



GameStop Corporation

BUY

Stock Data

Price (52 weeks)	17.12 – 32.82
Symbol/Exchange	GME / NYSE
Beta	1.08
Shares Outstanding	167 Mil
Average daily volume (3 month average)	6,166,400
Current market cap	3,740 Mil
Current Price	\$22.40
Dividend	\$0.00
Dividend Yield	0%



Valuation (per share)

DCF Analysis	\$29.79
Comparables Analysis	\$31.37
Target Price	\$30.58
Current Price	\$22.40

Summary Financials

Revenue	9,077 M 2010A
Operating Cash Flow	564 M 2010A
Net Income	374 M 2109A



BUSINESS OVERVIEW

GameStop Corp. (GME) is the world's largest retailer of video game products and PC software. Beginning operations in 1996, GameStop was acquired by Barnes & Noble in 1999 before a 2002 initial public offering. Since that time, GameStop has expanded exponentially. The company now operates 6,450 stores in the United States, Canada, Australia and Europe. In addition to retail locations, GameStop also sells its products through its website,

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GameStop.com. GameStop's revenues are broken down into four operating segments in their financial statements. These four segments are New Video Game Hardware, New Video Game Software, Used Video Game Products and Other Revenue.

New Video Game Hardware typically includes sales of gaming consoles such as the X-Box 360, Nintendo Wii, PlayStation 3 and hand held gaming devices. This segment currently has the lowest gross margin of GME's four operating segments, at 6.5%, due to continuous price cuts to aging console technology. Despite Hardware's lack of profitability, GME continues to sell gaming consoles because of their indirect benefits to the company. Customers who have purchased gaming consoles from GameStop tend to come back and purchase items from other more profitable operating segments. In fiscal 2009, New Video Game Hardware comprised 19.35% of GME's total sales.

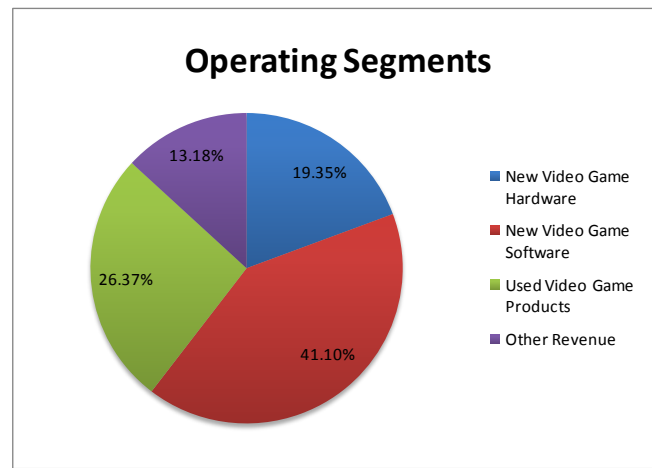
New Video Game Software sales comprise the largest section of GameStop's total sales, at 41.1% of revenue. This segment consists of sales of video games for

the consoles listed above, as well as sales of video games for personal computers. Examples of current in-store titles include blockbuster hits such as Modern Warfare 2, World of Warcraft and the Grand Theft Auto series. New Video Game Software sales have a much higher gross margin than Hardware, at 21.3% of sales.

The Used Video Game Products segment is one of GameStop's primary competitive advantages within the Video Game Industry. GameStop has been the only large retailer to successfully employ a trade-in strategy where old games are purchased from consumers, and then resold at prices much lower than the cost of new video games. The average price of used video games sold in 2009 was \$18, as compared to an average price of \$43 for new games. Partially as a result of being the only large purchaser of used video games, GameStop enjoys a gross margin in this segment of 46.8%.

