50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

Ascendant Capital Markets, LLC Distribution of Investment Ratings

Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of March 21, 2012): 22% rated Strong Buy, 56% rated Buy, 11% rated Neutral, 11% rated Sell, 0% rated Speculative Buy. Within these ratings categories, 0% of Strong Buy/Buy-rated, 100% of Neutral-rated, and 0% of Sell-rated companies were provided investment banking services within the past 12 months.

Other Important Disclosures

Our analysts use various valuation methodologies including discounted cash flow, price/earnings (P/E), enterprise value/EBITDAS, and P/E to growth rate, among others. Risks to our price targets include failure to achieve financial results, product risk, regulatory risk, general market conditions, and the risk of a change in economic conditions.

Dissemination of Research

Ascendant Capital Markets, LLC research is distributed electronically via the Thomson Reuters platforms, Bloomberg, Capital IQ and FactSet. Please contact your investment advisor or institutional salesperson for more information. All of our research is made widely available simultaneously to all Ascendant Capital Markets, LLC clients entitled to our research.

General Disclaimer

The information and opinions in this report were prepared by Ascendant Capital Markets, LLC. This information is not intended to be used as the primary basis of investment decisions and because of individual client objectives it should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer or solicitation with respect to the purchase or sale of any security. The reader should assume that Ascendant Capital Markets, LLC may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The opinions, estimates, and projections contained in this report are those of Ascendant Capital Markets, LLC as of the date of this report and are subject to change without notice. Ascendant Capital Markets, LLC endeavors to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, Ascendant Capital Markets, LLC makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein, and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to Ascendant Capital Markets, LLC, or its affiliates that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security.

Additional Disclosures

Ascendant Capital Markets, LLC is a broker-dealer registered with the United States Securities and Exchange Commission (SEC) and a member of the FINRA and SIPC. Ascendant Capital Markets, LLC is not a Registered Investment Advisor nor is it an investment advisor registered with the Securities and Exchange Commission or with the securities regulators of any state, and at the present time is not eligible to file for federal registration.