

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

GME - Q4 2012 Gamestop Corp. Earnings Conference Call

EVENT DATE/TIME: MARCH 28, 2013 / 3:00PM GMT

## OVERVIEW:

GME reported full-year 2012 sales of \$8.89b and 4Q12 total global sales of \$3.56b. 4Q12 net earnings, excluding impairment charges, were \$262.3m. Full-year 2012 EPS, excluding impairment and restructuring charges, was \$3.17 and 4Q12 EPS, excluding impairment charges, was \$2.16. Expects 2013 revenues to be down 8% to flat and EPS to be \$2.75-3.15. Expects 1Q13 EPS to be \$0.38-0.43.



## CORPORATE PARTICIPANTS

**Paul Raines** *GameStop Corp. - CEO*

**Rob Lloyd** *GameStop Corp. - CFO*

**Tony Bartel** *GameStop Corp. - President*

**Mike Mauler** *GameStop Corp. - EVP GameStop International*

**Mike Hogan** *GameStop Corp. - EVP Strategic Business & Brand Development*

## CONFERENCE CALL PARTICIPANTS

**Brian Nagel** *Oppenheimer & Co. - Analyst*

**Tony Wible** *Janney Montgomery Scott - Analyst*

**Anthony Chukumba** *BB&T Capital Markets - Analyst*

**Colin Sebastian** *Robert W. Baird & Co. - Analyst*

**Arvind Bhatia** *Sterne, Agee & Leach - Analyst*

**Bill Armstrong** *C.L. King & Associates - Analyst*

**David Magee** *SunTrust Robinson Humphrey - Analyst*

## PRESENTATION

### Operator

Good morning. Welcome to GameStop Corporation's -- GameStop's fourth-quarter and full-year 2012 earnings conference call. Today's conference is being recorded. At the conclusion of the announcement, a question-and-answer session will be conducted electronically. (Operator Instructions)

I would like to remind you that this call is covered by the Safe Harbor disclosure contained in GameStop's public documents and is the property of GameStop. It is not for rebroadcast or use by any other party without the written consent of GameStop.

At this time I would like to turn the call over to Paul Raines, Chief Executive Officer of GameStop Corporation. Please go ahead, sir.

---

### Paul Raines - GameStop Corp. - CEO

Thank you, operator, and welcome to the fourth-quarter and year ending earnings call for GameStop. As we begin our call I want to thank our GameStop, EB Games and Micromania associates around the world for their deep commitment to our customers.

I am pleased to announce that 2012 is officially over. We just concluded the seventh and final year of the previous console cycle and can now see that 2013 will be the beginning of the next cycle for console gaming.

We will share with you today some commentary on our results for the past year as well as outlook for the current quarter and year. As has become our custom on this year-ending call, we will also spend some time outlining some of our strategic thinking about the future of GameStop. So this call will be a little longer than our regular ones, but we think you will get a lot of value out of it.

In recent years, we have described for you a strategic plan for the transformation of GameStop that was launched in 2009 and continues today. Foreseeing a decline in the console cycle, we laid the groundwork for market-share gains through loyalty, developed new digital and mobile businesses, and implemented a shareholder-friendly capital allocation plan. As we sit here in 2013, that strategy has not only preserved the profitability of GameStop, it has positioned us well for the new technology cycle in gaming.



You will hear today from Rob Lloyd on financial metrics; Tony Bartel on domestic performance, digital, and mobile businesses; and Mike Mauler on international strategy and execution. I have also asked Mike Hogan, our Executive Vice President of Strategic Business, to give you some details on our internal console forecast and how we see the next couple of years unfolding on that critical segment of our business.

Through extensive market research and proprietary historical data, we have built a rich model and we believe we can remove some of the uncertainty about the future and also support the investor case for GameStop by sharing parts of that model with you. But first, let's talk about 2012 -- without question, a very challenging year for the console gaming industry.

NPD data for the industry indicates a 21% decline in software and a 25% decline in hardware in the past year in the United States, with similar numbers in our other geographies. GameStop outperformed the industry globally, confirming once again the unique nature of our business model and position in the market.

If we deconstruct the past year, we see six indicators of the strength and innovation we have built into our business model. These six elements will amplify the impact of new technologies from our console partners.

First, the dramatic increase in market share and gross margins we experienced in 2012, extending our streak of continuous market-share growth in videogaming, with over 30% software market share in most of the 15 countries in which we operate. Our gross margins expanded again in 2012, and since 2008 have expanded 400 basis points, one of the largest in hardlines retail over that period.

These share and margin growth trends are happening in our international segments as well as our domestic business. GameStop is the dominant gaming retail player in most Western geographies, and we are increasing our competitive advantage.

The second strength in the GameStop business model are our customer relationships. In terms of customer relationships we have built the dominant CRM programs in gaming around the world with over 30 million members in our PowerUp, MegaCart, EB World, and GameStop+ programs in the United States, Europe, and Australia.

Now, these types of enrollments don't happen by accident, and we are using PowerUp Rewards and its various versions around the world to consolidate our customer loyalty in ways that are constantly evolving. Working closely with our partners at Sony, the PlayStation 4 First to Know list now has nearly 900,000 members, and we will share with you how we plan to win the next console cycle by leveraging those assets.

A third positive sign is our innovative and fast-growing digital business. We have created from scratch a unique DLC in-store and online selling model, leveraging the store experiencing and complete 360-degree platform to introduce gamers to new properties and the DLC experience. We have extended that to include add-on accessories and toys related to games through our Web-In-Store technology at GameStop.com.

Our PC digital business is also expanding rapidly as we bring both our own PC download engine as well as external services like Steam to our GameStop customers. Kongregate grew 48% during the year, proving we can successfully grow that gaming platform.

Game Informer continues its extraordinary journey as the number three physical magazine in the United States and possibly the number one digital magazine in the world, with over 3 million paid digital subscribers. If you are a fan of digital businesses, GameStop has built one that surpassed \$630 million in sales last year and is growing at a 48% compound annual growth rate for the last two years.

A fourth strength is the creation and aggressive growth we have in our mobile business segment and the better-than-category pre-owned videogame business. As you saw in our release, our mobile segment reported \$184 million of global sales in only its second year of operation, at accretive margin rates. We are going to be a strong player in launches of new tablets and mobile devices, and we are already the top destination for trading of old electronics, a market that is large and only getting larger.

Our pre-owned game business has slowed with the decline in new titles. In spite of that decline, our preowned videogame business has performed far better than the new software category, and we expect that business to return to growth as consoles accelerate. Preowned videogames continue to be a large profit contributor to GameStop, and we have found ways to expand margin rate of that category.

As we demonstrated in the mobile segment, we have the entrepreneurial flair and execution discipline to create new, disruptive business models with little capital outlays by leveraging our physical and online footprint. It is also important to note that all the factors I have just walked through are performing internationally as well or better than our US segment, indicating that we have the execution discipline to leverage our best practices around the world.

The fifth sign of the health of GameStop is our flexible real estate portfolio. Far from being a liability, our store footprint is a strategic weapon, with 97% of our stores profitable and our average lease terms at slightly over two years.

We have developed proprietary technology that allows us to consolidate customer traffic and increase profitability as we close redundant stores. As we develop new business concepts we can easily find the most productive locations and move quickly to meet customer demand.

Finally, our sixth strength is our capital discipline. We have returned over 100% of our significant cash flow for the last three years to shareholders and expect that strategy to continue. Our share buyback has created value, and we have increased our dividend twice since launching it only a year ago. Our Board and management team are committed to driving value and returning cash to shareholders; and the new console cycle will only make that process more productive for investors.

