

GameStop®

POWER TO THE PLAYERS®

Q4 2018 Earnings

April 2, 2019

GameStop
POWER TO THE PLAYERS

EBGAMES

 **gameinformer**

MICROMANIA

simply mac

THINKGEEK

 **GAMETRUST**

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 expectations for fiscal 2019, future financial and operating results, projections, expectations and other statements that are not historical facts. All statements regarding the Board's review of strategic and financial alternatives and expected costs and benefits, including whether operating, strategic, financial and structural alternatives and initiatives could unlock value, are forward-looking statements. Forward-looking statements are subject to significant risks and uncertainties and actual developments, business decisions and 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: the uncertain impact, effects and results of the board's review of operating, strategic, financial and structural alternatives and the planned redemption of the \$350 million in unsecured notes; volatility in capital and credit markets, including changes that reduce availability, and increase costs, of capital and credit; 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 business; 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; 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; our use of proceeds from the sale of our Spring Mobile business; and unexpected changes in the assumptions underlying our outlook for fiscal 2019. 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 2, 2019 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 and Other Metrics

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 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, non-operating tax charges, as well as acquisition and divestiture costs. 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. Additionally, GameStop uses "digital receipts" as an operating metric and defines it as the retail value paid by the customer for digital content sold individually or bundled with non-digital products and sales of subscriptions to our Game Informer magazine in digital form. The vast majority of our digital receipts come from digital products that are sold individually rather than bundled with other products. Under GAAP, we recognize the sale of these digital products on a net basis, whereby the commissions earned are recorded to revenue rather than the full retail price paid by the customer. We believe this operating metric is useful in understanding the size and performance of our digital business in comparison to measures of the overall digital industry revenues and our other video game product categories.

Q4 2018 Consolidated Results

- Total global sales decreased 7.6% to \$3.06B
- Comparable store sales increased 1.4%
- New hardware sales decreased 9.8% to \$761.3M
- New software sales decreased 7.8% to \$961.4M
- Collectibles sales increased 3.1% to \$268.8M
- Video game accessory sales increased 18.8% to 389.3M

FY 2018 Consolidated Results

- Total global sales decreased 3.1% to \$8.29B
- Comparable store sales decreased 0.3%
- New hardware sales decreased 1.3% to \$1,767.8M
- New software sales decreased 5.1% to \$2,449.7M
- Collectibles sales increased 11.2% to \$707.5M
- Video Game Accessory sales increased 22.0% to \$956.5M
- Free Cash Flow of \$232.7

2018 Consolidated Performance

| | Q4 2018 | Q4 2017 | Var. (%) | FY 2018 | FY 2017 | Var. (%) |
|--|------------|------------|-------------|------------|------------|-------------|
| (In millions, except EPS and %'s) | | | | | | |
| Total Sales | \$3,063.0 | \$3,316.0 | -7.6% | \$8,285.3 | \$8,547.1 | -3.1% |
| GAAP | | | | | | |
| ▪ Operating (Loss) Earnings ⁽¹⁾ | \$(232.1) | \$251.1 | -192.4% | \$(702.0) | \$439.2 | -259.8% |
| ▪ Net (Loss) Income ⁽²⁾ | \$(187.7) | \$(105.9) | -77.2% | \$(673.0) | \$34.7 | -2,039.5% |
| ▪ Diluted EPS ⁽²⁾ | \$(1.84) | \$(1.04) | -76.9% | \$(6.59) | \$0.34 | -2038.2% |
| Non-GAAP | | | | | | |
| ▪ Operating Earnings ⁽¹⁾ | \$202.5 | \$278.1 | -27.2% | \$331.3 | \$458.5 | -27.7% |
| ▪ Net Income ⁽²⁾ | \$163.9 | \$205.0 | -20.0% | \$275.9 | \$338.6 | -18.5% |
| ▪ Diluted EPS ⁽²⁾ | \$1.60 | \$2.02 | -20.8% | \$2.70 | \$3.34 | -19.2% |

Notes:

(1) represents continuing operations results

(2) represents total company results

2018 Sales by Category

| (In millions, except %'s) | Q4 2018 | Q4 2017 | Var. (%) | FY 2018 | FY 2017 | Var. (%) |
|--|------------------|------------------|--------------|------------------|------------------|--------------|
| New Hardware | \$761.3 | \$844.0 | -9.8% | \$1,767.8 | \$1,791.8 | -1.3% |
| New Software | \$961.4 | \$1,042.3 | -7.8% | \$2,449.7 | \$2,582.0 | -5.1% |
| Pre-Owned & Value Video Game Products | \$521.6 | \$663.1 | -21.3% | \$1,866.3 | \$2,149.6 | -13.2% |
| Video Game Accessories | \$389.3 | \$327.7 | 18.8% | \$956.5 | \$784.3 | 22.0% |
| Digital | \$65.4 | \$61.4 | 6.5% | \$194.0 | \$189.2 | 2.5% |
| Collectibles | \$268.8 | \$260.8 | 3.1% | \$707.5 | \$636.2 | 11.2% |
| Other | \$95.2 | \$116.7 | -18.4% | \$343.5 | \$414.0 | -17.0% |
| Total Sales | \$3,063.0 | \$3,316.0 | -7.6% | \$8,285.3 | \$8,547.1 | -3.1% |

