Gamestop (GME) Earnings Report: Q2 2015 Conference Call Transcript

The following Gamestop conference call took place on August 27, 2015, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Paul Raines; GameStop Corporation; CEO
- Rob Lloyd; GameStop Corporation; CFO
- Tony Bartel; GameStop Corporation; COO
- Mike Mauler; GameStop Corporation; President - International
- Mike Buskey; GameStop Corporation; President - US Stores
- Mike Hogan; GameStop Corporation; EVP - Strategic Business

Other Participants

- Colin Sebastian; Robert W. Baird and Company, Inc.; Analyst
- Brian Nagel; Oppenheimer and Co.; Analyst
- Mike Olson; Piper Jaffray and Co.; Analyst
- Arvind Bhatia; Sterne, Agee and Leach, Inc.; Analyst
- Curtis Nagle; BofA Merrill Lynch; Analyst
- David Magee; SunTrust Robinson Humphrey; Analyst
- Seth Sigman; Credit Suisse; Analyst
- Scott Tilghman; B. Riley and Company; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good day, everyone. Welcome to GameStop Corporation's second quarter 2015 earnings conference call. A supplemental slide presentation is available at investor.GameStop.com. At the conclusion of the announcement, a question-and-answer session will be conducted electronically.

(Operator Instructions)

I would like to remind you that this call is covered by the Safe Harbor disclosure contained in GameStop publication documents and is the property of GameStop . It is not for rebroadcast or use by any party without prior written consent of GameStop .

At this time, I would like to turn the call over to Paul Raines, CEO of GameStop . Please go ahead.

Paul Raines (CEO):

Thank you, Operator, and welcome to the second quarter earnings call for GameStop . As always, we are grateful to our associates around the world for their performance and dedication to customers this quarter. They are the secret to GameStop 's success.

Joining me today on our call are Rob Lloyd, Chief Financial Officer; Tony Bartel, Chief Operating Officer; Mike Mauler, President of International; Mike Hogan, Executive Vice President of Strategic Business; Mike Buskey, President of US Stores; and Matt Hodges, our Vice President of Public and Investor Relations.

We had a great quarter. Earnings per share growth was well ahead of consensus, growing 41% year-over-year. Our earnings per share grew 41% on top of 144% growth in last year's second quarter.

So comps are strong in the video game business, delivering 8.1% on top of last year's 22% comp. Digital growth without FX was 17.5% and preowned growth without FX was over 5%.

Technology Brands grew their store count by an impressive 182 stores, now standing at 731 stores. Spring Mobile is now AT&T's largest dealer and our acquisition pipeline is full. Rob and Tony will provide color on the video game business and the Tech Brands metrics.

During the quarter, we closed on our acquisition of Geeknet and the ThinkGeek.com brand. We are very excited about this opportunity and have spent significant time with the Geeknet team on the integration plan. Mike Hogan will share some early color on our progress.

Our Collectibles, or loot business, had a very good quarter. What was once an experiment in Australia a little over two years ago has turned into a global business that is feeding rapid growth. As we see opportunities, we will continue to remodel GameStop stores to give more linear footage to loot merchandise and less to video games, providing us a great competitive lever for the video game publishers.

Integration with ThinkGeek will only help this business. Mike Mauler will update you on our global progress.

Last quarter's capital allocation was again disciplined, as we paid our dividend of $0.36 per share and bought back $60.7 million worth of our stock.

Taking a moment to step back and look at the business, you have to recognize that we have a knack for identifying and developing opportunities in transformational technology and business acquisitions that are paying off for shareholders. Our early and rapid investments in refurbishing mobile devices has turned into our Technology Brands unit, the fastest growing AT&T and Apple dealer in America.

Our ability to adapt a great idea from Australia, adjust it to American consumers and roll it quickly has turned into our strong lineup of loot and collectibles products. And our strong balance sheet allows us to capitalize on this success by rolling up great assets, like Geeknet .

Our GameStop Technology Institute, announced in March of 2014, has developed an in-store tablet that is already rolling out nationally and we have developed beacon solutions that will soon be implemented, as well. Our digital solutions of DLC, Steam, full-game download, Kongregate and Digital Game Informer, among others, are continuing to grow and will provide a nice $1 billion business this year. Underpinning all of these great ideas is great execution and the PowerUp rewards program.

It is clear to us now that we are finding new uses for our brick and mortar stores, as well as our websites. And behind them is probably our biggest asset, the customer data behind all our transactions.

Our ability to diversify our business has been the correct strategy, building on our leadership in video games, while exploiting our core to grow rapidly in digital, mobile, and collectibles. In the most recent quarter alone, those new businesses accounted for almost 23% of our gross profit and we expect to see that grow.