We also continue to look at acquisition opportunities for growth, now broadening our funnel far beyond only digital gaming. As our approach has evolved to include recommerce and beyond, we continue to meet with startups to explore emerging concepts that pique our interest. We are prepared to invest our capital strategically to drive multichannel revenue growth.

I will now turn the call over to Rob.

---

**Rob Lloyd** - GameStop Corp. - CFO

Thank you, Paul. Good morning, everyone. I would like start by briefly recapping our fourth-quarter and fiscal 2012 year-end results. Then I will provide our outlook for the first quarter and fiscal 2013.

In the fourth quarter, total global sales decreased 0.5% from the fourth quarter of 2011 to \$3.56 billion. We outperformed previous quarters due to the extra week in the quarter, as part of the 53-week year, and the Wii U launch. Comparable store sales for the quarter were down 4.6% and were not affected by the extra week.

Excluding impairment charges, earnings per share for the quarter were \$2.16 compared to \$1.73 per share in the fourth quarter of last year. EPS were up \$0.43, or 24.9% over last year's quarter, with approximately \$0.26 of the increase due to our ongoing share buyback program; approximately \$0.08 per share due to the extra week; and the remainder due to margin expansion and expense control. Excluding impairment charges, net earnings for the quarter increased 9.5% to \$262.3 million from \$239.5 million.

During the fourth quarter we incurred impairment charges of \$1.9 million for normal, ongoing store evaluations. This amount would not normally be noteworthy but is broken out in our financial statements to ensure comparability in classification to the \$81.2 million in impairment charges incurred last year. The full-year impairment amounts include the goodwill-related charges taken during our third quarter.

For the full year, sales decreased 7% from \$9.55 billion in fiscal 2011 to \$8.89 billion in fiscal 2012 due to declines in traffic and demand in the late stages of the console cycle. Comparable store sales for the year were down 8%, with US comps down 8.7% and international comps down 6.4%. Earnings per share improved 10.5% over last year to \$3.17 excluding impairment and restructuring charges.

According to NPD, the US hardware market declined 15% in the fourth quarter. Our US hardware sales increased in the fourth quarter on the strength of the Wii U launch, even without the extra week. This demonstrates the power that a console launch can have on sales.

The challenges in hardware sales during the year extended to new software, which was down 2.8% for the quarter and 11.5% for the year. New software outperformed previous quarters when compared to the prior year, due to strong titles like Call of Duty - Black Ops II, Halo 4, and Assassin's



Creed III. We outperformed the market in both the quarter and the full year and increased our fourth-quarter hardware and software market shares in the US by 360 basis points and 470 basis points, respectively.

The preowned business declined 7.9% for the fourth quarter and 7.2% for the year. Sales in the Other category increased 21.6% in the fourth quarter and 21.2% for the year due to the growth in the mobile business.

Our mobile revenues were \$100 million in the fourth quarter compared to \$9 million in the quarter a year ago. Full-year mobile revenues were \$184 million, up from \$11 million in 2011 and at the upper end of the guidance we gave at the beginning of the year of \$150 million to \$200 million.

Digital GAAP revenues increased \$18 million in the quarter and \$25 million for the year. Tony will talk more about our digital business. Sales of toys, primarily Skylanders, also contributed to increases in the Other category.

Overall, gross margins improved by 100 basis points for the fourth quarter and 170 basis points for the full year. Our sales mix shifted from new hardware, new software, and pre-owned to the Other category due to the late stages of console cycle and due to the growth of our mobile and digital businesses and sales of Skylanders toys.

We had margin improvement in new hardware, new software, and preowned during both the quarter and full year. The margin in the Other category declined slightly as our mobile business grew. Our mobile business generated a 28.8% margin rate, while our digital revenues accounted for \$134 million in gross profit at a gross margin rate of 58%.

In the fourth quarter, gross profit was up \$31.7 million or 3.4% due to the extra week and the expansion of the margin rate. For the year, gross profit was down \$28 million or 1%, as the decline in sales year-over-year more than offset the expansion of the margin rate.

SG&A expenses for the fourth quarter were up slightly due to the extra week, while the full year was down slowly slightly despite the extra week. This is reflective of cost control efforts throughout our operations.

Excluding impairment charges, our fourth-quarter operating earnings increased \$30.5 million or 7.9% from the previous year due to \$16 million in earnings from the extra week and the remainder from margin expansion and cost control.

For the full year, our operating earnings excluding impairment charges declined \$11.9 million or 1.8%. Compared to the 7% decline in revenues, our operating earnings were aided by the extra week, margin expansion, and cost control.

At the beginning of the year we set a target for operating margins of at least 7%. I am pleased to say that we achieved 7.2%, our second-highest operating margin ever.

During 2012, we decreased total store count by approximately 1.2%, in line with guidance we gave throughout last year. We opened 95 stores and closed 173 in the US. Internationally we opened 51 stores and closed 54. Only 3% of our stores are unprofitable.

Our capital expenditures and other investments for 2012 totaled \$151.2 million, in line with our guidance at the beginning of the year. We generated record free cash flow of \$481.2 million, slightly less than the \$500 million we projected for 2012.

During the fourth quarter we repurchased 3.2 million shares at an average price of \$23.41 for a total of \$74.7 million under the share buyback authorization from November 2012. For the full year, we repurchased 19.9 million shares at an average price of \$20.60 for a total of \$409.4 million.

Thus far in the first quarter of 2013 we have repurchased 1 million shares at an average price of \$25.06 for a total of \$25 million. We have \$400 million remaining available under the latest authorization. Since we began our buyback program in January 2010 we have repurchased 55 million shares or over 30% of our beginning outstanding shares at an average price of \$20.56, totaling over \$1.1 billion.

On February 19 we increased our dividend to \$0.275 per quarter, which we paid on March 19.



Now I would like to cover guidance for 2013. Let me start by saying that Mike Hogan will be sharing with you our view of the market for the videogame category for the next two to three years. As we disclosed in the press release, we expect the first half of the year to be very difficult as we wait for the next console cycle to begin and face the decline in demand that typically occurs after new consoles are announced.

With Grand Theft Auto V and Battlefield 4 releasing in the third quarter, and the PlayStation 4 launching in the fourth quarter, we expect to return to growth for the back half of the year. We expect our revenues to decline between 6% and 8.5% in the first quarter and comp sales to decline 5.5% to 8% as we face declining demand. We expect EPS to be between \$0.38 and \$0.43 per share using weighted average shares outstanding of 119.5 million based on share buybacks done to date.

For the full year, we expect revenue to be in a range of down 8% to flat and comps to range from negative 6% to plus 1.5%. Keep in mind that revenue and earnings comparisons include 52 weeks for fiscal 2013 versus 53 weeks for fiscal 2012. We expect gross margins to be comparable in 2013 as we grow our mobile business and launch at least one console in the fall.

Given the challenges we face in the first half of the year, we expect full-year net income to decline between 7% and 18%. We expect EPS to range from \$2.75 to \$3.15, a decrease ranging from 13% to 1%.

Please note that the impact of the 53rd week in 2012 was about \$0.08 per share. We are using weighted average shares outstanding of 120 million based on share buybacks done to date. Currently, the consensus 2013 fiscal-year estimate assumes a share count of approximately 115.5 million or about 4% less than our guidance.

As of now, there has been one console announced for a fourth-quarter launch. Guidance at the low end of the ranges reflects that one console coming to market. Guidance at the high end of the ranges reflects the launch of a second console, should one be announced. We are making broad assumptions about launches within the guidance, as we do not have launch date information or quantities, prices, or available software.

