

# Analysis of the Impact on Gamestop from the Gamestop Opportunistic Episode

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**Abstract.** In January 2021, the video game retailer GameStop has experienced an unprecedented rise in its share price. The main question of this paper is how GameStop will be affected by this short squeeze in the stock market. This paper uses SWOT analysis to analyze GameStop's business situation in the last three years as well as its strengths, weaknesses, opportunities, and threats, showing that the company's main problems remain unchanged, while the opportunistic behavior of the GameStop event has not significantly brought positive improvements to the company's operations.

**Keywords:** GameStop, SWOT analysis, short squeeze.

## 1. Introduction

In January 2021, an unprecedented event took place in the U.S. stock market. The stock of a company called GameStop soared from \$16 to \$347 in one month and attracted the attention of financial markets around the world [1]. As a physical store that has been retailing video games since its establishment in 2002, GameStop has encountered many challenges in 2021.

First, the Covid-19 pandemic has led to a sharp decline in sales. In the 2020 GameStop Reports First Quarter Results, its total store sales had decreased to 17% excluding stores that were closed [2]. Second, the relatively mature e-commerce business in the gaming market has left fewer customers choosing to visit GameStop retail stores to purchase the products they seek. Smith [3] said that in March 2020, video game sales approached \$1.6 billion, representing a 35 percent increase compared to the same period last year. These reasons have led Wall Street hedge funds to use shorting to make a profit. At the end of 2020, GameStop became the most shorted US company with a 140% shorting rate [4]. After that, a large group of investors decided to collaborate and coordinate an incredible short squeeze. Leaving short sellers, such as Wall Street giants and hedge funds, with significant losses [5].

This article focuses on researching what positive effects this opportunity has brought to GameStop. The article introduces the background of GameStop, analyzes the company's finance, and uses the SWOT method to discuss the company's existing operations and the stock market. After that, it discussed and summarizes the particular impact of this event on GameStop as a whole. The conclusion is that opportunistic behavior like GameStop cannot bring positive changes to the company.

## 2. GameStop

### 2.1 Company overview

GameStop is an American retailer store that sells video games, hardware and accessories, software, and collectibles. The company's headquarters are located in Grapevine, Texas. Founded in 1996, the company is a leading specialized retailer in the gaming market, offering a wide range of entertaining gaming products through e-commerce and physical stores [6].

Around 2010, the company saw a decline due to a shift of video game sales to online shopping and downloads. The share price has been maintained at \$3-4 from 2019 to 2020. With steadily falling share prices, GameStop closed a large number of brick-and-mortar stores, and Covid-19 accelerated

GameStop's fading [4]. However, just in January and February of 2021, as the main character in a well-orchestrated short squeeze scheme, GameStop's stock price has soared. According to a statement by Cohen, a shareholder of GameStop, on January 13, 2021, GameStop's share price rose 68.82%. During this period, more investors poured into the market thanks to the constant media coverage of Wall Street bets. By January 28, a large number of financial services companies limited the ability of their customers to purchase GME (GameStop) stock. On February 12th, transactions dropped significantly, and the share price fell to \$52.40, still higher than the price before this event [7]



**Figure 1:** GameStop Trade Statistics

## 2.2 The determination of the number of network layers

In Table 1, we can find that at the End of the Fiscal Year of 2018, the total assets were \$ 4044.3million, a year later, it became \$ 2208.2million and by 2020, it has dropped to \$ 2035.9. GameStop's total assets are declining year over year. For liabilities and equity, it is a similar trend.

**Table 1:** The Table of selected consolidated financial and operating data (in millions) for the five fiscal years.

	Fiscal Year		
	2020	2019	2018
(In millions, except statistical and per share data)			
<b>Statement of Operations Data:</b>			
Net sales	\$ 5,089.80	\$ 6,466.00	\$ 8,285.30
Net (loss) income from continuing operations	\$ -214.60	\$ -464.40	\$ -794.80
<b>Diluted Per Share Data</b>			
(Loss) earnings per share from continuing operations	\$ -3.30	\$ 5.31	\$ -7.79
<b>Dividends per common share</b>	-	\$ 0.38	\$ 1.52
<b>Weighted-average common shares outstanding:</b>			
Diluted	65.00	87.50	102.10
<b>Store Operating Data:</b>			
Comparable store sales(decrease) increase	-9.50%	-19.40%	-0.30%
Number of stores at fiscal year-end	4816	5509	5830
<b>Balance Sheet Data at Fiscal Year End:</b>			
Total assets	\$ 2,472.60	\$ 2,819.70	\$ 4,044.30
Total debt, net	\$ 362.70	\$ 419.80	\$ 820.80
Total liabilities	\$ 2,045.90	\$ 2,208.20	\$ 2,708.10

(Source: GME Annual Report 2020)

In Table2, it can be found that GameStop's Gross profit is 27.9% in 2018, rises to 29.5% in 2019, and drops again to 24.7% in 2020. Gross profit decreased by \$649.2 million, representing a 34.0% decrease in 2020.