You should note that our 32.9% gross margin rate for the second quarter was among the highest in our history and gross profit dollars were a company record for the second quarter. Other categories, like preowned, may fluctuate depending on mix and promotions; but our ability to diversify into richer lines of business and products is allowing us to increase profitability.

We provided guidance for Q3 that is slightly down to modestly up and increased our full year guidance by the share count bought back in the quarter. We learned in our investor survey that setting achievable targets is important to you and expect to continue doing so.

We continue to spend a lot of time internally and with our Board on our strategic plan, assessing the size of markets and their adjacency to our core customer base. We seek more opportunities to leverage our core competencies of real estate, human talent, capital, buy, sell, trade, and PowerUp rewards into attractive new segments. A high rate of change will continue to define us and will protect our family.

I will now turn the call over to Rob.

Rob Lloyd (CFO):

Thanks, Paul. Good afternoon, everyone. I'll start today by covering the highlights of our successful second quarter and then I'll dive into some color on the quarter.

Overall results exceeded our expectations again this quarter in terms of revenue growth, same store sales, operating margin, net income, and EPS. Sales increased 1.8% in the quarter, or 7.4% excluding FX. Comparable store sales increased 8.1%, exceeding the high end of our guidance range by over 500 basis points.

Gross margins expanded 110 basis points on the strength of growth and margin expansion in Mobile and growth in Collectibles, leading to record second quarter gross profit of $580.5 million. Adjusted operating earnings increased over 65% for the quarter, driven by our sales growth in Collectibles and margin expansion in Mobile.

During the quarter, we incurred one-time charges of $9.1 million, primarily relating to the Geeknet acquisition and Tech Brands expansion, which included Radio Shack store acquisition costs.

SG&A adjusted to exclude charges as a percentage of sales was 27.3%, down slightly from 27.5% in the prior year quarter, despite investment supporting Tech Brands' expansion. Interest expense increased $4.5 million due to the $350 million in debt outstanding. Adjusted net income increased 34.6% and adjusted EPS increased over 40%. Foreign currency moves reduced sales nearly $100 million, but had minimal impact on EPS.

Now let's look at sales and margin during the quarter for some of the categories. Hardware sales decreased 2.2%, but increased 3.7% excluding FX, because of strong demands for the PlayStation 4 and Xbox One. In the US, we sold 42% more next gen consoles than in the second quarter of 2014, leading to the outperformance in the comp results.

Software sales declined 6.0%, but increased 0.7% excluding FX, as we overcame the comparison to Watchdogs and Mario Cart 8 from last year with strong performance on Witcher 3 and Batman Arkham Knight. Preowned revenue grew 0.5%, or plus 5.1% excluding FX, as we saw continued growth in next gen preowned hardware and software.

Preowned margin rates were 46.0%, down 100 basis points from the prior year, due to higher refurbishment costs on an increased mix of hardware and accessories trades which were driven by the successful trade-up campaigns we ran during the quarter.

Digital receipts on a non-GAAP basis grew 11.1%, or 17.5% excluding FX, to $199 million for the quarter. As we said in the release, growth was led by sales of DLC for Witcher 3 and Batman Arkham Knight.

GAAP digital revenues declined 20.5% year-over-year, due to FX impact and because of accounting for Kongregate on a net commission basis, as we discussed in the first quarter call. Mobile revenues increased 26.9%, driven by 62.3% growth in our Technology Brands revenues, and gross margins increased from 36.1% in Q2 last year to 45.4%.

As we stated on the last call, as we continue to rapidly expand our Tech Brands footprint, there will be upfront investment costs in order to ensure successful openings.

This will impact short-term operating results, but will ultimately provide sustainable profits for the Company. During the second quarter, we invested over $5 million for the 89 stores we opened and for the 90 to 100 stores to be opened during the third quarter. Q2's Tech Brands store growth also included the acquisition of three AT&T resellers totaling 93 stores, most of which were acquired at the end of July.

Revenues in the Other category increased 37.7% to $99.4 million, or 48.5% growth excluding FX, as we continue to expand our Collectibles business.

Some other data points are as follows. We closed a net of 33 video game stores around the world. As Paul mentioned, we closed the acquisition of Geeknet , including the ThinkGeek brand and e-commerce site. The acquisition cost was $126 million net of cash acquired. ThinkGeek will be accretive in the second half of the year.

In the quarter, we repurchased $60.7 million in stock, or 1.41 million shares at an average price of $43.04. We surpassed the $1.8 billion mark in cumulative buybacks, with over 71 million shares acquired at an average price of $25.28. We remain committed to our buyback program and are on track to meet our 2015 objective of repurchasing at least $200 million of stock.

We also paid the second quarter dividend at $0.36 per share. In the last 12 months, we've generated approximately $500 million in free cash flow and have returned $466 million in dividends and buybacks and have used an additional $247 million on acquisitions.