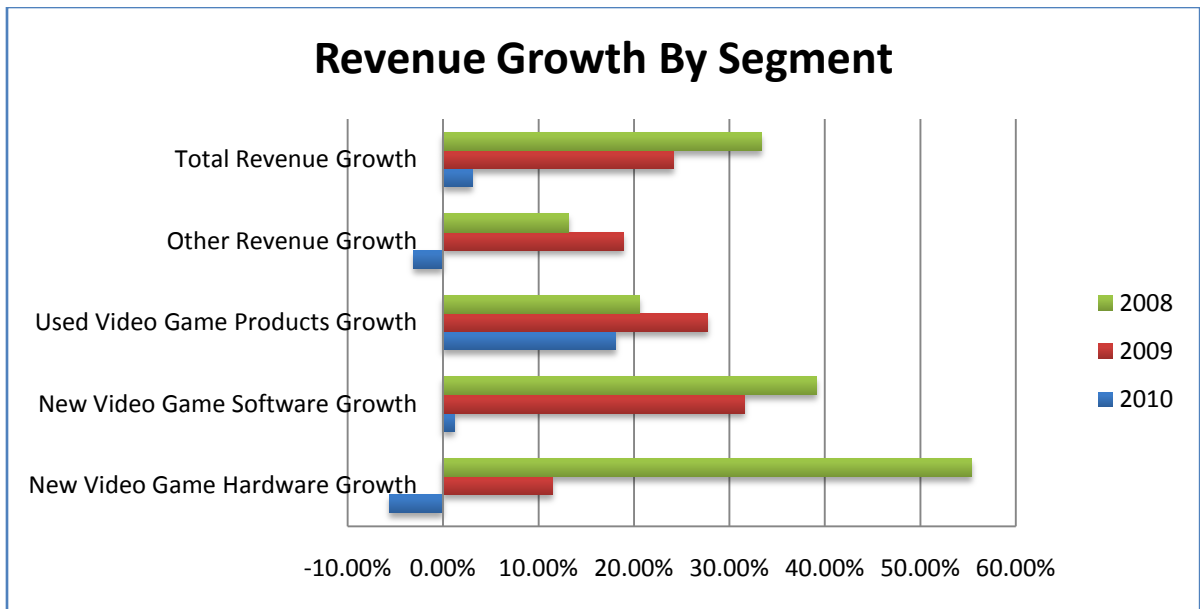
Other Revenue consists of numerous products and services that GameStop offers. This can include sales of gift cards, strategy books for various games, hardware accessories such as guitars for the popular game guitar hero, and revenue from GameStop's *Game Informer*, the video game industry's largest multi-platform gaming magazine. This segment comprised 13.18% of revenue in 2009, and currently has a gross margin of 33.8%.

GameStop purchases almost its entire inventory from game manufacturers. While its major suppliers include Nintendo, Sony, Microsoft, Electronic Arts and Activision (accounting for 23%, 17%, 12%, 12%, and 11% of inventory purchases in 2009, respectively); GameStop also purchases inventory from over 40 individual manufacturers. In general, gaming hardware and software is produced in Asia. GameStop often partners with manufacturers in order to advertise its company. Because GameStop's retail locations tend to be in high visibility locations such as strip malls, large portions of the advertising budget is spent on in-store ads such as coming soon posters, recently released game ads and playable game demos in stores. Beginning in 2007, GameStop also began its "Power to the Players" Marketing campaign, utilizing television commercials and radio ads in specifically targeted geographic locations.



BUSINESS AND GROWTH STRATEGIES

While GameStop has enjoyed double digit top and bottom line growth in the past, 2009's revenue growth was a much more modest 3%. This growth rate decrease was due to a year over year comparable sales decrease of 8%, offset by continued store openings and acquisitions. The comparable sales decrease was mostly a result of the continued economic recession, as well as discounts to hardware products. The decrease in comparable sales also resulted in a deleveraging of fixed costs, causing GME's net margin to fall from 4.52% to 4.12%.



GameStop has several strategies planned to reinvigorate its growth going forward. First and foremost are its plans to continue to open new stores domestically and internationally. New stores continued to have financial success in 2009, despite the economic downturn – with an average payback period of less than two years. In 2010, GameStop plans to open 400 new stores. Location selection is based on factors including favorable demographic indices, real estate availability, competitive factors and past operating history.

Comparable Store Sales should increase in the future through growth in demand for video games as a whole, as well as through enhanced brand awareness of GameStop through advertising. Increased demand for GME products should be derived from favorable demographic trends and new console releases in the long term (as will be discussed in the industry section,) and sales of Used Video Game Products in the short term. Currently, sales of Used Video Games are limited by the lack of inventory. As more people become accustomed to trading in old games, specifically in Europe where customers aren't use to the concept, same store sales will increase through this operating segments growth.

GME management is keenly aware of the gaming industry's move towards online play. Currently, GME plans to stay technologically competitive through the sales of products related to the digital category. These products include point cards for gaming consoles, prepaid online timecards for X Box Live and digitally downloaded software. Beginning this year, GameStop plans to begin opening digital kiosks within its stores, where customers can obtain information on different online content they may wish to purchase.

MANAGEMENT AND EMPLOYEE RELATIONS

R. Richard Fontaine is GameStop's Executive Chairman of the Board. He served as CEO of the company from 1996 to 2008. Daniel A. DeMatteo has been the CEO since 2008. Prior to this, he served as the COO for eight years. Both of the managers previously held management positions with Software Etc. and B. Dalton Booksellers.

Each GameStop store has one manager, one assistant manager, and between two and nine employees. Currently GameStop has 17,000 full time employees and between 28,000 and 42,000 part time employees depending on the time of year.