2018 Gross Profit by Category

| (In millions, except %'s) | Q4 2018 | Q4 2017 | Var. (%) | FY 2018 | FY 2017 | Var. (%) |
|--|------------|------------|-------------|------------|------------|-------------|
| New Hardware | \$43.7 | \$61.5 | -28.9% | \$150.0 | \$163.1 | -8.0% |
| New Software | \$199.9 | \$238.9 | -16.3% | \$525.6 | \$590.3 | -11.0% |
| Pre-owned & Value Video Game Products | \$221.2 | \$298.1 | -25.8% | \$810.4 | \$977.1 | -17.1% |
| Video Game Accessories | \$117.3 | \$102.9 | 14.0% | \$312.5 | \$255.0 | 22.5% |
| Digital | \$54.7 | \$54.3 | 0.7% | \$171.6 | \$162.4 | 5.7% |
| Collectibles | \$84.6 | \$77.1 | 9.7% | \$233.3 | \$208.2 | 12.1% |
| Other | \$27.4 | \$31.9 | -14.1% | \$104.7 | \$128.8 | -18.7% |
| Total | \$748.8 | \$864.7 | -13.4% | \$2,308.1 | \$2,484.9 | -7.1% |
| Gross Margin (%) | 24.4% | 26.1% | -170bps | 27.9% | 29.1% | -120bps |

Appendix

GAAP Reconciliation

Non-GAAP Results

The following tables reconcile the Company's operating earnings (loss), net income (loss) and earnings (loss) 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. The diluted weighted-average shares outstanding used to calculate adjusted earnings per share for the 13 and 52 weeks ended February 2, 2019 differs from GAAP weighted-average shares outstanding and assumes the inclusion of 0.2 million and 0.2 million common stock equivalents associated with restricted stock awards for the 13 and 52 weeks ended February 2, 2019, respectively. Under GAAP, basic and diluted weighted-average shares outstanding are the same in periods where there is a net loss.

GAAP Reconciliation (continued)

| (In millions) | <u>13 Weeks Ended February 2, 2019</u> | <u>14 Weeks Ended February 3, 2018</u> | <u>52 Weeks Ended February 2, 2019</u> | <u>53 Weeks Ended February 3, 2018</u> |
|--|--|--|--|--|
| <u>Adjusted Operating Earnings from Continuing Operations</u> | | | | |
| Operating (loss) earnings | \$ (232.1) | \$ 251.1 | \$ (702.0) | \$ 439.2 |
| Property, equipment & other asset impairments | 2.1 | 7.1 | 2.1 | 7.1 |
| Goodwill impairments | 413.4 | — | 970.7 | — |
| Intangible impairments | 12.9 | 11.0 | 43.1 | 11.0 |
| Store closure costs | — | 0.3 | — | (0.1) |
| Business divestitures and other | 6.2 | 8.6 | 17.4 | 1.3 |
| Adjusted operating earnings - continuing operations | <u>\$ 202.5</u> | <u>\$ 278.1</u> | <u>\$ 331.3</u> | <u>\$ 458.5</u> |
| <u>Adjusted Operating Earnings from Discontinued Operations</u> | | | | |
| Operating earnings (loss) from discontinued operations | \$ 122.0 | \$ (347.8) | \$ 177.1 | \$ (303.6) |
| Acquisition costs | — | (5.0) | — | (10.7) |
| Property, equipment & other asset impairments | — | 15.4 | — | 15.4 |
| Goodwill impairments | — | 32.8 | — | 32.8 |
| Intangible impairments | — | 328.8 | — | 328.8 |
| Store closure costs | — | 7.5 | 1.4 | 14.1 |
| Business divestitures and other | (100.8) | — | (100.8) | — |
| Adjusted operating earnings - discontinued operations | <u>\$ 21.2</u> | <u>\$ 31.7</u> | <u>\$ 77.7</u> | <u>\$ 76.8</u> |
| <u>Adjusted Operating Earnings - Total Company</u> | | | | |
| Operating (loss) earnings | \$ (110.1) | \$ (96.7) | \$ (524.9) | \$ 135.6 |
| Acquisition costs | — | (5.0) | — | (10.7) |
| Property, equipment & other asset impairments | 2.1 | 22.5 | 2.1 | 22.5 |
| Goodwill impairments | 413.4 | 32.8 | 970.7 | 32.8 |
| Intangible impairments | 12.9 | 339.8 | 43.1 | 339.8 |
| Store closure costs | — | 7.8 | 1.4 | 14.0 |
| Business divestitures and other | (94.6) | 8.6 | (83.4) | 1.3 |
| Adjusted operating earnings - total company | <u>\$ 223.7</u> | <u>\$ 309.8</u> | <u>\$ 409.0</u> | <u>\$ 535.3</u> |