Now let's move on to third quarter guidance. As stated in our earnings release, we expect same store sales to range from plus 1% to plus 4% and revenue growth to range from flat to positive 4%. Changes in foreign currency rates are expected to again negatively impact revenues by approximately $100 million when compared to the third quarter of last year.

Again this quarter, we expect monthly software results from NPD to vary dramatically. The August title lineup is lighter than last year, with Madden being the only comparison. In September, we will be comping (Inaudible), which is a very tough overlap, as this year's version is only an expansion pack. Assassin's Creed and Halo should give us a favorable comp in October.

Due to our over-indexing and market share on Destiny from last year, we are expecting new software revenues to be down in the third quarter. According to NPD, in the US nearly 3 million units of Destiny were sold across four platforms in the third quarter of last year. This quarter's most anticipated title is expected to be Halo 5, which launches very late in the quarter and will only be available on one platform.

We also expect a slight decline in the preowned margin rate, as the mix shifts to next gen from prior gen and as we continue to invest in refurbishment of preowned consoles to support sales growth. Our repair costs remain comparable, while preowned hardware prices decline over time. Also, as a reminder, sales of next gen preowned units have a lower overall margin than prior gen units due to higher trade-in prices, which is typical in a new console cycle.

We are forecasting preowned margin to be between 44% and 46% for the balance of the year. Overall, we expect to expand gross margins compared to the prior year quarter, as other areas of our business, such as Mobile and Collectibles, positively contribute to our profits.

Despite the upfront investments to support the store openings which I described earlier, operating earnings for Tech Brands in the third quarter are forecast to be comparable to the prior year quarter and are expected to grow significantly in the fourth quarter.

We are guiding earnings per share for our third quarter to range from $0.53 to $0.60 per share. We are expecting a 37% tax rate for the quarter, which is higher than we had in the third quarter of last year, and we will have approximately $0.02 per share in additional interest expense. You should model 106.7 million shares outstanding for the third quarter and 107 million for the full year, based on buybacks through the end of the second quarter.

For the full year, total revenues are now expected to range from flat to positive 5% and same store sales are now expected to range from positive 2% to positive 7%. After considering buybacks we have completed thus far, we are raising our full year guidance from a range of $3.63 to $3.83 per share to a higher range of $3.66 to $3.86 per share.

I will now turn it over to Tony for his comments.

Tony Bartel (COO):

Thanks, Rob.

Our retail operations had another strong quarter, as we continue to capitalize on our unique specialty service model and grow our new, preowned, and digital video game business, as well as our Technology Brands business. We believe that service matters and that our businesses are expanding because we meet the needs of our customers better than any of our competitors.

In new video games, we again increased share, as our US software grew 1.2% versus a decline in the overall market. Our software share increased by 1 point, and we continue to sell over one-half of all Xbox One and PS4 software.

Our US new hardware dollar sales grew 13.6% during the quarter versus a decline in the overall market, resulting in 4 points of hardware market share gain during the quarter. The comps [for] launch remained strong in its 22nd month, as we have tripled the number of PS4 units that were sold versus the PS3 launch and have nearly doubled the Xbox One units versus the Xbox 360 launch.

Our preowned business outpaced the new business and grew during the quarter, as we logged 0.5% growth after FX and 5% growth prior to the impact of FX. As is normal during this part of the launch cycle, our increasing mix of next gen sales is driving this growth.

We are also in a good inventory position, as our preowned inventory dollars are up 6% over the same period last year, driven entirely by next gen hardware and software growth. So we are well poised to achieve mid-single digit global preowned growth for the full year.

Looking at digital, we again drove double-digit growth in non-GAAP digital receipts, which increased 17.5% before FX and 11.1% after FX. This growth was driven mainly by the increase in downloadable content that was sold with new game launches. Kongregate will launch seven new mobile games this quarter and is on track to grow mobile gaming revenues by approximately 50% for the full year.

It is important to note that during the recent release of EA's Madden 16, we worked with our partners to offer a free physical game with the purchase of either a PS4 or Xbox One and did not carry the Xbox One digital bundle. We expect that if a game is provided as a promotional item in a hardware bundle, GameStop will see more of these physical offers than digital pack-ins on upcoming third-party releases.

In our Tech Brands segment, we continue to extend our sales leadership of AT&T and Apple's brands in a high service manner, as our Technology Brands division is experiencing explosive growth. We continue to execute our strategy of rolling up smaller dealers to improve productivity and leveraging our real estate expertise in adding new locations.

Our Technology Brands division has had a very productive summer, opening or acquiring 182 stores since the end of Q1. Our store count as of the end of Q2 stands at 731 stores. This represents a 129% increase in store count versus the end of Q2 2014.

