

GameStop Corp., Q3 2021 Earnings Call, Dec 08, 2021

MD&A

Operator

Greetings, and welcome to GameStop's Third Quarter Fiscal 2021 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded and will be archived for 2 months on GameStop's Investor Relations website.

This call will include forward-looking statements, which are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Any such statements should be considered in conjunction with the cautionary statements and the safe harbor statement in the earnings release and risk factors discussed in the reports filed with the SEC.

GameStop assumes no obligation to update any of these forward-looking statements or information. A reconciliation and other information regarding non-GAAP financial measures discussed on the call can be found in the company's earnings release issued earlier today as well as the Investors section of the GameStop website. Please note that the company will not be hosting a question-and-answer session as part of today's call.

Now I would like to turn the call over to the company's Chief Executive Officer, Matt Furlong.

Matthew Furlong

Chief Executive Officer

Thank you. It's good to be with everyone. Before going over the quarter, I want to thank all our team members for continuing to bring tremendous focus and intensity to GameStop's mission. We continue to see a customer-first culture taking hold throughout our stores, fulfillment centers and corporate offices. Maintaining this emphasis on the customer will remain key as we work to grow across categories and new areas.

During the quarter, we focused on expanding our selection, accelerating delivery speeds and improving the customer experience. We also made long-term investments in our infrastructure, talent and technology. We believe our emphasis on the long term is positioning us to build what will ultimately become a much larger business, relative to where we are in 2021. We've also been exploring emerging opportunities in blockchain, NFTs and Web 3.0 gaming.

With this context in mind, here are a few recent initiatives of note. We continued growing our catalog by adding new products across consumer electronics, PC gaming and other categories with significant addressable markets. Some of the brands we've established new and expanded relationships with include Samsung, LG, Razer, Vizio, Logitech and ASUS, just to name a few. Sales attributable to these new and expanded brand relationships helped to drive growth in the quarter.

We also began implementing new assortment strategies within our stores, including an expansion of PC gaming merchandise across approximately 60% of U.S. locations. With respect to hiring, we kept adding talent across the organization, including specialists with experience in e-commerce, UI, UX, blockchain, operations and supply chain. Over the course of 2021, we have made more than 200 senior hires from some of the top technology companies.

We also recently added a new office in Seattle and have identified an office location in Boston, positioning us within 2 tech hubs with strong local talent markets. Having footprints in these cities will help us attract and retain tech-focused teams with expertise in e-commerce and other areas.

Shifting gears to our fulfillment network, we started shipping orders from Reno, Nevada, while increasing shipments from York, Pennsylvania. Our expanded network is continuing to help us improve shipping times to customers across the U.S. Additionally, we recently announced a plan to hire up to 500 associates at our new customer care facility in South Florida. The facility, which is now operational, will be a key part of our new U.S.-based customer care operation.

Lastly, we further strengthened our financial position by securing a new \$500 million ABL facility, which closed early in November and includes improved liquidity and terms. The facility provides for reduced borrowing costs, lighter covenants and more flexibility.

Let me now turn to our financial results for the quarter. Net sales increased 29.1% to just under \$1.3 billion compared to just over \$1 billion during the same period in 2020. As indicated in the past, long-term revenue growth is the primary metric by which we believe stockholders should assess our execution.

SG&A was \$421.5 million or 32.5% of sales compared to \$360.4 million or 35.9% of sales in last year's third quarter. We reported a net loss of \$105.4 million or \$1.39 per diluted share compared to a net loss of \$18.8 million or loss per diluted share of \$0.29 in the prior year third quarter. There were no onetime transformation transaction or related costs during the period.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of over \$1.4 billion, nearly \$1 billion higher than the end of the third quarter last year. We continue to maintain a sizable cash position, even while front-loading investments in inventory to meet heightened demand and mitigate the full impact of global supply chain issues.

At the end of the quarter, we had no borrowings under our ABL facility and no debt other than a \$46.2 million low-interest, unsecured term loan associated with the French government's response to COVID-19. Total liabilities compared to the third quarter of last year were down \$262.1 million.

Capital expenditures for the quarter were \$12.5 million, bringing year-to-date CapEx to \$40.7 million. We anticipate CapEx will continue to increase as we make pragmatic investments in our infrastructure and tech.

In the third quarter, cash flow from operations was an outflow of \$293.7 million compared to an outflow of \$184.6 million during the same period last year. In order to meet customer demand and drive sales growth amidst the tight supply chain, we grew our inventory to \$1.14 billion as of the close of the quarter, compared to \$861 million at the close of the prior year's third quarter. In terms of our outlook, we're not providing formal guidance at this time.

Before wrapping up, I do want to quickly reinforce some key points about our go-forward operating philosophy. Our emphasis on the top line stems from our leadership team's significant e-commerce experience and believe that revenue growth is critical. We believe revenue growth will translate to scale and market leadership. And from there, scale and market leadership will translate to greater free cash flows over time. Our focus on the long-term means we will continuously prioritize growth and market leadership over short-term margins.

I'll leave it there for this quarter. As always, we appreciate all the enthusiasm and support from our customers, employees and stockholders, who we believe are the best in the world. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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