We are projecting capital expenditures of approximately \$135 million to \$140 million for 2013. We are continuing to reduce our spend on new stores; but as our stores age, we will invest in remodels and in fixtures and technology for our new lines of business.

For 2013, we will open about 50 stores in the US and close about 200, continuing to use PowerUp Rewards to transfer sales and drive profits. We have acquired 44 former game stores in France. We will open 10 to 20 stores internationally and close about 50. The result is a decline in global square footage of about 2%.

We expect free cash flow of between \$425 million and \$475 million in 2013. We continue to focus on increasing shareholder return; and unless we see some opportunity to drive that return better than buybacks, we will continue to return 100% of our free cash flow to shareholders in the form of buybacks and dividends.

The last couple of years in the videogame market have been very challenging for developers, publishers, retailers, and investors. As we have said many times, we are at the tail end of a console cycle of unprecedented length. As I told you a moment ago, we see these challenges continuing and affecting our results until we see the launch of the PlayStation 4 at the end of 2013.

This is the fourth console cycle I have experienced, and that gives me great confidence as we looked in late 2013 and beyond. In addition to our strong market share, I'm also confident in our future because of all the profitable new businesses we have built in the last three years, like a \$600 million digital business and a \$180 million mobile business.

As I mentioned before, Mike Hogan will walk you through what we see for 2014 and '15. I would like remind each of you to take the time to review the positive impact on the industry and on GameStop when a new console cycle begins. Credit Suisse did some great work on this last year, with an analysis of the multiple expansion that took place with past console cycles.

I will now turn it over to Tony for his comments.



**Tony Bartel** - GameStop Corp. - President

Thanks, Rob, and good morning, everyone. In spite of continued category weakness in our fourth quarter we significantly outperformed the rest of the US market, producing a modest 3% software decline versus the 23% software decline that our competitors saw. As a result, we increased our software market share by 470 basis points during our fourth quarter.

As expected, our digital revenue growth accelerated in the fourth quarter, growing 60% over Q4 of last year, with console digital growing at 52% and PC digital growing at 84%. Our continued console digital growth is partly driven by the fact that nearly every major new game released now contains sellable DLC at the time of launch.

Our international business continued to implement best practices, and their digital revenue growth surpassed the US in the fourth quarter, growing at 71% compared to the US growing at 58%. For the full year, we ended at the high end of the range we provided in Q3 at \$630 million of digital revenue and an annual growth rate of 39% over fiscal-year 2011.

On a two-year basis our compound annual growth rate is 48%. We anticipate that our growth rate in 2013 will be between 25% and 35% due mainly to continued challenges in the videogame category. As details of the new consoles are announced, we will provide additional guidance on our digital revenue expectations for 2014.

Our PC digital download sales grew 68% in the fourth quarter and the ability to fund Steam wallets in nearly all of our stores globally is driving PC customers into our stores. On a full-year basis, the combination of PC downloads and Steam wallet funding resulted in a quadrupling of our PC download revenues over 2011.

Kongregate grew 64% during the quarter and 48% on a full-year basis. Growth continues to be driven by games with in-game transactions, as this revenue grew 116% during the quarter.

Moving now to our mobile segments, which includes the sale of preowned electronics and accessories as well as new tablets, we generated \$100 million of mobile revenue in Q4 and \$184 million of mobile revenue for the full year. We now sell new Android-based tablets in all US stores domestically and in over 1,000 stores internationally. Based on our success with the Google Nexus 7 and the Kindle Fire, we are leveraging our knowledgeable associates and our buy/sell/trade model to be a premier launch partner for new tablet technology; and we will see this area continue to expand in 2013.

Based on the success that we are seeing in the trade-in and preowned smartphones, media players, and tablets, we have expanded the list to include the top-selling Android phones by Samsung, HTC, and BlackBerry and are now accepting over 300 consumer electronic devices in trade in all of our US locations. We are utilizing proprietary POS technology to provide the most up-to-date trade pricing availability, and we monitor competitive sites daily to ensure that we are providing top trade value for each device.

In addition, our central refurbishment center and the high-quality technicians that work there provide us with a world-class refurbishment, repair, and -- most importantly -- data wiping process that ensures the security of our customers' information. Our trade-in process is also helping the environment, as we recycled more than 2 million pounds of e-waste through our refurbishment operations in 2012.

We have converted 334 existing stores to include a selection of pre-owned and new mobile devices and related accessories. These stores have an average of 11 linear feet dedicated to mobile devices, and early results show a sales lift of approximately 5% in the converted stores on a very small investment. We plan on converting up to 400 additional stores later this year.

Based on our market model we estimate that over \$10 billion of unused smartphones alone exist in the US. And we believe that the US retail market for preowned consumer electronic devices will grow to \$1.6 billion in 2013. We expect to grow our mobile business between 30% and 40% over 2012 while targeting a 28% to 30% gross margin.



Looking forward, we are excited to be in the new console era. With the announcement of two of the new consoles and strong rumors of an imminent announcement on a third console, we are bullish on the impact that new innovation will have on the videogame category. The announcement and ultimate launch of the new PS4 is an example of how partnering early in the process allows us to incorporate all of our core assets into creating a successful launch.

Our business model is highly aligned with Sony's low-friction, gamer-centric, and developer-friendly go-to-market strategy. We have partner closely with Sony before, during, and after the announcement and today are more prepared than on any previous console launch to meet consumer demand.

While we are not at liberty to share specific details of our joint plans, we have developed a complete marketing plan that will roll out during the next few months, that takes advantage of our buy/sell/trade model and our PowerUp Rewards program in very unique ways. It will also leverage our ability to deliver digital assets.

At a recent Sony event, we were able to speak with all of our major publishing partners, and they are very excited about their plans to leverage this new technology. As an example of consumer demand for this new innovation, we are seeing strong purchase intent for the PS4, as evidenced by the fact that we now have nearly 900,000 PowerUp Reward members that have signed (technical difficulty) First to Know list. This service provides them not only with unique and timely information about the PS4, but also will inform them when they can preorder and pick up their new systems. It will also provide them with relative buy/sell/trade deals that will drive value that can only be delivered by GameStop. Although we have been given no official numbers by Sony, we do believe that demand will far outpace the supply of this product during the launch window.

The innovation that we have executed globally throughout our stores, websites, and apps in the last few years has us at record market-share levels on physical sales and ready to benefit from growing digital sales. And we are excited about the strong title line-up in the back half of the year as well as the imminent console launches. With that, I will turn the call over to Mike Mauler.

---

**Mike Mauler** - *GameStop Corp. - EVP GameStop International*

Thanks, Tony. Good morning, everyone. In 2012, all three International segments met or exceeded operating earnings expectations for the full year. Excluding impairment charges, the international businesses increased operating earnings by 9% over prior year to \$132 million.

As Paul mentioned earlier, despite European economic turmoil and overall industry declines of 20% to 30% in most markets, the international businesses held comparable store sales to minus 6.4% in 2012, gaining significant market share in most markets. Our international performance in 2012 was driven by a strong focus on cost control, a 190 basis point increase in gross margin percent, and the execution of our strategic initiatives, with the most significant improvements generated by our German, Canadian, Irish, and Spanish businesses. This strong focus on the basics positioned GameStop to continue to gain market share during a difficult year, as our competition pulled back or discontinued operations in several important markets.

As a reminder, over the last 12 months we have restructured our businesses in Spain and Northern Europe, where we consolidated operations in Ireland, and we exited the poorly performing Portugal and UK markets, resulting in significant reductions in SG&A. During this time we have continued to focus on sharing best practices and driving profitability in the preowned business. And I am pleased to say that in 2012, international preowned margin rates increased 370 basis points over prior year and are now in line with US preowned margin rates.