Net sales decreased \$1,376.2 million, representing a 21.3% decrease, in 2020 compared to fiscal 2019. The decrease in net sales is primarily due to a large number of store closures caused by COVID-19 (GameStop Limited 2020).

**Table 2:** The table sets for a certain statement of operations items (in millions) and as a percentage of net sales.

	The fiscal Year 2020		The fiscal Year 2019		The fiscal Year 2018	
	Amount	Percent of Net sales	Amount	Percent of Net sales	Amount	Percent of Net sales
Net sales	\$ 5,089.80	100.0%	\$ 6,466.00	100.0%	\$ 8,285.30	100.0%
Cost of sales	3830.3	75.3	4557.3	70.5	5977.2	72.1
Gross profit	1259.5	24.7	1908.7	29.5	2308.1	27.9
Selling, general and administrative expenses	1514.2	29.7	1922.7	29.8	1994.2	24.2
Goodwill and assets impairments	15.5	0.3	385.6	5.9	1015.9	12.2
Gain on sale of assets	-32.4	-0.6	-	-	-	-
Operating loss	-237.8	-4.7	-399.6	-6.2	-702.0	-8.5
Interest expense, net	32.1	0.6	27.2	0.4	51.1	0.6
Loss from continuing operations before income taxes	-269.9	-5.3	-426.8	-6.6	-753.1	-9.1
Income tax(benefit) expense	-55.3	-1.1	37.6	0.6	41.7	0.5
Net loss from continuing operations	-214.6	-4.2	-464.4	-7.2	-794.8	-9.6
(Loss) income from discontinued operations, net of tax	-0.7	-	-6.5	-0.1	121.8	1.5
Net loss	\$ -215.30	-4.2%	\$ -470.90	-7.3%	\$ -673.00	-8.1%

(Source: GME Annual Report 2020)

In Table 3, it can be seen that GameStop's net income decreased by 1.8% compared to the first quarter of the fiscal year 2020. And in the report, the net sales increased 25.1% to \$1.277 billion, up from \$1.021 billion in the first quarter of fiscal 2020.

**Table 3:** GameStop Corp. Condensed Consolidated Statements of Operations (In millions, except per share data)

<b><i>Percentage of Net Sales:</i></b>	13 Weeks Ended	13 Weeks Ended
	1-May-21	2-May-20
Net sales	100%	100%
Cost of sales	74.1	72.3
Gross profit	25.9	27.7
Selling, general and administrative expenses	29.1	37.9
Asset impairments	—	0.4
Operating loss	-3.2	-10.6
Interest expense, net	1.9	0.6
Loss from continuing operations before income taxes	-5.1	-11.2
Income tax expense	0.1	5
Net loss from continuing operations	-5.2	-16.2
Loss from discontinued operations, net of tax	—	—
Net loss	-5.2	-16.2

Based on the above analysis, we can find that GameStop's company has been facing the challenges of COVID-19 and the online transformation of the gaming market since 2018. Turnover and net profit have been on a declining trend. By January 2021, after the incident of GameStop's Short Squeeze, the company's turnover increased in the first quarter of 2021, but the net profit remained unimproved.

### 3 SWOT Analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats, a technique developed in the 1970s and often used in strategic planning for companies. As a structured approach to planning strategy, it is often used to assess several elements of organizational, project, or business risk. The SWOT analysis identifies internal and external factors that will affect a company's future operations.

The SWOT Analysis for GameStop is shown in Figure 2.

S-strengths	W-weakness
1.GameStop is the market leader for retailers of video games and related hardware. 2.It has a relatively large profit space, with an annual turnover of \$5 billion. 3.The company has a strong distribution channel with 4816 retail stores worldwide 4.GameStop has a lot of talented employees	1.It is difficult to resist the risk due to changes in the supply chain. 2.The demand for GameStop type retail stores is greatly reduced. 3.The electronics industry possesses a clear periodic nature. ∴ Shorted by many hedge funds because of unpromising performance.
O-opportunity	T-threat
1.COVID-19 led to the booming of the gaming market. 2.In 2021's Short Squeeze, company's reputation was enhanced as a result. 3.Innovating the business model and developing the Trade in business model. 4.A customer-focused technology company	1.Supply chain instability caused by COVID-19 or other accidents 2.Fierce competition among more renowned game retailers 3.Economic, social, and political conditions affect the demand for our products.

**Figure 2:** The SWOT analysis of GameStop Limited

### 3.1 Strength

Outside the U.S., GameStop is the market leader for retailers of video games and related hardware [2]. Because of their leadership status, customer loyalty is higher, and the product life cycle is longer.

