

# GameStop®

POWER TO THE PLAYERS®

## Q1 2018 Earnings

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May 31, 2018

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# Safe Harbor & Non-GAAP Measures

## Safe Harbor

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current beliefs, views, estimates and expectations, including as to the Company's industry, business strategy, goals and expectations concerning its market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. Such statements include without limitation those about the Company's outlook for fiscal 2018, future financial and operating results, projections, expectations and other statements that are not historical facts. Forward-looking statements are subject to significant risks and uncertainties and actual results may differ materially from those reflected or described in the forward-looking statements. The following factors, among others, could cause actual results to differ from those reflected or described in the forward-looking statements: our inability to obtain sufficient quantities of product to meet consumer demand; the timing of release and consumer demand for new and pre-owned products; our ability to continue to expand, and successfully open and operate new stores for our collectibles and technology brands businesses; risks associated with achievement of anticipated financial and operating results from acquisitions; our ability to sustain and grow our console digital video game sales; the impact of goodwill and intangible asset impairments; cost reduction initiatives, including store closing costs; risks related to changes in, and our continued retention of, executive officers and other key personnel; changes in consumer preferences and economic conditions; increased operating costs, including wages; cyber security events and related costs; risks associated with international operations; changes to our wireless industry partnerships and operations; increased competition and changing technology in the video game industry; changes in domestic or foreign laws and regulations that reduce consumer demand for, or increase prices of, our products or otherwise adversely affect our business; our effective tax rate and the factors affecting our effective tax rate, including changes in international, federal or state tax, trade and other laws and regulations; the costs and outcomes of legal proceedings and tax audits. Additional factors that could cause our results to differ materially from those reflected or described in the forward-looking statements can be found in GameStop's Annual Report on Form 10-K for the fiscal year ended February 3, 2018 filed with the SEC and available at the SEC's Internet site at <http://www.sec.gov> or <http://investor.GameStop.com>. Forward-looking statements contained in this press release speak only as of the date of this release. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.

## Non-GAAP Measures

As a supplement to our financial results presented in accordance with U.S. generally accepted accounting principles (GAAP), GameStop may use certain non-GAAP measures, such as adjusted operating earnings, adjusted net income, digital receipts and constant currency. We believe these non-GAAP financial measures provide useful information to investors in evaluating our core operating performance. Adjusted operating earnings and adjusted net income exclude the effect of items such as asset impairments, store closure costs, severance, retention compensation, as well as acquisition and divestiture costs. We define free cash flow as cash flow provided by operating activities less purchases for property and equipment plus cash flows from other investing activities, which primarily relate to tenant allowances. GameStop defines digital receipts as the full amount paid by the customer for digital content at the time of sale and/or the value attributed to digital content when physical and digital products are sold combined. Results reported as constant currency exclude the impact of fluctuations in foreign currency exchange rates by converting our local currency financial results using the prior period exchange rates and comparing these adjusted amounts to our current period reported results. Our definition and calculation of non-GAAP measures may differ from that of other companies. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the company's reported GAAP financial results.

# Q1 2018 Highlights (consolidated)

- Total global sales decreased 5.5% to \$1.93B
- Comparable store sales decreased 5.3%
- New hardware sales decreased 7.9%, in-line with company expectations
- New software sales decreased 10.3%, in-line with company expectations
- Collectibles sales increased 24.4% to \$142.4M
- Omnichannel sales decreased 46.0%, due to limited allocation of the Nintendo Switch at launch, which drove a 92.9% increase in omnichannel sales in the first quarter of fiscal 2017

# Q1 2018 Consolidated Performance

(In millions, except EPS and %'s)	Q1 2018	Q1 2017	Var. (%)
Total Sales	\$1,934.0	\$2,045.9	-5.5%
Gross Margin	34.0%	34.3%	-0.3%
Operating Earnings (GAAP)	\$57.1	\$101.1	-43.5%
Net Income (GAAP)	\$28.2	\$59.0	-52.2%
Diluted EPS (GAAP)	\$0.28	\$0.58	-51.7%
Operating Earnings (adjusted)	\$69.7	\$108.4	-35.7%
Net Income (adjusted)	\$39.0	\$63.6	-38.7%
Diluted EPS (adjusted)	\$0.38	\$0.63	-39.7%