In 2012 we made significant progress with key strategic initiatives. Through investments in technology and improved integration with our stores, international eCommerce sales grew 36% during the year. We continued to invest in growing our console and PC digital businesses through improved technology and stronger partnerships with the publishers, which resulted in digital sales accelerating throughout the year, with Q4 growing at 71% versus 2011.

These stronger and better-coordinated publisher partnerships also helped us bring our customers more global exclusives and unique content on new releases than ever before, resulting in margin improvements and greater sales on key titles. In 2012 our investments in new businesses





continued to pay off, where we realized significant sales increases in new mobile devices, recommerce, headsets, and videogame-related toys and collectors items.

Finally, we continue to invest in the global expansion of PowerUp Rewards in new markets. Whether the program is called MegaCart in France, EB World in Australia, or GameStop+ in Spain, Italy, and Germany, GameStop's customer-centric loyalty program is the most powerful tool for us to get closer to our millions of worldwide customers and to fully engage them in our multichannel ecosystem of products and services. This will play a critical role in the success of the next console cycle.

Our loyalty program expansion has also allowed us to continue to expand Game Informer in new markets, where it is now being sold in Australia, Italy, Germany, Spain, and Northern Europe. Our strong focus on managing the basics of our business and the rapid execution of GameStop's strategic transformation is driving profitability not only during the bottom of the current cycle, but will ensure that GameStop remains the international leader as we enter the next console cycle in the latter half of 2013.

And now I will turn it over to Mike Hogan for his comments.

---

**Mike Hogan** - GameStop Corp. - EVP Strategic Business & Brand Development

Thanks, Mike. There's been a lot of discussion recently regarding forecasts for category growth in 2013 and '14, and I would like update you on the GameStop market model and our projections. Before I go on, I should mention that we have some slides that are available if you go to investor.GameStop.com; there's two slides there which provide a little more detail and visual around some of these numbers we are going to present here in just a minute.

Although NPD is a reliable source for tracking historical sales in physical gaming, it was clear to us several years ago that we needed a much broader picture and one that looks forward as well as backward. For this reason we built our own proprietary market model, which we have been using and refining for the last few years.

The GameStop market model pulls together data from over 20 different sources. And using this, we produce what we believe is the most comprehensive overview of the categories that are relevant to our business, including both physical and digital, and including both historical and projected sales.

Today I want to zero in on the console games category and address GameStop's outlook for North America for 2013 through 2015. Console gaming includes console hardware, console software, and console digital.

The key inputs that are driving this forecast model include the timing, price point, and success rates of new consoles, including software attach rates; trends on current consoles and historical growth curves for console launches; and the number of new titles introduced each year and the relative success of those titles, including digital content and subscriptions. Considering all of these factors our model projections for console gaming are as follows for North America. These numbers are shown on the first chart with the green and blue areas. Console hardware and software are shown in blue and console digital is in green.

In 2013, for hardware plus software, we project single-digit decline. That is the blue area. When you add console digital to that, the total growth will be closer to flat.

We expect hardware will be negative for most of the year, reflecting the sunset of the console cycle with strong growth in Q4 given the introduction of at least one and possibly two new consoles. Software will decline through the first half, offset somewhat in the second half due to strong new title releases and new console software.

In 2014, the model projects extremely strong growth. In this scenario, with two new console introductions in 2013, both would have a full-year positive impact on 2014. And console hardware plus software growth, not including digital, we would expect to be in the plus 20% to 30% range. We expect console digital growth to exceed that.



In fact, 20% growth for console hardware and software for 2014 is actually somewhat on the conservative side. In the first full year of the PS3, which was 2007, Sony hardware and software grew plus 31%. In the first full year of the Xbox 360, which was 2006, Microsoft hardware and software grew by 59%.

The trend continues in 2015. The model projects a second consecutive year of positive growth for hardware and software in the range of plus 8% to 12%. This, too, is conservative compared to what we experienced in the prior console cycle.

Console digital should be in the high 20%, putting total console category at plus 10% to 15%. By 2015, console digital should be nearing \$4 billion, much of which will be sold in stores.

Assuming continued share increases, GameStop growth would exceed the category numbers.

Let's look in detail at a few of the key inputs that drive the model projections. The most critical input is the timing of new console launches. Please note that while any new console introduction will have a positive impact on 2013 sales, the impact will come late in the year, it will be primarily hardware, and there may be an offsetting negative early in the year as some consumers choose to hold off on the purchase of current-generation consoles and wait for the new ones to come out. We would expect price reductions on current-generation consoles, and that would drive higher unit sales but at a lower price per unit.

We know that Sony will introduce the PlayStation 4 globally in 2013, but we are still waiting to see what Microsoft's final plans are. We have scenarios with one console introduction as well as with two.

Even a single launch in 2013 will drive double-digit console growth in 2014. And two launches, as noted above, would likely drive the console category north of 20% growth.

The net of this is we expect new console introductions to have a slight positive impact on the category in 2013, but a significant positive impact for 2014 and 2015.

It is worth noting that the impact of the Wii U launch was sufficient to drive GameStop US hardware sales positive during the fourth quarter of 2012. This is due to two factors.

The first is the category impact of the new consoles, and the second is GameStop market share, which on the Wii U hardware is roughly 50% higher than it was for the original Wii launch in 2006 and '07.

GameStop's share of Nintendo software has nearly doubled during that time frame. Thus GameStop is benefiting disproportionately from even modestly successful category news.

Second key factor is the relative success of the new consoles versus the prior generations. Our consumer research shows extremely strong consumer interest in new consoles.

Let's take a look at the second slide. This looks at purchase interests for a number of products among PowerUp Rewards members. In this case, purchase interest means do they plan to buy in the next year.

As you can see, purchase interest for the new PlayStation 4 is very strong. In fact, across a wide range of products, including new smartphones, in tablets, laptops, etc., in PlayStation 4 is by far the top-scoring item.

This is further supported by the fact that nearly 900,000 members have already signed up for the PS4 First to Know list on PowerUp Rewards, as Paul and Tony noted earlier. We have chosen to be somewhat conservative in our model due to the fact that there are still significant unknowns such as price point, game price, number of titles available the first year, etc. In addition, our consumer research indicates that up to 60% of consumers would be significantly less likely to buy a console that blocks trading, sharing, or preowned games.

So in summary, we anticipate the console category will perform better than what we saw in 2012, but expect single-digit declines in 2013 as the cycle winds down. Even with relatively conservative assumptions around the success of new Sony and potentially Microsoft consoles, the console category should deliver very strong growth of plus 20% to 30% in 2014, followed by strong growth again in 2015, and GameStop stores will additionally benefit from increased sales of console digital in our stores.

The second topic I want to cover today is a brief update on PowerUp Rewards. PowerUp Rewards continues to grow and recently passed the 23-million member mark. For full-year 2012, PowerUp represented roughly 70% of all GameStop US sales, an increase of 10 points over 2011.

PowerUp continues to attract the heaviest spenders in the category, an average annual spend of \$366, which is more than 3 times the category average. Our database of member game libraries continues to grow, and we now have an accurate record of over 425 million products across the membership base. We are leveraging this data to drive both current and new businesses in a number of ways.

We have recently updated the libraries to include data on new categories. In addition to consoles and games, we have added data on tablets, smartphones, downloadable content, and points cards. PowerUp members benefit directly from this rich data with relevant product offers, awareness of new games or new categories, and specific trade-in values on items that they own.

In 2012, PowerUp members spend significantly outperformed the category, the industry, and the rest of GameStop. As you know, according to NPD, total physical category sales declined by 22% for full-year 2012. In comparison, PowerUp member spend grew plus 4% over the same time period.