Retailers like GameStop, it has a relatively large profit space, with an annual turnover of about \$5 billion [6]. For the company, it has a premium price in the market, and the company's economies of scale reduce the cost of the product.

The company has a strong distribution channel with 4816 retail stores worldwide in 2020 [6]. For the reputation in the market, the company has more channel demand and stronger distribution options.

The company's brand has been recognized by a prestigious Fortune 500 platform. Although now it is ranked as 521, it still has a reputation. And the company is listed on the New York Stock Exchange and has a significant position in the stock market.

### 3.2 Weakness

GameStop, as a retailer, has a high demand for suppliers. It is difficult to resist the risk due to changes in the supply chain. GameStop, as a retailer of video games, does not own the development and production of games and relies strongly on the supply from its vendors. Even though it uses an integrated model to manage retail stores downstream in the supply chain, it cannot manage upstream in the supply chain very well [6].

With the development of the Internet era, more and more people are using the Internet to buy games, and the demand for GameStop-type retail stores is greatly reduced.

The electronics industry possesses a periodic nature. And influenced by the next generation of machines and games. This makes it impossible for GameStop to control the production process of the goods, which not only makes it more difficult to manage but also makes GameStop's company operations cyclical.

Shorted by many hedge funds because of unpromising performance [2]. Due to the rise of Covid-19 and e-commerce, GameStop's future development has not been optimistic, resulting in a large number of hedge institutions coming to short the company, putting tremendous pressure on the company's normal operations.

### 3.3 Opportunity

COVID-19 has made more and more people choose to stay at home, and people's entertainment shifted to indoor activities, which led to the booming of the gaming market [8].

In 2021's Short Squeeze, GameStop's majority shareholder made a substantial profit, while the company's reputation was enhanced as a result [5]. In the meantime, GameStop is trying to innovate the business model and develop the Trade in a business model.

GameStop is transitioning to an online approach [2], By using the company's unique position and brand in the gaming space. GameStop optimizes its core services while expanding potential markets and product offerings and focusing on becoming a customer-focused technology company.

### 3.4 Threat

Supply chain instability caused by COVID-19 or other accidents. The pandemic has had a huge impact on the global supply chain. As a company that is mainly specialized in retailing, the impact that the supply chain suffered caused the company's inventory costs to rise and it had to close a large number of stores under tremendous pressure [9-10].

Fierce competition among more renowned game retailers. GameStop is facing huge competitive pressure in the gaming market. There are many strong and established companies in the video game market, such as Microsoft, Sony, and Nintendo.

Economic, social, and political conditions in the United States and certain international markets adversely affect the demand for our products [6]. Also, GameStop's stock market is very volatile and can be volatile due to a variety of factors. Such as short squeeze, product periodicity [2].

### 3.5 Discussion

The Short Squeeze that occurred in January 2021 didn't significantly affect GameStop's future growth and profitability. While GameStop's stock is worth far more than it was before GameStop Frenzy, the issues facing the company are still very tough. The first is whether it can transform itself into an online retailer in time, the second is whether it can resist the difficulties caused by the COVID-19 pandemic, and finally, whether it can innovate in time to meet the needs of its customers. All these are problems that GameStop should consider.

By using SWOT analysis, we can find that even if the company's stock price volatility is dramatic, it is still difficult for the company to have a good development if the company's own risk and management strategies are not modified. As some financial analysts have said, GameStop's share price is higher than the company's performance.

Therefore, for the ordinary investor. It would be naive to believe social media. Social media can lead to disruptions in the stock market and the exposure of information. This is because although small cooperation can raise stock prices to gain profits, company development may be constrained by more important factors, such as its strategy and environment. Also, in Short Squeeze's strategy, a prisoner's dilemma is formed between the investor and the investors, which will eventually result in losses. For companies, stock market turmoil can affect investors' attitudes toward the company. However, the core development and competitiveness of the company remain focused on innovation and transformation and online development.

## 4 Conclusions

In January 2021, an unprecedented Short Squeeze event occurred in the U.S. financial markets. The main character of the event, GameStop, had its stock price grow from \$16 to \$347 in just a few days. After the end of this Frenzy, the GameStop stock remained higher than the 2019 stock price but has been falling until now. Through the study of GameStop's financial statements and other information, this paper uses the SWOT analysis method to identify not only the core competencies and challenges faced by the company, but also to evaluate the impact of the short squeeze event on the company's development. Through the study, it was found that for GameStop, the huge turbulence in the stock market and the soaring stock price did not provide a good boost to the company's growth. For GameStop, its improvement strategy remains to enhance the competitiveness of its products, develop online shopping, strengthen the resistance of its supply chain, etc.

The paper also exists some limitations. Firstly, there is no analysis of what impact this event had on the company's reputation. Secondly, there is no in-depth analysis of the effect of the stock price on the company's operations and profitability. In the future, there should be more in-depth research on this short squeeze event.

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