GAAP Reconciliation (continued)

| (In millions) | <u>13 Weeks Ended February 2, 2019</u> | <u>14 Weeks Ended February 3, 2018</u> | <u>52 Weeks Ended February 2, 2019</u> | <u>53 Weeks Ended February 3, 2018</u> |
|--|--|--|--|--|
| <u>Adjusted Net Income from Continuing Operations</u> | | | | |
| Net (loss) income from continuing operations | \$ (268.5) | \$ 116.9 | \$ (794.8) | \$ 230.4 |
| Property, equipment & other asset impairments | 2.1 | 7.1 | 2.1 | 7.1 |
| Goodwill impairment | 413.4 | — | 970.7 | — |
| Intangible impairments | 12.9 | 11.0 | 43.1 | 11.0 |
| Store closure costs | — | 0.3 | — | (0.1) |
| Business divestitures and other | 6.2 | 8.6 | 17.4 | 1.3 |
| Non-operating tax charge | 0.7 | — | 30.3 | — |
| Tax effect of non-GAAP adjustments | (18.3) | 36.3 | (50.4) | 36.4 |
| Tax reform | — | (3.0) | — | (3.0) |
| Adjusted net income from continuing operations | <u>\$ 148.5</u> | <u>\$ 177.2</u> | <u>\$ 218.4</u> | <u>\$ 283.1</u> |
| <u>Adjusted Net Income from Discontinued Operations</u> | | | | |
| Net income (loss) from discontinued operations, net of tax | \$ 80.8 | \$ (222.8) | \$ 121.8 | \$ (195.7) |
| Acquisition costs | — | (5.0) | — | (10.7) |
| Property, equipment & other asset impairments | — | 15.4 | — | 15.4 |
| Goodwill impairment | — | 32.8 | — | 32.8 |
| Intangible impairments | — | 328.8 | — | 328.8 |
| Store closure costs | — | 7.5 | 1.4 | 14.1 |
| Business divestitures and other | (100.8) | — | (100.8) | — |
| Tax effect of non-GAAP adjustments | 35.4 | (128.9) | 35.1 | (129.2) |
| Tax reform | — | — | — | — |
| Adjusted net income from discontinued operations | <u>\$ 15.4</u> | <u>\$ 27.8</u> | <u>\$ 57.5</u> | <u>\$ 55.5</u> |

GAAP Reconciliation (continued)

| (In millions, except EPS) | <u>13 Weeks Ended February 2, 2019</u> | <u>14 Weeks Ended February 3, 2018</u> | <u>52 Weeks Ended February 2, 2019</u> | <u>53 Weeks Ended February 3, 2018</u> |
|---|--|--|--|--|
| <u>Adjusted Net Income - Total Company</u> | | | | |
| Net (loss) income | \$ (187.7) | \$ (105.9) | \$ (673.0) | \$ 34.7 |
| Acquisition costs | — | (5.0) | — | (10.7) |
| Property, equipment & other asset impairments | 2.1 | 22.5 | 2.1 | 22.5 |
| Goodwill impairment | 413.4 | 32.8 | 970.7 | 32.8 |
| Intangible impairments | 12.9 | 339.8 | 43.1 | 339.8 |
| Store closure costs | — | 7.8 | 1.4 | 14.0 |
| Business divestitures and other | (94.6) | 8.6 | (83.4) | 1.3 |
| Non-operating tax charge | 0.7 | — | 30.3 | — |
| Tax effect of non-GAAP adjustments | 17.1 | (92.6) | (15.3) | (92.8) |
| Tax reform | — | (3.0) | — | (3.0) |
| Adjusted net income - total company | <u>\$ 163.9</u> | <u>\$ 205.0</u> | <u>\$ 275.9</u> | <u>\$ 338.6</u> |
| <u>Adjusted earnings per share - total company</u> | | | | |
| Basic | \$ 1.60 | \$ 2.02 | \$ 2.70 | \$ 3.34 |
| Diluted | \$ 1.60 | \$ 2.02 | \$ 2.70 | \$ 3.34 |
| Dividend per common share | \$ 0.38 | \$ 0.38 | \$ 1.52 | \$ 1.52 |
| Number of shares used in adjusted calculation | | | | |
| Basic | 102.2 | 101.5 | 102.1 | 101.4 |
| Diluted | 102.4 | 101.6 | 102.3 | 101.5 |

GAAP Reconciliation (continued)

Non-GAAP results

The following table reconciles the Company's cash flows provided by operating activities as presented in its unaudited Consolidated Statements of Cash Flows and prepared in accordance with GAAP to its free cash flow.

(In millions)

Net cash flows provided by operating activities
Purchase of property and equipment
Other investing activities
Free cash flow

| | 52 weeks ended February 2, 2019 | 53 weeks ended February 3, 2018 |
|--|--|--|
| | \$ 325.1 | \$ 434.9 |
| | (93.7) | (113.4) |
| | 1.3 | 2.8 |
| | <u>\$ 232.7</u> | <u>\$ 324.3</u> |