There are many reasons for this. We have seen considerable success in our ability to drive increased spend and share of wallet among PowerUp members through better communication, targeted offers, unique value, and exclusive products and promotions. A good example of this is our marketing Go Big title launch promotions. We have the ability to communicate directly with our members well in advance of a new title launch, targeting the members most likely to want that specific title, highlighting the gameplay and the GameStop and PowerUp exclusives. This has helped to drive the share gains we have seen on software, which totaled 360 basis points for full-year 2012.

A second example is the unique value PowerUp provides to our PRO members. The program, as you know, costs \$14.99 per year. We found that members were getting far more value than they realized. In fact, the average PRO member realizes over \$40 in value per year. This is the actual value realized by the member, not just offers presented.

We recently rolled out a program to show each member the value they have personally received, and we are seeing a significant increase in renewal rates as a result.

Lastly, we are seeing a lot of success in leveraging PowerUp to cost-effectively expand into new growth categories such as DLC and recommerce. In 2012, PowerUp represented in the US nearly 70% of DLC sales and over 60% of recommerce sales. We continue to find more ways in which to leverage PowerUp to drive our strategic growth businesses.

I will now turn it back over to Paul.

---

**Paul Raines** - GameStop Corp. - CEO

Thank you, Mike. We took some extra time today to walk you through our results and a little bit of our thinking about the future. As a reminder, the slides that Mike Hogan referenced are available at investor. GameStop.com and you can see some of those data points there.

These are exciting times for us here at GameStop, with what seems to be a new announcement in the press almost every week. We have been at this juncture before and we understand the incredible potential of a new console cycle. By all measures, console launches historically improve valuations of most players of the gaming sector, and GameStop is the world's largest gaming retailer.



Our new businesses are growing nicely, and our financial position is strong and allows us flexibility. So while the first half of 2013 will not be easy, our business has a very bright future.

With that, operator, I believe we are now ready for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Brian Nagel, Oppenheimer.

---

### Brian Nagel - Oppenheimer & Co. - Analyst

Hi, good morning. Question I had, you spent a lot of time in the conference call discussing the new console cycle. So I guess as you look at the PS4 and potentially other machines, clearly your data is suggesting that we are getting early indications of good demand from your customers for this.

But what do you think is the most compelling feature for customers right now? Or is it more a function that there hasn't been a console launch in so long that it is just ripe for one?

---

### Paul Raines - GameStop Corp. - CEO

Let me start us off and then maybe Tony can talk about the features, because we have spent a lot of time with Sony on this, going way back into last Fall. I think, Brian, if I look at it, we have held for a while that what was missing in this category has been innovation. There has been a lot of talk about how it was the end of the console era; there would never be another console. And that now has become -- will these consoles be as compelling?

What we believe is that there has been a lack of innovation because of the length of the cycle. And we are in a tablet business where we see innovation really rapid fire; and in the phone business we see a lot of innovation. So to us the most exciting part of what is coming is the fact that we are reintroducing innovation to a massive install base.

Mike Hogan's intent-to-purchase data would tell you there is a lot of pent-up demand. But, Tony, maybe you want to talk about what you see or what our team is seeing in the devices that is pretty compelling, that we can discuss?

---

### Tony Bartel - GameStop Corp. - President

Sure. Sure. I think the things that we can discuss are -- clearly the power that the new consoles have are really driving a whole new wave of developer innovation. So based on early games that we have seen running on the new platform, the physics are absolutely we amazing. The games are getting to be so realistic and movie-like, it is absolutely amazing.

Social, the tie-in of social features, is very strong. The ability to share the game, the kill shot that you have just executed, and to share that with your friends immediately is amazing.

Then the connectivity I think has come a long way. Gaming, as you know, is incredibly social. I think the new platforms add to that and that the connectivity will be easier than it has ever been.

And those are definitely the key things. I think that the controller that Sony has rolled out, the proprietary controller, the new controllers that they have, is very clever. And I think it is very -- it will make gaming a whole new experience. So those are the main items that I --



**Paul Raines** - *GameStop Corp. - CEO*

The only other thing, Brian, I think, too we should point out is that it is hard for us to gauge because we don't spend a ton of time with developers. We do speak with them; but what we understand in talking to the Sony executives, to Andy House and his team around the world, and his team around the world, Jim Ryan and Jack Tretton, this is a very developer-friendly device. We haven't seen how that is going to unfold; but all the feedback from developers is it is a tremendously friendly device to code for and to really create innovation for.

So they are really making a big push around making it a developer-friendly gaming device. So all of that rolled up is a pretty compelling proposition.

---

**Brian Nagel** - *Oppenheimer & Co. - Analyst*

Got it. That's helpful. Just to follow up then, on the Sony side this would be the fourth iteration of PlayStation. As you look back over the last decade or more, do you think going 3 to 4 is a bigger step up in innovation than, say, going from 2 to 3?

---

**Paul Raines** - *GameStop Corp. - CEO*

That's tough to say, right? Rob, you are our -- Rob is our -- besides CFO, he is the resident GameStop historian. What do you think? We are so much more dominant than we used to be in this launch, it is hard to gauge.

---

**Rob Lloyd** - *GameStop Corp. - CFO*

Yes, I think from a technology perspective, the jump from PS2 to PS3 and the move to 1080p and Blu-ray was significant. But as Tony pointed out, the moves here in terms of the gameplay and the realness of what you are looking at, as well as the social and connectivity features, is important as well.

---

**Brian Nagel** - *Oppenheimer & Co. - Analyst*

Well, thank you.

---

**Operator**

Tony Wible, Janney.

---

**Tony Wible** - *Janney Montgomery Scott - Analyst*

Good morning. Can you guys comment on why you would want to wait till 2014 -- I'm sorry, have the new consoles out before commenting on digital for 2014? Is there something in those systems that you would like to see before laying down some expectations? And then I have a follow-up.

---

**Paul Raines** - *GameStop Corp. - CEO*

Yes, Tony, you want to take that?

---



**Tony Bartel** - GameStop Corp. - President

Sure. I think the key is just we are trying to understand as we work with the publishers exactly how they are going to leverage DLC in that, on the launch. Like we shared, every game that comes out right now has DLC associated -- practically every major game has DLC associated with it.

Like Mike shared, we think that there will be an acceleration in the digital sales that we will participate in. The problem is that we just -- we have one console and we have some knowledge that we can share; more knowledge that we can't. We also have knowledge of a second console, but I would rather that that be out in the public before we discuss our digital goals for 2014.

---

**Paul Raines** - GameStop Corp. - CEO

One thing, Tony, that is happening to us around the world and we -- and DLC was something really unusual for us two years ago. It was something really different. Today, it is just part of the package.

BioShock on Monday night, you can buy the DLC season pass, you can buy the related accessories and replica weapons; and you can do it in-store or you can do it Web-In-Store. I think the thing about digital content in console is it's right in our wheelhouse now.

Even in the organization, every merchandising team, the way we are structured, every merchant basically negotiates DLC along with the opening order and the PO is around physical games. Right, Tony?

---

**Tony Bartel** - GameStop Corp. - President

Yes, and I think that is a key example of what happens when GameStop gets behind a launch. Because roughly about a year and a half ago, basically, no one was launching DLC at launch. In fact, it was almost taboo in the industry.

We came out and really made it a market. And now what you see is in the last two weeks we have launched two games that had season passes, both for \$20 each. BioShock Infinite and Gears of War - Judgment, in both of those we sold DLC to more than a third of all of the people that bought it at midnight and on the day of launch. So not only did we have a massive market share in the physical product, we had a very dominating market share on the DLC.