PORTFOLIO INFORMATION

The three UOIG portfolios are all currently overweight mid cap, and underweight consumer goods.

RECENT NEWS

- March 24th, 2010 – GameStop and Jolt Online Gaming Announce First Joint Free-to-Play Game
 - GameStop and Jolt Online Gaming announced the launch of their first joint online game Legends of Zork. The game is completely free and players can access the program on any web browser. This type of product is an example of GameStop’s continued plans to maintain its competitive advantage as the gaming industry moves online. While Legends of Zork will be free, players can purchase special avatars and characters for the game.
- February 25th, 2010 - GameStop Announces Midnight Launch Events for Battlefield: Bad Company
 - GameStop announced the midnight launch event of the blockbuster title Battlefield: Bad Company 2. GameStop employs a first to market strategy through the use of its highly efficient distribution network and agreements with manufactures. As a result, GME is able to initially grab market share much faster than other competitors – especially when it hosts midnight launch events for titles such as the one mentioned in this article.
- January 7th, 2010 - GameStop Reports 2009 Holiday Sales Results
 - Comparable store sales for the holiday season were negative 9% this year as a result of a depressed economy, poorly timed storms in key locations and “unexpected shortages of key products such as New Super Mario Bros. , Nintendo Wii and Sony's PlayStation 3 consoles.”

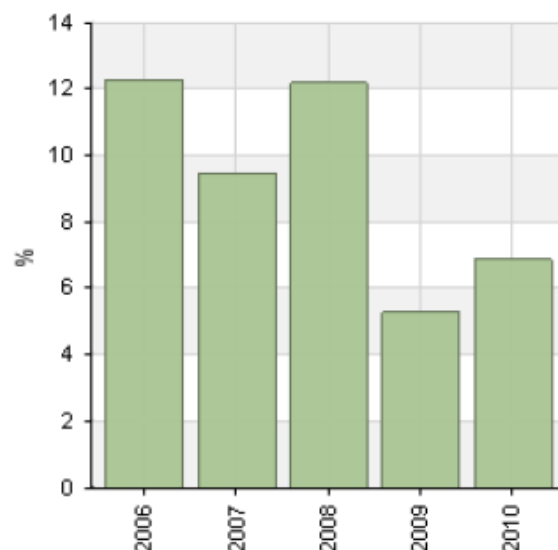
INDUSTRY

The Video Game industry is composed of businesses that manufacture, license and sell gaming consoles, games made for those consoles and games made for personal computers. The development of accessories to these items also makes up a somewhat substantial portion of the market. While online subscriptions currently only make up 6.6% of the industry’s revenue, subscriptions also have been experiencing the most significant growth.

In order to sell video games, platforms that they can be played on must be built. Historically, producing gaming consoles has been a “loss-making exercise” due to their low gross margins. The profits that consoles generate come indirectly from games developed to be played on the new hardware. Currently, three players dominate the console market – Sony with the PlayStation 3, Microsoft with its X-Box 360 and Nintendo with the Nintendo Wii. There has also been a resurgence in the popularity of handheld gaming consoles such as the PlayStation Portable and Nintendo DS.

Video Retail has a high degree of seasonality. About 40% of revenue per year comes from sales around the holiday season. In addition, operating segments growth and total margins tend to fluctuate around when new generations of gaming consoles are released. When new consoles are released, revenues surge as a whole due to increased hardware and new software sales. Hardware and Software sales also have lower gross margins than the industry average, and so margins

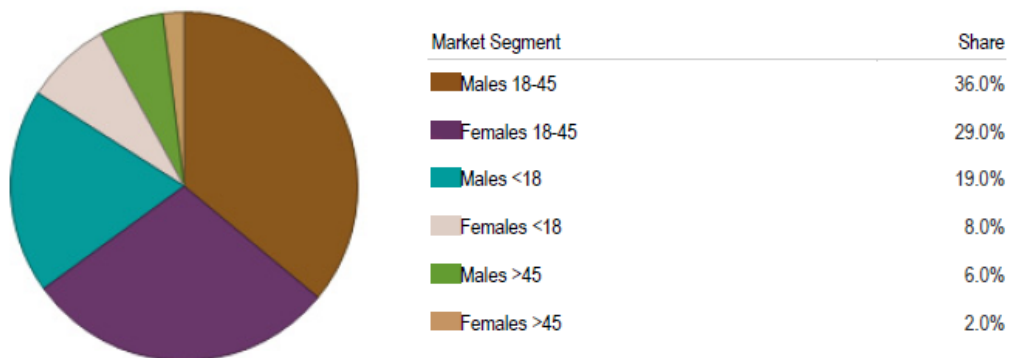
Revenue Growth Rate



as a whole tend to slightly decline in the years immediately following major console releases. After a few years, total growth decreases, while growth in used products sales tends to increase, slightly increasing margins as a whole. Currently, it has been about five years since the last major console releases, and so growth as a whole is slightly lower than average.

