
GameStop (NYSE:GME) Stock: It's Game Over

### Description

Last week, **GameStop** (NYSE:GME) released its first annual earnings since the meme stock craze of January and February. Overall, they were rather disappointing. While not *all* of GameStop's financial metrics for 2020 were poor, the most important ones (revenue and net income) missed. Diluted EPS underperformed estimates by US$0.08, while revenue was a full US$109 million short of expectations. If present trends continue, GameStop stock is likely to underperform. In this article, I'll explore GameStop's recent earnings and what they mean for shareholders.



## Disappointing earnings

Gamestop's 2020 earnings broadly missed targets, with the following metrics being among the key highlights:

- Revenue: US$2.122 billion, down from US$2.194 billion
- Net income: -US$215 million
- Gross profit: US$1.25 billion, down from US$1.9 billion

These numbers were broadly poor. They missed analyst estimates and were mostly down year over year. Net income was one exception: the US$215 million loss was actually an improvement over the US$470 million loss in 2019. But overall, Gamestop's most important metrics got worse in 2020.

That's not to say that there were no strong points in GameStop's earnings report. If you look at the fourth quarter alone rather than the full year, GameStop did crank out a US$80 million profit. Also, e-commerce surged 175% for the fourth quarter and 191% for the year. There were some high notes amid all the bad news, but the overall thrust of the report was negative. Certainly, it wouldn't justify the valuation reached at the height of the meme stock craze.

## Can e-commerce save GME?

One interesting question about GameStop is whether e-commerce can save it from its long-term sales decline. As mentioned previously GameStop's sales decreased in its most recent quarter. However, the magnitude of the decline was not large (about 3.2%), and e-commerce sales grew 191%. In the fourth quarter, e-commerce made up 34% of total sales. Given that sales only declined 3.4% overall, it looks like another year of 191% growth in e-commerce could easily restore GME to positive sales growth.

Certainly, that could come to pass. But the company faces an uphill battle. Today, the vast majority of gamers download their games online. Usually, they'll only buy physical copies when they want to buy used, or when their console hard drive is full. It's hard to beat the convenience of online sales. Also, some game developers (like **Nintendo**) don't allow retailers to offer discount prices. In light of this, it looks like GameStop will have to rely on console sales and perhaps game-related toys/merch to drive its sales going forward. It's hard to imagine sales of these items competing with GameStop's glory days as a game vendor.

## One meme stock that *might* be worth owning

While GameStop delivered iffy results in its most recent quarter, another meme stock could be worth looking at.



Like GameStop, **BlackBerry** (TSX:BB)(NYSE:BB) got bid up in the meme stock frenzy of January and February 2021. Unlike GameStop, it is situated in a growth industry rather than a declining one. AI-powered car software is expected to grow by 14.5% CAGR from 2020 to 2017. And BlackBerry is one of the main players in the space. This year, the company revealed that its QNX software was running on 175 million cars. Its software revenue has been growing over the last several years. These facts in themselves certainly don't make BB stock a buy. But the company appears to have better growth prospects than GME, whose entire industry niche is rapidly becoming obsolete.

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