So it is more a matter of just -- we want to see how the publishers are going to expand their use of DLC at launch and how we market that together with them. But like Paul was saying, BioShock Infinite is a great example of how we bring all of our assets to play.

There was a trade-in value towards the game. You could buy things through Web-In-Store, like the Sky-Hook, the BioShock Infinite SkyHook; we will ship that to you later on. We have several items that we can now sell -- we can sell the entire franchise when people come for a midnight launch when they come pick it up a GameStop, and we think we are very unique in that (multiple speakers).

---

**Paul Raines** - GameStop Corp. - CEO

And much of that inventory is not going to the store because we are selling it as a Web-In-Store item. So we are bullish on what is happening; just don't have enough data yet, Tony.

---

**Tony Wible** - Janney Montgomery Scott - Analyst

That's really helpful. Last question here is when in the process of a console launch do you definitively know about the used specifics? In other words, there is a lot of speculation about used blocking, people saying that it will happen, others saying that it won't happen.

When do you definitively sit down with Sony or Microsoft and know whether or not there is going to be a feature, or not have a feature?

**Paul Raines** - *GameStop Corp. - CEO*

Well, you know, it's funny. People love to speculate on that stuff. Two things on that.

One is, it is clear that consumers have stayed, and I think Mike Hogan pointed this out. Consumers have a very strong point of view around this. They want portability of their games and they like trade credits, etc.

So that has been clear. That is not a debate. That is obvious.

But as far as the Sony product -- and we really have had lots of discussions with our partners at Microsoft; but I would rather let them lead the way on their own processes. But as far as Sony goes we are crafting trade promotions around the PS4 launch, as Tony said; and he can talk about more of those. Mike in Europe is doing the same thing.

So we have a high degree of confidence around the Sony product and its ability to play used. So I would say that we are in the process now, Tony, of crafting the launch of the product and it includes trade promotions around those devices. Is there anything to add, guys?

---

**Tony Bartel** - *GameStop Corp. - President*

I think there is a clear understanding among the platform holders that their consumers -- 60% consumers have serious concerns if there is not transferability of games.

---

**Paul Raines** - *GameStop Corp. - CEO*

Don't forget that trade credits make videogaming a \$1 billion bigger business, because we provide that trade credit back. The other thing that is interesting to us is this -- consumer electronics trade credits are becoming a massive driver of console software sales as you go into a new cycle. The amount of customers who will bring us electronics to buy a PS4 is going to be a big number.

And all of our console partners want a part of that, and they see the benefits of that.

---

**Tony Wible** - *Janney Montgomery Scott - Analyst*

Got it. Thank you.

---

**Operator**

Anthony Chukumba, BB&T Capital Markets.

---

**Anthony Chukumba** - *BB&T Capital Markets - Analyst*

Good morning. Thanks for taking my question. Wanted to just talk a little bit about the Wii U. I think it is pretty safe to say that it has been fairly disappointing.

I was just wondering, I am just contrasting the performance we have seen with your very bullish outlook on the PS4 and Xbox 720. I mean, I guess -- what do you think that Nintendo potentially did wrong that makes -- or are there other factors that just make you a lot more bullish, it sounds like, on the PS4, Xbox 720 than on the Wii U?



**Paul Raines** - GameStop Corp. - CEO

Yes, I think maybe let's start with Mike Hogan. Do you want to give us your thoughts on what the intent to purchase stuff is? And then let Tony talk about the Wii U.

---

**Mike Hogan** - GameStop Corp. - EVP Strategic Business & Brand Development

Sure, sure.

---

**Paul Raines** - GameStop Corp. - CEO

Why do you think that the customers are so strong on that Sony intent to purchase?

---

**Mike Hogan** - GameStop Corp. - EVP Strategic Business & Brand Development

Yes, I think -- so I will talk about the why are people excited about the PS4, and then turn over to Tony. We have been doing this research going back more than a year, and I think the thing that first excited us was almost a year ago when we did this for the first time. Frankly, well in advance of Microsoft or Sony saying anything about a new console, we were seeing really, really strong interest among the gamers in general for a new console. I think to Paul's point, what it highlighted was how much technology has changed over the last six or seven years and the appetite for some of that innovation to be translated into a new console.

Then I think as the rumors have become more reality we have actually seen that grow. To me probably the most important thing is not so much how does the PS4 compare to a Wii U, it is -- how does a PS4 compare against anything else people can spend their money on?

If you think about a lot of what has happened over the last couple years, certainly people have bought iPhones, they have bought tablets, they have bought a lot of other things. So the thing, for me the real benchmark is the fact that our PowerUp members are saying that they are much, much more likely and more excited about buying a PlayStation 4 even than around getting a new smartphone, a new tablet, a new laptop, all the other things they could buy.

So I think for a lot of the reasons we mentioned earlier, they are seeing -- whether it is the gameplay, the connectivity, or whatever, they are very excited and ready for it.

---

**Tony Bartel** - GameStop Corp. - President

As to the launch of the Wii U, let's go back to what Mike said earlier and I think Rob said it as well. The Wii U actually exceeded our expectations at launch.

So I think there's two issues here. One is what happened at launch. We were actually out of stock early on in the launch period, so we could have sold more Wii Us than what we did sell during the launch period. So we actually had a very successful launch of the Wii U.

However, it has been disappointing over the last -- since the beginning of the year, and I think that there are two reasons for that. One, I still think that there is tremendous opportunity from a consumer standpoint, that they did not understand the tethered tablet, the way that the gameplay works. I think that the marketing has not broken through to the level that it needs to, and in spite of the efforts of our team to really talk about that and educate consumers about that. I think that we still have an education process we need to go through.

More importantly, I think where you are really going to see Wii U take off is when there is a strong first-party title. That is what we have always seen. The fact that we really launched without a strong first-party title, I think we are seeing the ramifications of that today.





So those are two things we do expect to be remedied later on in this year. But there is no doubt that the launch was strong for us; but it has been disappointing since the first of the year.

---

**Paul Raines** - *GameStop Corp. - CEO*

And don't forget, Nintendo has massive IP. I got a Wii U for Christmas and I played Super Mario for a while, and will play when we get the next first-party titles out. So I think there is lots of opportunity for that platform still.

---

**Anthony Chukumba** - *BB&T Capital Markets - Analyst*

Okay. That's helpful. Thank you.

---

**Operator**

Colin Sebastian, Robert Baird & Company.

---

**Colin Sebastian** - *Robert W. Baird & Co. - Analyst*

Good morning. Thanks for taking my question. I just want to go back quickly to the used game on the next-gen consoles. From what we understand, both platforms will allow used. But I do have a couple of specifics on that.

I guess first off, wondering what impact will the lack of backward-compatibility on the PS4 have on the used business? Then secondly, and this is maybe somewhat hypothetical; but if one or more of the platform holders were to charge consumers a fee to access on a used game, the multiplayer or other online services, wondering what impact that might have on the used business. Thanks.

---

**Paul Raines** - *GameStop Corp. - CEO*

Maybe we start with the second one, Tony, on -- we have had online passes and we merchandise that. It is part of our business model and we have figured out a way to make it work. Do you want to comment on how that would work?

---

**Tony Bartel** - *GameStop Corp. - President*

Sure, I think like Paul said, we have seen that. It does introduce friction into the process. And I think what consumers have told us is that they want to have a frictionless environment.

Sony has been very clear that what they want to do is produce a friction-free environment and be very gamer-centric. So I think in terms of an online pass, if that happens, that is definitely something that we can accommodate. Our digital -- the way that we deliver digital codes today will accommodate that very easily, so it will have minimal impact on our business.