Going forward, industry revenue growth is projected between 6-12% for the next few years. One of the main drivers behind this growth is an ongoing favorable shift in demographics. The average age of a game player has moved upwards over the past decade to 35 years old. People who picked up playing video games in their youth are not giving up the hobby as they grow older. Meanwhile the average age of a game buyer has moved up to 40, suggesting parents are more and more often buying video games for their children. Larger portions of the female population are now playing video games. It is currently estimated that 40% of all video game players are female, a significant upward change from previous years.

MAJOR MARKET SEGMENTS



As a whole, the industry is expected to become much more profitable in the future, mostly as a result of shifts towards sources of online revenue. This shift has begun to manifest itself in various ways, such as online subscriptions required for continued use of X-Box live, downloadable add-on content for owned games, and the actual ability to download small games themselves off the internet. The shift online will substantially reduce distribution costs, the use of middlemen in the industry and thus increase industry margins as a whole. In sum, the video game industry has not yet fully matured, and because of this should enjoy solid top and bottom line growth into the future.

S.W.O.T. ANALYSIS

Strengths

- Recognizable brand name
- Only major video game retailer to successfully buy and sell used video games
- Strong position in emerging markets
- Marketing partnerships with suppliers

Weaknesses

- Foreign currency risk
- There is a high degree of downward pressure on hardware prices in the short term

Opportunities

- Many emerging markets are still developing a video game culture, the video game industry is not fully matured
- New major console releases are expected over the next decade
- Europe should become more acceptant of the used video game business model as time goes on
- Favorable demographic shifts, increasing the number of people in target markets

Threats

- Major competitors have made cuts to video game prices recently and may continue to do so. This may force GameStop to also lower its prices, reducing its growth.
- There is an increasing trend towards online sales in the video game industry. If GameStop is unable to successfully compete with its competitors in digital content sales, it may have growth issues in the long term.

PORTER'S 5 FORCES ANALYSIS

Supplier Power

There is a moderate amount of supplier power within the industry. As mentioned in the business overview section, GME receives large amounts of its inventory from a few major suppliers. Supplier power should trend upwards over time, as manufacturers slowly shift to sales over the internet and the number of suppliers consolidates.

Barriers to Entry

There are very low barriers to entry within video retail industry. Starting a video game store, or store that sells video games as well as other merchandise requires fairly low start-up costs. These barriers to entry will stay constant into the future.

Buyer Power

There is a low amount of buyer power within the industry. Video Game prices are generally non-negotiable in most locations. Buyer Power should remain constant going into the future.

Threat of Substitutes

There is a moderate threat of substitutes within the restaurant industry. Customers can purchase games online through companies like Amazon.com, or rent video games through companies like Netflix. Currently there are also smaller video games available for purchase online. Threat of Substitutes will increase going into the future, as more gaming content becomes downloadable online.

Degree of Rivalry

There is a high degree of rivalry within the industry. Most department stores sell video games, video game hardware and video game accessories. The Degree of Rivalry should increase in the future as competitors begin to offer video game merchandise online.

COMPARABLES ANALYSIS

There were a few criteria used for selecting comparable companies. First, they had to operate in the video game retail industry for the purpose of ease of comparison. After this, they were chosen if growth, cash flow and risk characteristics were similar to GameStop's outlook. This process should give a relatively clear picture of what the market is currently pricing a company with a similar profile to GameStop.

The three multiples used to calculate the implied price were EV/Revenue, EV/EBITDA and EV/OCF. EV/Revenue is a measure of how well a company produces revenue relative to its enterprise value, and is fundamentally affected by how good a company's margins, growth and risk are. EV/EBITDA is a good proxy for how well cash flow is produced relative to enterprise value and is also fundamentally affected by expected growth and risk. EV/OCF is also an estimate of how well a company produces cash flows relative to enterprise value, and will be affected by factors similar to the previous two multiples. Because a number of the comparables create revenue through sales of products outside of the video game industry category, EV/EBITDA was weighted more heavily than the other two multiples. Once the final numbers were computed for the comparables analysis, this weighting had an immaterial affect on the target price.

Best Buy Co., Inc. (BBY) – 20%



Best Buy Co., Inc. is a speciality retailer that operates in the United States, Canada, Mexico, and Europe. It offers consumer electronic video products such as televisions, digital cameras, DVD players, MP3 players and video gaming hardware and software. It currently operates 1,023 stores worldwide.