# Q1 2018 Sales Category Highlights

(In millions, except %'s)	Q1 2018	Q1 2017	Var. (%)
New hardware	\$359.2	\$389.9	-7.9%
New software	\$466.7	\$520.5	-10.3%
Pre-owned	\$495.7	\$526.2	-5.8%
Video Game Accessories	\$199.1	\$176.1	13.1%
Digital	\$43.0	\$44.1	-2.5%
Technology Brands	\$169.0	\$201.4	-16.1%
Collectibles	\$142.4	\$114.5	24.4%
Other	\$58.9	\$73.2	-19.5%
Total Sales	\$1,934.0	\$2,045.9	-5.5%

# Q1 2018 Gross Profit by Category

(In millions, except %'s)	Q1 2018	Q1 2017	Var. (%)
New hardware	\$35.2	\$38.1	-7.6%
New software	\$98.8	\$113.7	-13.1%
Pre-owned	\$220.6	\$253.7	-13.0%
Video Game Accessories	\$67.5	\$55.9	20.8%
Digital	\$38.2	\$36.1	5.8%
Technology Brands	\$131.6	\$144.6	-9.0%
Collectibles	\$45.8	\$35.2	30.1%
Other	\$19.6	\$25.2	-22.2%
Total Gross Profit	\$657.3	\$702.5	-6.4%
Gross Margin	34.0%	34.3%	-0.3%

# 2018 Guidance

FY 2018E	
Total Sales	-2.0% to -6.0%
Comp SSS <sup>1</sup>	Flat to -5%
Income Tax Rate	26.0% to 27.0%
Adj. Non-GAAP EPS (diluted) <sup>2</sup>	\$3.00 to \$3.35

# 2018 Projected Cash Flow Use

## Sources



~\$300M of FCF

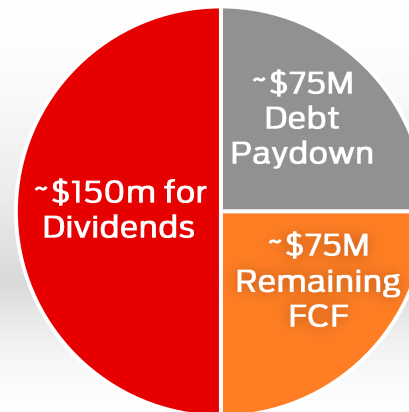
**\$110 to \$120M  
of Capital Expenditures**

Focus on:

- Store remodels/maintenance
- Systems

## Use of Free Cash Flow

- Dividend (~\$150M)
- Debt paydown (~\$75M)
- Remaining FCF (~\$75M)





# Appendix

# GAAP Reconciliation

	<u>13 Weeks Ended</u> <u>May 5, 2018</u>	<u>13 Weeks Ended</u> <u>April 29, 2017</u>
<b><u>Technology Brands Adjusted Operating Earnings</u></b>		
Technology Brands operating earnings	\$ 9.8	\$ 11.1
Store closure costs	1.4	7.3
Technology Brands adjusted operating earnings	<u>\$ 11.2</u>	<u>\$ 18.4</u>
<b><u>Consolidated Adjusted Operating Earnings</u></b>		
Operating earnings	\$ 57.1	\$ 101.1
Store closure costs	1.4	7.3
Severance and other	11.2	—
Adjusted operating earnings	<u>\$ 69.7</u>	<u>\$ 108.4</u>
<b><u>Consolidated Adjusted Net Income</u></b>		
Net Income	\$ 28.2	\$ 59.0
Store closure costs	1.4	7.3
Severance and other	11.2	—
Tax effect of non-GAAP adjustments	(1.8)	(2.7)
Adjusted net income	<u>\$ 39.0</u>	<u>\$ 63.6</u>
<b><u>Adjusted Earnings Per Share</u></b>		
Basic	\$ 0.38	\$ 0.63
Diluted	\$ 0.38	\$ 0.63
Number of shares used in adjusted calculation		
Basic	101.8	101.3
Diluted	102.0	101.4

## **Non-GAAP results:**

The following table reconciles the Company's operating earnings, net income and earnings per share as presented in its unaudited Consolidated Statements of Operations and prepared in accordance with Generally Accepted Accounting Principles ("GAAP") to its adjusted operating earnings, net income and earnings per share.

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Thank you

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