In terms of how we service the customer, we are concerned that the same 60% of customers who are concerned about purchasing a console that would block or hinder or prevent friction to the used game process, that same percentage would also be concerned if any friction like that was introduced into games. And I will let Mike answer the first question.

---



**Mike Hogan** - GameStop Corp. - EVP Strategic Business & Brand Development

Sure. As far as backwards compatibility, there are certainly arguments on both sides, right? There is one argument that says if it is not backwards compatible everyone will trade in everything and move quicker. There is another one that says people might hold on to their old system longer.

So I think we see upside, frankly, either way. I think the things we would talk about, though, are the way we want to take advantage of the situation is through trade promotions. And the opportunity to -- for a person to bring in their current system and a number of games, you could easily offset the entire cost of your new system.

So I think Tony and Paul both mentioned earlier that we are working with Sony on some aggressive promotions. And I think what we want to be able to do is make it as affordable for possible for people to get a new platform.

The other thing I would say that is an interesting thing that is more of an industry thing than a GameStop thing is the lack of backward compatibility essentially removes the switching cost of moving from one platform to another. So someone who is on another platform that wants to move to a PlayStation 4, if the platforms don't offer backward compatibility, your switching cost is essentially zero; and that could actually accelerate the adoption of that, particularly given how high the appeal of a PlayStation 4 is.

---

**Colin Sebastian** - Robert W. Baird & Co. - Analyst

All right, thanks. But I guess maybe more specifically, do these types of things with used, do they potentially dilute the value of the used game, either on a retail basis or with a trade-in?

---

**Mike Hogan** - GameStop Corp. - EVP Strategic Business & Brand Development

I guess the important point to think of there is that, even under the most optimistic scenario, the percentage of consoles in the markets next year that are going to be the next generation is still a very, very small piece of the total. By way of comparison, I guess the best answer I can give you there is we still have a pretty vibrant preowned business in PlayStation 2 and that's -- I don't know how many years (multiple speakers).

---

**Paul Raines** - GameStop Corp. - CEO

But certainly, Colin, anything that introduces friction, as Tony said, devalues the trade value. And we are a significant market maker. That is the other thing that is frequently missed. We are a significant market maker in this business, and we manage a very detailed pricing model, and we price in value.

So anything that takes value away from consumers is not going to be good for the new sales either.

---

**Tony Bartel** - GameStop Corp. - President

Right. And, Colin, to that point I would say it doesn't devalue the used as much as it may devalue the new if people see friction and they say -- hey, I'm not sure that I can get the trade value that I thought I was going to get from GameStop. I actually think it might be harder to sell the new game.

---

**Colin Sebastian** - Robert W. Baird & Co. - Analyst

All right. Fair point. Thanks a lot.

**Operator**

Arvind Bhatia, Sterne, Agee.

---

**Arvind Bhatia** - *Sterne, Agee & Leach - Analyst*

Thank you very much. I wanted to ask a question on the recommerce business that you are growing rapidly. Can you provide some color on the long-term goals there?

You are expanding space that you're providing; I think, Tony, you mentioned another 400 stores with the expanded space and getting, I think, a 5% lift. Where do you see that in three to four years?

How much of the store -- how many stores could have this? And what percentage of the store could have this in it? Just some long-term goals behind this.

---

**Paul Raines** - *GameStop Corp. - CEO*

Let me start us off and Tony can talk about it. Then I would like Mike Mauler to talk about how well penetrated internationally we have done this on recommerce.

I don't think we are ready to talk about three to four years out. We have an internal debate, though, which is -- how many stores do we expand in? And Tony will tell you about that. How do we fixture? And frankly, as this recommerce business grows, because as I think Rob and Mike Hogan pointed out or Tony, it is a very large market for refurbish, recommerce of electronics.

So you may have an idea of a new concept store. We have acquired BuyMyTronics. You may have seen here in Dallas we are doing some experimentation with a little store concept we call BuyMyTronics, which is a buy/sell/trade electronics store.

So I think those are debates that we have not settled yet, and so we need time to figure that out. We certainly have pretty good visibility to the growth. Tony, you want to talk about what we are doing this year and next, and then maybe Mike can talk about international?

---

**Tony Bartel** - *GameStop Corp. - President*

Sure. This year and next we are going to continue to expand. I feel like we have our first wave of merchandising that we are using today in all of our stores; and then we have the 344 stores that I talked about that have 11 additional feet as well as a new way to show tablets, and we are seeing a lift in sales as you would expect in that. So we will continue to roll that out throughout the year.

We are going to continue to remerchandise the rest of our stores and continue to evolve that. But 100% of our stores today are involved in recommerce, and we are constantly looking at the return on investment that we get for expanding that space within our store.

So as that business continues to grow, which we see it continuing to grow for several years, definitely for the next year, it will be another fast growth year for us. We will continue to look at the wall space that we give to it, and we will continue to expand it as it continues to expand as a part of our business.

I will let Mike share with you what we are doing internationally.

---



**Mike Mauler** - *GameStop Corp. - EVP GameStop International*

Sure, internationally we rolled out recommerce about six months after the US started their test last Spring. At this point -- starting last Spring, we started taking trades really in every store globally. And as we build inventory, we are rolling out the sale of iDevices as well, so we currently have about 20% of our chain internationally that are selling used tablets and smartphones, and that is growing rapidly.

I will also add that the sale of new mobile, we are seeing that it really does have an impact on the trades of smartphones and tablets. So we currently, as Tony had mentioned, we have about 1,000 stores right now internationally where we have carved out space to be able to sell new tablets and smartphones. And we are taking more trades in those stores, which will accelerate the iDevice sales, and we will be expanding that as well, as Tony mentioned the US is doing.

---

**Tony Bartel** - *GameStop Corp. - President*

The other thing I would like to mention is we are also expanding the accessories that go along with it. For instance, we now offer NET10, a prepaid phone plan, through all of our stores in the US. So that clearly makes us a very, very strong alternative for a value buyer.

---

**Paul Raines** - *GameStop Corp. - CEO*

Arvind, we have you a target I think last year of \$550 million to \$600 million for 2014. We still like that target. Not ready to update it, but we owe you some guidance there.

But I would say watch this space closely. There is a lot of people in it. We have jumped in and become the 800-pound gorilla very quickly, and a lot of it has to do with PowerUp Rewards and our various loyalty programs. A lot of it has to do with our in-store service model is really superior to what the online marketplaces and some of the big boxes can do. So we are very bullish on the category.

---

**Arvind Bhatia** - *Sterne, Agee & Leach - Analyst*

One last one on full game downloads. I remember at your Analyst Day a few years ago we had the demo on how much time it takes for a full game download. I am just wondering how you think about this in the coming generation.

---

**Paul Raines** - *GameStop Corp. - CEO*

Well, I don't think it has gotten that much easier. Games are getting bigger. Broadband assumptions have changed some; but I don't think our point of view is very different, Arvind, from that what it was.

Except that we are selling PC downloads in our stores, and we find that our skill set fits that very nicely. And we are selling DLC well, right guys?

---

**Mike Mauler** - *GameStop Corp. - EVP GameStop International*

I would also say that with the new generation, the games are going to be bigger and more complex as well, and that provide some headwind to that.

---

**Paul Raines** - *GameStop Corp. - CEO*

But we are not in the business, Arvind, as you know because you know us well -- we are not in the business of saying that no one will ever buy a download, because we know people do. We do. Our employees do.

We are just saying that it is not a very large business yet. And we are in the download business and as it grows we will participate in it. But it hasn't gotten a lot easier.

