

Gamestop

What Happened

In January 2021 there was a large spike[1] in GameStop's (GME) stock price which was the result of a massive pump caused by the long entries[2] of numerous retail traders[3] and small investors. In fact, it caused large losses to multibillion hedge funds that had open short positions[4], due to the declining financial performance of the company. The pump started through Reddit chatrooms and spread to various investment platforms like Robinhood.

GME's Stock Price Technical Analysis

For GameStop, this whole game between investors led to a huge profitability, in a particularly difficult period for them. Due to COVID-19 pandemic and the problem of downloading online video games, the company was forced to close many of its stores. Therefore, the bullish portraiture of its stock was a breather for the company.



Above is the chart of the company's stock price from January 2021 to May 2022. In the chart there is also added the 21 SMA (white line) which is the stock's 21 period moving average. The chart shows even more clearly the exponential rise of the stock that occurred in early 2021, which was sweeping compared to the prices it had previously. Below, you can see the financial statements of the company in more detail.

Financial Statements

Balance Sheet

In USD millions except per share amounts	2022	2021	2020	2019	2018
Period Ended	1/29/2022	1/30/2021	2/1/2020	2/2/2019	2/3/2018
Cash and Equivalents	1,271.40	508.5	499.4	1,624.40	854.2
Restricted Cash and Investments	33.1	110	0.3		
Trade Receivables	141.1	105.3	141.9	134.2	138.6
Inventories	915	602.5	859.7	1,250.50	1,250.30
Deferred Tax Assets, Current					
Divestment Assets, Current			11.8		660.1
Prepaid Expenses and Other Current Assets	238.2	224.9	120.6	118.6	115.2
Total Current Assets	2,598.80	1,551.20	1,633.70	3,127.70	3,018.40
Property, Plant and Equipment	163.6	201.2	275.9	321.3	1,586.30
Accumulated Depreciation					-1,235.30
Property, Plant and Equipment, Net	163.6	201.2	275.9	321.3	351
Right-Of-Use Assets	586.6	662.1	767		
Restricted Cash and Investments, Noncurrent	15.4	16.5	13.8		
Goodwill				363.9	1,350.50
Intangible Assets, Net					92.5
Deferred Tax Assets, Noncurrent	16.3		83	147.3	158.2
Other Assets	118.6	41.6	46.3	84.1	71
Total Assets	3,499.30	2,472.60	2,819.70	4,044.30	5,041.60
Accounts Payable	471	341.8	380.8	1,051.90	892.3
Taxes Payable, Current					37.5
Debt, Current	4.1	146.7		349.2	
Operating Lease Liabilities, Current	210.7	227.4	239.4		
Divestment Liabilities, Current					50.9
Accrued and Other Current Liabilities	668.9	626.8	617.5	780	950.1
Total Current Liabilities	1,354.70	1,342.70	1,237.70	2,181.10	1,930.80
Long-Term Debt and Capital Lease Obligations	40.5	216	419.8	471.6	817.9
Operating Lease Liabilities, Noncurrent	393.7	456.7	529.3		
Deferred Taxes, Noncurrent					5
Other Noncurrent Liabilities	107.9	20.5	21.4	55.4	73.4
Total Liabilities	1,896.80	2,035.90	2,208.20	2,708.10	2,827.10
Common Stock	0.1	0.1	0.1	0.1	0.1
Additional Paid In Capital	1,577.50	11		27.7	22.1
Accumulated Other Comprehensive Income	-68.7	-49.3	-78.8	-54.3	12.2
Retained Earnings (Deficit)	93.6	474.9	690.2	1,362.70	2,180.10
Total Equity Attributable to Parent	1,602.50	436.7	611.5	1,336.20	2,214.50
Total Equity	1,602.50	436.7	611.5	1,336.20	2,214.50
Total Liabilities and Equity	3,499.30	2,472.60	2,819.70	4,044.30	5,041.60
Receivables Reserve	3.3	3.6			
Preferred Stock, Shares Authorized					
Common Stock, Class A, Par Value	0	0	0	0	0
Common Stock, Class A, Shares Authorized	300	300	300		300
Common Stock, Class A, Shares Issued	75.9	65.3	64.3	102	101.3
Common Stock, Class A, Shares Outstanding	75.9	65.3	64.3	102	101.3