Best Buy is one of GameStop's best comparables. While the majority of its sales are not video games products, it is the closest example of a large public company operating within the video game retail industry. Best Buy's trailing twelve months EBITDA margin is 6.5%, fairly close to GameStop's 9% margin. Its risk profile is similar to GME's, with a Beta of 1.37. Going forward, Best Buy is expected to have growth similar to GameStop's over the next few years. Given these factors, Best Buy was weighted at 20% in the comparables analysis.

Barnes & Noble, Inc. (BKS) – 25%



Barnes & Noble operates as a retail bookseller within the United States. The company sells mass-market paperbacks, trade books, children's books, bargain books, music, movies and coffee shop products to its customers. The company currently operates over 800 stores. Barnes & Noble previously owned GameStop for a period of time before selling its interest in the company in 2002.

While BKS does not sell the same products as GameStop, it has a similar profile in other contexts. Its EBITDA margin is 7% and Beta is 1.32, both of which are comparable to GameStop. Barnes & Noble actually has lower multiples than GameStop, however this is largely because its risk is slightly higher, and growth and margins slightly lower than GameStop's. While this makes BKS individually less comparable, the final average growth outlook and margin for the implied multiples was closer to GameStop's values as a result of the inclusion.

Wal-Mart Stores Inc. (WMT) – 15%

Wal-Mart Stores, Inc operates retail stores in various formats around the world. Its stores offer numerous products & services including grocery products, clothing and apparel retail, electronic sales, cell phone plan contracts, books, sporting goods and automotive parts.

Wal-Mart has a large market share in many parts of retail sales. That being said, its electronics division is one of GameStop's largest competitors for software and hardware video game sales. GameStop's growth has recently taken a hit due to Wal-Mart's price cuts to its video game products. While Wal-Mart has

comparable margins and future growth, its business is much less risky. To compensate for this, it was weighted at only 15%.

Target Corp. (TGT) – 25%

Target Corporation operates general merchandise and food discount stores in the United States. Examples of the types of merchandise Target sells include clothing, kitchenware, groceries and electronic hardware and software.

Target directly competes with GameStop for new video hardware and software sales. Its risk profile is the most comparable to GameStop's out of all the comparables, with a Beta of 1.09. Its EBITDA is about 10.5%, and the company has similar expected growth into the future. As a result of this

comparability, TGT was weighted at 25% when computing target multiples.

RadioShack Corp. (RSH) – 15%

RadioShack Corporation operates consume electronic retail stores in the United States, Puerto Rico & Mexico. It sells products including camcorders, headphones, digital cameras, prepaid calling cards and other related products. Currently, there have been rumors of Best Buy looking into acquiring RadioShack.

RadioShack has a higher risk profile than GameStop due to recent volatility as a result of acquisition rumors as well as higher levels of debt. It sells products that produce an EBITDA margin similar to GameStop's, at 10.5%. Its growth going forward should be somewhat lower than GameStop's. Due to the difference in risk profiles and growth, RSH was weighted at 15% when computing target multiples.

DISCOUNTED CASH FLOW ANALYSIS

Line Items were projected out to 2020 in the DCF analysis. After this point there was not a lot of value to be gained from further projections due to lack of information. Line items were generally projected as a percent of revenues.

Revenues

Revenues in the DCF were projected through the use of an average revenue per store model. Average revenue per store was calculated for the last few years, and then grown through the projection of same store sales growth. The number of total stores at the end of the year was then projected. To obtain the final revenue for a given year, projected total stores at the end of the year were multiplied by projected average revenue per store.

Over the past year same store sales growth dropped 8% due to the economic recession and cuts to hardware prices. This decrease was offset by over 200 new stores openings. Going into the future, same store sales should increase very slowly as the economy recovers. Total growth will be driven largely by growth in the Used Products segment, as well as in the Other segment. Somewhere within the next 2-8 years, the next generation of gaming consoles will be released. At that point, same store sales in the new hardware and software segments will drive growth for a few years. After the new console releases, GME revenue is projected to slowly decline as the video game industry continues to mature and relatively few stores are opened.

Cost of Goods Sold

Costs of Goods Sold was projected by taking into account the different gross margins of the four revenue segments and their separate growth rates. Up until when the new generation of gaming consoles are released, gross margins should increase as Used Product Sales growth outpaces lower margin categories. When the consoles are released, gross margin should take a hit due to increased sales as a percent of revenue of new hardware and software. Near the end of the DCF, gross margin trails slightly upwards as used product sales once again drive revenue growth.