---

**Arvind Bhatia** - *Sterne, Agee & Leach - Analyst*

Great. Very helpful. Thank you.

---

**Operator**

Bill Armstrong, C. L. King & Associates.

---

**Bill Armstrong** - *C.L. King & Associates - Analyst*

Good morning. If we look at your total profit potential from any given triple-A title as we move into the next generation, you are getting profit opportunities from new, you are getting profit opportunities when it gets traded in and you resell it, from DLC, and from your higher market share. So it would seem that a triple-A game early in the next console cycle, compared to maybe an earlier iteration of that title at the same point in the previous cycle, it would seem that it would be a lot more profit opportunity from that title as whole for GameStop this time around than previously.

Tell me if I'm on the right track with that, and if there are any offsets to that. And then if there is any way to attach a -- to quantify that.

---

**Paul Raines** - *GameStop Corp. - CEO*

Yes, Bill, we are going to let Rob take that because I'm getting a little nervous. He hasn't had to work very hard today. This is unusual. Rob, why don't you talk about that?

---

**Rob Lloyd** - *GameStop Corp. - CFO*

Okay, yes. We see great profit opportunity off of the games that are coming out now and will be coming out in the future. It starts with the sale of the physical game; the customer lining up at midnight; the kinds of things that we see the customer is interested in buying when they're at the midnight launch. Tony and Paul talked about a couple of things that were available with BioShock just this week and some of the ancillary products that we have got.

We also have DLC, which is improving the profit potential not only for GameStop but for the publishers as well. And then of course there is the preowned business. We have talked about Sony and the PS4; we see that we will continue to have a vibrant preowned business for a long time with respect to today's generation of consoles as well as the new ones that are coming.

Mike Hogan talked about the fact that we are, I think, 13 years in nearly on the PS2 and it still sells well in many of our stores. So we see great profit potential in this business. And I will remind you that we have built other businesses as well in store that bring us additional profit potential.

---

**Paul Raines** - *GameStop Corp. - CEO*

Bill, I know you are a BioShock fan. I just want you to know, our friends at Take Two, you can buy Web-In-Store a CD with all the music from BioShock. So, you know, we have got opportunities for you there.



**Bill Armstrong** - *C.L. King & Associates - Analyst*

Okay, great. The a quick follow-up. On a GAAP basis what were your digital revenues and gross profit in Q4?

---

**Rob Lloyd** - *GameStop Corp. - CFO*

Give me just a second on that.

---

**Tony Bartel** - *GameStop Corp. - President*

Bill, while he is thinking about that, also, I would say that with the increased traffic that comes with the new games, now we have all kinds of additional offerings, like all of our recommerce. So as that traffic comes into our store, we are actually (technical difficulty) monetize the customer in many different ways as well.

---

**Paul Raines** - *GameStop Corp. - CEO*

These titles become lifestyle kind of titles. If you have been waiting a year for BioShock or Batman or Call of Duty -- or Battlefield, which is coming up -- you want everything that is available for that title.

I am still playing Far Cry 3, right? Somebody has got to do an intervention. But I would buy everything you could give me on it. I would wear a costume if they had one, right? So -- Mike, you had something?

---

**Mike Hogan** - *GameStop Corp. - EVP Strategic Business & Brand Development*

Yes, I was just going to add to that. We actually have a word for this; we call it franchise marketing.

So within PowerUp, we actually track this by every person. So we know, for example, within a franchise or a title how many units you're purchasing and if you think across about these across a timeline, when you find out about the new game months in advance of it, we can introduce you, for example, to preowned copies of prior versions of the game that you may not have played. As you get closer there is all the added add-on items we have.

Paul mentioned the music CD. There is lots of figures and other kinds of items. You can purchase the game; we know the right time to market to you the DLC. Either you purchased it at launch or we can introduce you to it later.

We figure out the right time for you to turn in the game. We track your digital purchases as well. So one of our internal goals is to track that and increase essentially units per member within a franchise.

---

**Mike Mauler** - *GameStop Corp. - EVP GameStop International*

And we are doing that worldwide.

---

**Paul Raines** - *GameStop Corp. - CEO*

That's great. Rob, do you have the answer to the --?

---



**Rob Lloyd** - GameStop Corp. - CFO

Yes, the GAAP digital revenues in Q4 were \$83 million and \$232 million for the full year.

---

**Bill Armstrong** - C.L. King & Associates - Analyst

\$232 million? Okay. Do you have the gross profit numbers by any chance?

---

**Rob Lloyd** - GameStop Corp. - CFO

\$49 million in the fourth quarter, \$134 million for the year.

---

**Bill Armstrong** - C.L. King & Associates - Analyst

Great. Thank you very much.

---

**Operator**

David Magee, SunTrust.

---

**David Magee** - SunTrust Robinson Humphrey - Analyst

Yes, hi, guys. Thanks for all the information. My question really has to do with Kongregate. I am curious how fast it is growing relative to the market out there, whether it is gaining share, and whether there is a profit picture developing there. And just positioned against your other initiatives, how excited are you about that business right now?

---

**Tony Bartel** - GameStop Corp. - President

Well, we see it -- this is Tony. I will let Mike answer -- that reports up through him. But we see it as a 1 very strong growth vehicle. In fact we see it as really the largest site for games for the core gamer in their genre.

So when you think about the growth that they have experienced, especially as they've changed their business model to a free-to-play model, we are seeing over 100% growth. I think that is doing very, very well; far outpacing the category. Mike, you want to add anything to that?

---

**Mike Hogan** - GameStop Corp. - EVP Strategic Business & Brand Development

Yes, agreeing with Tony, I think we saw a very strong growth from Kongregate last year; it's planned for similar levels of growth this year. I think the other thing to mention is that the browser business is growing very well. And part of the reason it is growing well is because they are doing a great job of finding the right games and really monetizing the in-game purchases, and we expect that business to grow.

The other thing that is important to mention about Kongregate is back in -- I think it was early February -- we had the announcement about the game development fund for mobile gaming. So Kongregate is not only a significant player in browser gaming, but they are also becoming a significant player in mobile gaming.

We have that \$10 million development fund. We have gotten an overwhelming response from mobile game publishers. They will be introducing the first couple -- launching the first couple of games pretty soon. And we think that the power of GameStop, be it PowerUp Rewards, stores, etc., behind Kongregate there is really going to generate a lot of growth.



So we see an expansion in the categories Kongregate is in, and probably strong growth in each of them.

---

**Paul Raines** - GameStop Corp. - CEO

One cultural point on this, David. GameStop has a history of acquisitions and entrepreneurial acquisitions. It is very important that Jim and Emily Greer run Kongregate. Where we can support them here on GameStop we will; but that is very much an entrepreneurial game platform based in San Francisco.

Mike Hogan supports them as needed, but they are definitely running that show, with a lot of success.

---

**David Magee** - SunTrust Robinson Humphrey - Analyst

How does the profit picture look for that?

---

**Paul Raines** - GameStop Corp. - CEO

What have we disclosed? Yes, we haven't disclosed anything on that. But in-game currency is the largest part of their profit picture and it is growing very nicely.

So I don't think we have broken out as a segment yet, but it is not -- we are very happy with our performance in Kongregate.

---

**David Magee** - SunTrust Robinson Humphrey - Analyst

Thank you.

---

**Paul Raines** - GameStop Corp. - CEO

With that, I think we will wrap up the call. Thanks very much for your support of GameStop, and we look forward to speaking with all of you and perhaps seeing you at E3. Thanks very much.

---

**Operator**

Ladies and gentlemen, this concludes today's conference. We thank you for your participation.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2013, Thomson Reuters. All Rights Reserved.