Income Statement

In USD millions except per share amounts	2022	2021	2020	2019	2018
Period Ended	1/29/2022	1/30/2021	2/1/2020	2/2/2019	2/3/2018
Operating Revenue	6,010.70	5,089.80	6,466.00	8,285.30	8,547.10
Cost of Revenue	4,662.90	3,830.30	4,557.30	5,977.20	6,062.20
Gross Profit	1,347.80	1,259.50	1,908.70	2,308.10	2,484.90
Selling, General and Administrative	1,709.60	1,514.20	1,922.70	1,994.20	2,031.90
Depreciation, Depletion and Amortization					
Restructuring and Impairment Charges	6.7	15.5	385.6	1,015.90	13.8
Total Operating Expenses	1,716.30	1,529.70	2,308.30	3,010.10	2,045.70
Operating Income	-368.5	-270.2	-399.6	-702	439.2
Interest Expense	-26.9	-32.1	-27.2	-56.8	-56.8
Interest and Investment Income				5.7	1.5
Gain (Loss) On Sale		32.4			
Total Other Income (Expense)	-26.9	0.3	-27.2	-51.1	-55.3
Income Before Income Taxes	-395.4	-269.9	-426.8	-753.1	383.9
Income Taxes	-14.1	-55.3	37.6	41.7	153.5
Discontinued Operations		-0.7	-6.5	121.8	-195.7
Consolidated Net Income (Loss)	-381.3	-215.3	-470.9	-673	34.7
Noncontrolling Interest					
Net Income (Loss) Attributable to Common Shareholders, Basic	-381.3	-215.3	-470.9	-673	34.7
Net Income (Loss) Attributable to Common Shareholders, Diluted	-381.3	-215.3	-470.9	-673	34.7
Basic Earnings Per Share	-5.25	-3.31	-5.38	-6.59	0.34
Diluted Earnings Per Share	-5.25	-3.31	-5.38	-6.59	0.34
Basic Shares Outstanding	72.6	65	87.5	102.1	101.4
Diluted Shares Outstanding	72.6	65	87.5	102.1	101.5

Cash Flow Statement

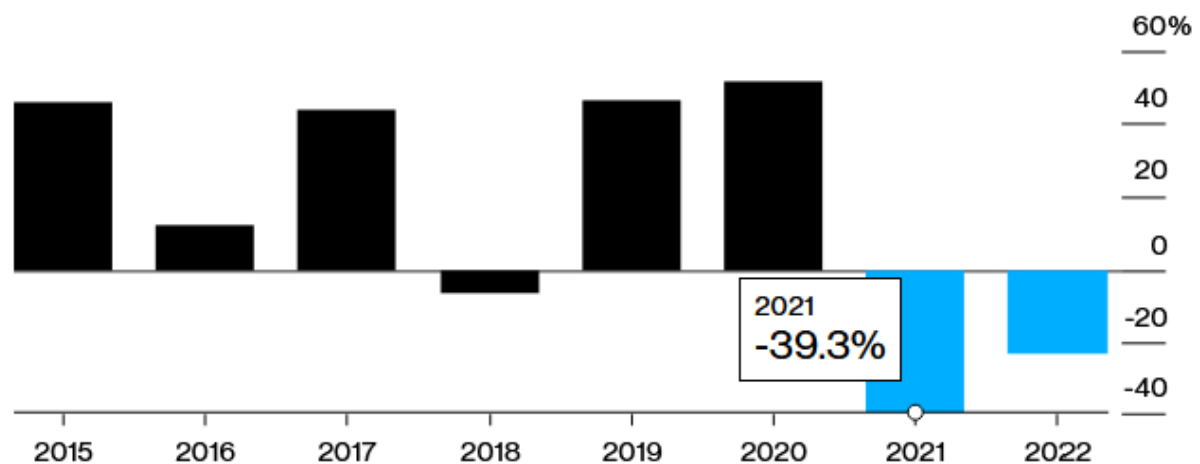
In USD millions except per share amounts	2022	2021	2020	2019	2018
Period Ended	1/29/2022	1/30/2021	2/1/2020	2/2/2019	2/3/2018
Net Income	-381.3	-215.3	-470.9	-673	34.7
Depreciation, Depletion and Amortization	77.2	80.7	96.2	126.9	151.9
Amortization of Financing Costs and Discounts					
Share-Based Compensation	30.5	7.9	8.9	10.7	25.6
Deferred Income Taxes and Tax Credits	-16.3	80.3	61.4	-4.1	-107.9
Gain (Loss) On Sale	5.4	-27.3	11	-98.8	2.1
Restructuring and Impairment Charges	24.9	14	385.6	1,015.90	395.1
Other Operating Activities	-3.5	2.4	4.1	6.9	-10.5
Change In Trade Receivables	-38.4	39.8	-10.9	-34.4	35.7
Change In Inventories	-329.6	282.4	361.1	12.6	-197.2
Change In Accounts Payable	224.4	-78.6	-792.8	-26	146.1
Change In Taxes Payable	-21.7	-87	-75.9	-18.7	-24.7
Change In Other Operating Assets and Liabilities, Net	-5.9	24.4	7.7	7.1	-16
Cash From Operating Activities - Continuing Operations	-434.3	123.7	-414.5	325.1	434.9
Net Cash From Operating Activities	-434.3	123.7	-414.5	325.1	434.9
Purchase of Property, Plant and Equipment	-62	-60	-78.5	-93.7	-113.4
Sale of Property, Plant and Equipment		95.5			
Acquisitions					-8.5
Divestitures			5.2	727.9	58.5
Sale and Maturity of Investments			12		
Other Investing Activities	-2.8	1.4	0.4	1.3	2.8
Net Cash From Investing Activities - Continuing Operations	-64.8	36.9	-60.9	635.5	-60.6
Net Cash From Investing Activities	-64.8	36.9	-60.9	635.5	-60.6
Short-Term Debt Issuances (Repayments)		47.1			
Long-Term Debt Issuances		150		154	373
Long-Term Debt Repayments	-332.4	-255.3	-404.5	-154	-394.8
Debt Issuance Costs	-3				
Equity Issuances	1,672.80			-5.1	
Equity Repurchases			-198.7		-22
Proceeds From Incentive Plans					
Dividends		-0.3	-40.5	-157.4	-155.2
Other Financing Activities	-136.8	3.1	-1	-12.2	-3.5
Net Cash From Financing Activities - Continuing Operations	1,200.60	-55.4	-644.7	-174.7	-202.5
Net Cash From Financing Activities	1,200.60	-55.4	-644.7	-174.7	-202.5
Effect of Currency Exchange Rate	-16.6	16.3	-6.9	-24.7	28
Other Cash Adjustments				10.2	-5.4
Change In Cash and Equivalents	684.9	121.5	-1,127.00	771.4	194.4