Selling, General & Administrative Expenses

Selling General & Administrative Expenses increased as a percent of revenue in fiscal 2010 due to the deleveraging of fixed costs (revenue/store decreased). These expenses include labor, pre-opening costs, closed store expenses, advertising and various others. As same store sales growth increases in the future and fewer relative stores are opened, this expense should decline as a percent of revenue back towards historic levels as it is re-leveraged.

Merger Related Expenses

While most of GameStop's growth has come organically in the past, management has not hesitated to capitalize on inorganic growth opportunities. Therefore, Merger Related Expenses were projected at a small percent of revenue throughout the DCF.

Depreciation

Going forward, Depreciation was projected as an average of prior years in 2011. This percent of revenue was held constant until 2016, when GME begins to open fewer stores. From that point, depreciation as a percent of revenue should marginally decrease until the terminal year.

Net Interest Expense & Debt Retirement Expense

Net Interest Expense was projected at .6% of revenue until 2014 when all of GME's long term debt matures. Debt Extinguishment Expense was projected at .03% of revenue until 2014.

Tax Rate

GameStop's effective tax rate was projected at a constant 37% for the entirety of the DCF. This rate is in line with historical values.

Net Working Capital

Current Assets and Current Liabilities were project as percents of revenue going forward. The percent of revenue for both items was derived from an average of past levels. There was no indication of changes in these levels in the future, except for 2013 when the 447 million of long term debt will be classified as current long term debt.

Capital Expenditures

Capital Expenditures were projected as a percent of revenues, and were related to the number of projected store openings in the revenue model. The expenses slightly increase over the next few years as GME opens new stores, and possibly acquires new businesses, and then decrease into the terminal year as relatively fewer stores are opened. They do not decrease as much as the raw store opening numbers might suggest, because store maintenance costs are also included.

Cost of Capital and Beta

Up until 2014, GME's Beta was projected at 1.08, the average of a 5 year regression Beta of 1.05 and a Hamada Beta of 1.10. GameStop's current long-term debt of 447 million matures in 2013. The debt was used for the merger with Electronics Boutique in 2005. As a result of this, GME's capital structure should change within a few years. Specifically, it will change to its unlevered Beta of 1.02 when the debt is paid off (which was found using the Hamada formula). Until 2012, GME's cost of capital is projected at 10.73%, before changing to 11.02% and remaining there until the terminal year.

The cost of debt was found from the most recent issuance of debt (the 447 million), which had an interest rate of 8%. While this was 5 years ago, GME's credit rating has not changed significantly since then, and so the cost of debt should be the same

Note

GameStop has a fiscal year that ends in January. As a result, their 2010 numbers are listed as actual. The majority of any given years operations take place in the year prior to the one listed in the DCF. The appropriate adjustments were made throughout the analysis.

RECOMMENDATION

GameStop is a well run company with excellent free cash flow generation. While its top line growth will grow relatively slowly as compared to recent years, its bottom line growth will be much more consistent due to improvements in gross margins and the re-leveraging of fixed costs. While over a long time span GME's current business model is threatened by the movement of the video game industry online, GME's management continues to find ways to stay digitally competitive, and almost 100% of the discounted cash flow value comes within 20 years. As a result of the comparable and discounted cash flows analysis, I'm recommending a BUY for GME in all portfolios.

	Price	Undervalued
DCF	29.79	33.00%
Comps	31.37	40.03%
Target	30.58	36.52%



APPENDIX 1 – COMPARABLES ANALYSIS

<i>(In Millions)</i>	GME	BBY(20%)	BKS(25%)	WMT(15%)	TGT(25%)	RSH(15%)	Average		
Price	22.40	42.57	22.07	55.49	53.13	22.69			
Shares Outstanding	167	428.6	56	3877	754.8	126.1			
Market Cap	3740.80	18245.5	1235.92	215134.73	40102.52	2861.209			
Total Debt (MRQ)	447	1880	0	41320	16700	669.4			
Cash(MRQ)	578	12.7	40.2	7275	2,230	908			
Enterprise Value	3609.80	20112.8	1195.72	249179.73	54572.52	2622.609			
Revenue(TTM)	9050	47870	5,010.00	408210	65360	4,280			
EBITDA(TTM)	816	3040	334	31110	6700	463			
OCF(TTM)	679	2640	325	26250	5880	245.8			
Weight		0.2	0.25	0.15	0.25	0.15			
Beta	1.08	1.37	1.32	0.25	1.09	1.86	1.193		
Multiples									
								Implied Price	Weight
EV/Rev	0.40	0.42	0.24	0.61	0.83	0.61	0.54	29.83	25.00%
EV/EBITDA	4.42	6.62	3.58	8.01	8.15	5.66	6.31	31.60	50.00%
EV/OCF	5.32	7.62	3.68	9.49	9.28	10.67	7.79	32.45	25.00%
								Implied Price	31.37
								Undervalued	40.03%