EBITDA was at 574.1 in 2018, 417.7 in 2019, 141.9 in 2020, (172.9) in 2021 and (281.2) in 2022 to date. As far as Long term debt is concerned, we observe a decrease of almost 45% since from 817.9 in 2018 it was found to 471.6 in 2019 and the next spectacular change took place between 2020 and 2021 where from 419.8 it was found to 216. And of course overall equally downward course, and the total liabilities. However, total equity also follows a downward trend over time from 2018 to 2021. And finally, assets follow the same downward trend. The reduction in total operating expenses could be considered as an encouraging element, but on the other hand, it may be the result of closing some stores and layoffs.

Hedge Funds και Melvin Capital

However, things did not go as well for the Hedge Funds and investors who shorted the company's stock. Desperate investors were asking for a government bailout, while investment platforms tried to control the frenzy by placing temporary restrictions on investments in GameStop stock. A typical example is the case of Melvin Capital, a fund of 14.9 billion which was led to stop its operation. Below is a case study for this certain fund.

A regular Melvin tactic was shorting companies. So, almost immediately after its founding, it chose to bet against GME from 2014 to 2020. This gave it a profit with returns exceeding 30%, but in 2021 things changed. More specifically, during the first three months of 2021, Melvin Capital lost 49% of its investments. In response to this "bleeding", Citadel and Point72 provided a \$3 billion bailout. According to regulatory figures, it is estimated to have lost around \$7 billion. The company's fiasco combined with the pandemic has led the hedge fund and its founder Gabe Plotkin to shrink \$3.7 billion in assets under management to be more nimble and deliver better returns to its frustrated investors. After ultimately unsuccessful rescue attempts, on May 18, 2022, the fund manager announced its shutdown in a letter to the fund's financiers. Immediately followed the liquidation of its funds and return of the money to the investors.



Source: Bloomberg reporting

Note: 2022 return is YTD through April 30.

The chart above shows the change in the fund's profitability rate.

<https://www.bloomberg.com/news/articles/2022-05-18/gabe-plotkin-s-melvin-capital-to-wind-down-funds-after-losses>)

Indicatively, the following is a list of 7 other Funds that lost money from the short positions they had against GameStop, according to infinity investing. First, Light Street Capital, a fund of \$3.3 billion in assets, lost 20% of it and even worse, White square capital was forced to cease operations and return funds back to its investors. Additionally, Point72 Asset Management lost 15% of its assets over the same period, while Citron Capital lost 100% during the stock's bullish period. Finally, D1 Capital Partners recorded 20% losses, Maplelane Capital lost around 33% of its capital and Candlestick Capital Management was among the funds that recorded significant losses during that period.

A legal Market Manipulation?

It is well known that in the investment world, it is illegal for someone to steer the market in one direction in order to lure others in for their own benefit. However, is this such a situation? The U.S. Securities and Exchange Commission, in its statement, announced that it will thoroughly examine the event to determine if there was manipulation in the market. However, in the end, until today, it does not seem to have been proven to be such a thing. More specifically, many experts argue that there is no manipulation as the stock rose due to the participation of many small investors who may indeed have seen some potential value in it[1]. **Additionally, regarding Keith Gill, who seems to be the "pioneer" of this movement on Reddit (who managed to become \$48 million richer), although he found himself having to face many lawsuits, in the end it didn't turn out to be no case created manipulation. So in this case, we may say that there was legal market manipulation.**

Conclusion

The case of GameStop was so shocking, as it was the first time that small investors stood up against the big funds. This is where the popularity of this movement lies, as via Reddit it was presented as a revolution against institutional investors. And it really worked! As shown through this report, lots of billion dollars were lost from many hedge funds worldwide. This coordinated movement, made by small investors, finally brought them a profit. It was the first time that such a move was made and the power of social media in the stock market was shown.