APPENDIX 2 – DISCOUNTED CASH FLOWS ANALYSIS

<i>(In thousands)</i>	2007A	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total Revenue	5318900	7093962	8805897	9077997	9559694	10086010	10869201	12069989	13249556	14378649	15383015	16230182	17059226	17868163
% Growth		33.37%	24.13%	3.09%	5.31%	5.51%	7.77%	11.05%	9.77%	8.52%	6.99%	5.51%	5.11%	4.74%
Cost of Revenue	3847458	5280255	6535762	6643345	6978576	7342615	7912778.5	8901617	9764923	10568307	11298824	11912954	12521472	13115232
% of Revenue	72.34%	74.43%	74.22%	73.18%	73.00%	72.80%	72.80%	73.75%	73.70%	73.50%	73.45%	73.40%	73.40%	73.40%
Gross Profit	1471442	1813707	2270135	2434652	2581117	2743395	2956422.8	3168372	3484633	3810342	4084190	4317229	4537754	4752931
% of Revenue	27.66%	25.57%	25.78%	26.82%	27.00%	27.20%	27.20%	26.25%	26.30%	26.50%	26.55%	26.60%	26.60%	26.60%
Selling General & Administrative	1021113	1182016	1445419	1635124	1715965	1805396	1940152.4	2136388	2338547	2537832	2707411	2848397	2993894	3126929
% of Revenue	19.20%	16.66%	16.41%	18.01%	17.95%	17.90%	17.85%	17.70%	17.65%	17.65%	17.60%	17.55%	17.55%	17.50%
Merger-related expenses	6788	0	4593	2269.499	2389.923	2521.503	2717.3003	3017.497	3312.389	3594.662	3845.754	4057.546	4264.806	4467.041
% of Revenue	0.13%	0.00%	0.05%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Depreciation	109862	130270	145004	162495	175384.8	185040.7	199409.34	221439.3	243080	263794.6	276894.3	290520.3	303654.2	316266.5
% of Revenue	2.07%	1.84%	1.65%	1.79%	1.83%	1.83%	1.83%	1.83%	1.83%	1.83%	1.80%	1.79%	1.78%	1.77%
Operating Income	333679	501421	675119	634763.5	687377.6	750436.7	814143.68	807527.3	899694.3	1005121	1096040	1174254	1235941	1305269
Net Interest Expense	-73324	-47774	-38837	-43177	-43814.78	-46227	-49816.62	0	0	0	0	0	0	0
% of Revenue	-1.38%	-0.67%	-0.44%	-0.48%	-0.46%	-0.46%	-0.46%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EBIT	254296	441056	633951	586263.5	638783	709252.7	769761.66	807527.3	899694.3	1005121	1096040	1174254	1235941	1305269
Income Tax Expense	96046	152765	235669	212804	236349.7	262423.5	284811.81	298785.1	332886.9	371894.8	405534.7	434473.9	457298.1	482949.6
Effective Tax Rate	37.77%	34.64%	37.17%	36.30%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%
Net Income	158250	288291	398282	371923.5	400897.3	445293.2	483413.85	507206.2	565271.4	631690.3	688969.1	738243.8	777106.8	820783.7
Net Margin	2.98%	4.06%	4.52%	4.10%	4.19%	4.41%	4.45%	4.20%	4.27%	4.39%	4.48%	4.55%	4.56%	4.59%
Add Back: Depreciation & Amortization	109862	130270	145004	162495	175384.8	185040.7	199409.34	221439.3	243080	263794.6	276894.3	290520.3	303654.2	316266.5
Add Back: Interest Expense*(1-Tax Rate)	-45629.99	-31226.9	-24399.5	-27504.5	-27603.31	-29123	-31384.47	0	0	0	0	0	0	0
Cash from Operations	313741.986	449787.9	567685.5	561923	603885.3	659456.9	714207.66	728645.5	808351.4	895484.9	965863.3	1028764	1080761	1137050
Current Assets	1440341	1794717	1818041	2127304	2210793	2332510	2513632.1	2791329	3064118	3325234	3557505	3753423	3945149	4132225
% of Revenue	27.08%	25.30%	20.65%	23.43%	23.13%	23.13%	23.13%	23.13%	23.13%	23.13%	23.13%	23.13%	23.13%	23.13%
Current Liabilities	1087057	1250557	1562711	1655676	1769753	2314188	2012177.9	2234476	2452845	2661870	2847805	3004638	3158116	3307872
% of Revenue	20.44%	17.63%	17.75%	18.24%	18.51%	22.94%	18.51%	18.51%	18.51%	18.51%	18.51%	18.51%	18.51%	18.51%
Net Working Capital	353284	544160	255330	471628	441039.6	18321.39	501454.17	556852.9	611272.6	663363.7	709700.4	748784.8	787033	824353.6
Change in Working Capital		190876	-288830	216298	-30588.38	-422718	483132.79	55398.75	54419.72	52091.06	46336.74	39084.36	38248.18	37320.6
Capital Expenditures	133930	175569	183192	214036.3	253331.9	272322.3	298903.04	331924.7	364362.8	391818.2	415341.4	434157.4	452069.5	473506.3
% of Revenue	2.52%	2.47%	2.08%	2.36%	2.65%	2.70%	2.75%	2.75%	2.75%	2.73%	2.70%	2.68%	2.65%	2.65%
Free Cash Flow		83342.91	673323.5	131588.7	381141.8	809852.9	-67828.16	341322	389568.8	451575.7	504185.2	555522.4	590443.3	626223.2
Present Value of Free Cash Flow					344209.4	660508.2	-49959.51	226439.4	232783.2	243039.9	244408.7	242553.7	232201	221817.3

APPENDIX 3 – DISCOUNTED CASH FLOWS ANALYSIS ASSUMPTIONS

Assumptions	
Current Share Price	22.40
Diluted Shares Outstanding	167000
Long Term Debt	447000
Market Cap	3740800
% Equity	89.33%
% Debt	10.67%
Beta	1.08
Terminal Growth Rate	3%
Risk Free	3.86%
Risk Premium	7.00%
Cost of Debt	8.00%
Cost of Equity	11.39%
WACC	10.73%
Sum of PV of Free Cash Flow	2598000.94
Terminal Value	8037613.54
PV of Terminal Value	2824382.19
Implied Value Per Share	29.79
Undervalued	33.00%
Assumptions (2013 & Forward)	
Beta	1.02
% Equity	100%
WACC	11.02%

APPENDIX 4 – BETA SENSITIVITY ANALYSIS

S.E. change	Beta Sensitivity	
	Beta	Price
(2) S.E.	0.45	53.39
(1.5) S.E.	0.5925	49.74
(1) S.E.	0.735	40.79
(.5) S.E.	0.8775	34.51
0	1.02	29.79
.5 S.E.	1.1625	26.37
1 S.E.	1.305	23.61
1.5 S.E.	1.4475	21.39
2 S.E.	1.59	19.58

APPENDIX 5 – REVENUE MODEL

(In Thousands)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	3091000	5318900	7093962	8805897	9077997	9559694	10086010	10869201	12069989	13249556	14378649	15383015	16230182	17059226	17868163
Revenue Growth		72.08%	33.37%	24.13%	3.09%	5.31%	5.51%	7.77%	11.05%	9.77%	8.52%	6.99%	5.51%	5.11%	4.74%
Number of Stores	4490	4778	5264	6207	6450	6725	7025	7350	7700	8050	8400	8725	9025	9300	9550
Same Store Sales Growth	-1.40%	11.90%	24.70%	12.30%	-7.90%	1%	1%	3%	6%	5%	4%	3%	2%	2%	2%
Average Rev/Stor	688.42	1113.21	1347.64	1418.70	1407.44	1421.52	1435.73	1478.80	1567.53	1645.91	1711.74	1763.10	1798.36	1834.33	1871.01
Change in Total Stores						275	300	325	350	350	350	325	300	275	250
Average Store Size	1,400 square feet														

APPENDIX 6 – HAMADA BETA

Company	Beta	D/E ratio	Standard Error	Weight	Variance
Walmart (WMT)	0.25	0.19	0.13	10%	0.0169
Target (TGT)	1.09	0.42	0.18	15%	0.0324
Barnes & Noble (BKS)	1.32	0	0.28	15%	0.0784
RadioShack (RSH)	1.86	0.23	0.35	15%	0.1225
Best Buy (BBY)	1.37	0.10	0.26	15%	0.0676
Costco's (COST)	0.75	0.09	0.14	5%	0.0196
Amazon (AMZN)	1.27	0	0.36	10%	0.1296
Safeway (SWY)	0.66	0.51	0.15	5%	0.0225
Activision (ATVI)	0.65	0	0.28	10%	0.0784
Mean	1.13	0.17	0.26		0.06973
Median	1.09	0.10			
Pure Business Beta	1.09				
Sample D/E	0.10				
Unlevered Business Beta	1.02				
GME D/E	0.12				
GME Beta	1.10				

APPENDIX 6 – SOURCES

- IBIS World
- Finace.Yahoo.com
- FactSet
- Etrade.com
- GME 10-k, 10-Q & Conference Calls