While we still plan on adding between 450 to 550 Technology Brands stores this year, the bulk of our investment spending is behind us and we anticipate seeing strong growth in the back half of the year, culminating in our Technology Brands profits growing between 40% and 50% for the full year without infrastructure investment costs and 10% to 20% after such investment costs. This also sets us up for strong growth in 2016 and beyond.

Our Spring Mobile division is now not only the largest and fastest growing AT&T dealer, but they continue to be the most productive dealer, as well. Jason Ellis, our Senior Vice President of Technology Brands, and his team have done a great job of growing their business while maintaining a high service standard. We are also the largest and fastest growing Apple authorized reseller and a top five Cricket dealer.

In early August, we also began selling DirecTV in all of our Spring Mobile stores, so we are now offering a full line of AT&T products and services in all of these stores. We are confident in our specialty retail expertise across all of our brands and optimistic about continued growth in the back half of the year and in 2016.

Finally, we leave this weekend for our annual store managers conference in Las Vegas, which will boast approximately 6,000 leaders from all of our companies and from around the world. We will have top leaders from all of our partners talking directly with our field leaders about their newest innovations and their plans for growth.

The managers will also get hands-on experience on the latest innovations, most of which have never been seen by the public. This investment ensures that we will have the knowledgeable sales team in our industries and allows us to continue to provide better service than our competition.

With that, I'll turn it over to Mike Mauler.

Mike Mauler (President - International):

Thanks, Tony. Good afternoon, everyone.

GameStop 's international businesses had a strong second quarter, exceeding expectations with record market share and a significant improvement in operating earnings over Q2 2014, led by our Australian business with a 10.2% same store sales increase.

Driving our increase in international earnings was digital receipt growth of 20% excluding FX, 30% e-commerce growth excluding FX, driven by expanding web and store sales, and the continued expansion of licensed merchandise and collectibles, or what our customers like to call loot. In the second quarter, loot was our fastest growing sales category, with global sales growing by more than 200% versus prior year, increasing customer basket size and expanding our gross margin rates.

This rapid growth was driven by our continued expansion of the category in GameStop stores, improved merchandising and marketing expertise in the category, developing exclusive products, leveraging recent fan events, such Comic-con, and exciting new product IP such as Minions, Inside Out, The Avengers Age of Ultron, and Batman Arkham Knight.

As mentioned on the last earnings call, as sales have continued to climb on these new products, we are increasing the space devoted to the category in all markets. Our second wave of in-store expansion was completed in the second quarter, generating strong increases in loot sales, as well as expanding our customer base and driving increased traffic in our stores.

Finally, due to the success of our new stand-alone retail concept dedicated to loot, we have continued to expand the Zing pop culture pilot in Australia and other markets. We ended the second quarter with 14 stores in Australia and one store in Dublin.

We will continue to expand this new concept in the second half of 2015 in other markets, including the United States, where we'll be opening our first location this fall under the brand name of ThinkGeek, leveraging the powerful brand of our recent acquisition of Geeknet . Mike Hogan will provide more details on this new business.

The expansion of this category continues to be met with very enthusiastic demand from our store associates and customers. And we expect continued strong sales growth in the second half of 2015, driven by many outstanding entertainment launches, such as Fallout 4, Hunger Games Mockingjay, and Disney's upcoming blockbuster Star Wars Episode 7, The Force Awakens, where we are seeing very strong preorders on our exclusive loot offerings. For the year, we are targeting sales of $200 million to $250 million, not including ThinkGeek.

We are excited by this opportunity to drive continued same store sales and margin growth and increasing relevance with our customers. And we expect this category to grow to an over $500 million business globally over the next three years. And now I will turn it over to Mike Hogan.

Mike Hogan (EVP - Strategic Business):

Thanks, Mike, and good afternoon, everyone. Paul asked me to comment briefly on our recent acquisition of ThinkGeek, our progress to date and our plans.

As discussed previously, GameStop initiated a robust business development process a number of years ago to facilitate our diversification efforts. We are constantly exploring new opportunities that can apply core GameStop capabilities to drive future growth and value. Geeknet , or ThinkGeek, is a great example. We are expanding into a growing $20 billion worldwide category where we can leverage our core strengths to drive non-gaming revenue, growth and profitability.

ThinkGeek provides a significant expansion of our global multi channel platform. We will utilize their product development and licensing expertise to broaden our collectibles product offering and deepen our existing customer relationships, while adding new ones. It is worth noting that GameStop 's global multi channel business posted 28% growth for the second quarter. Multi channel is a key growth driver and we expect ThinkGeek to be a big part of continuing that growth.

Although the transaction closed a mere six weeks ago, I'm happy to report the integration is off to a great start. We continue to see great value in this acquisition.

I want to begin by sharing a few key facts regarding the GameStop and ThinkGeek customer base, where we see significant opportunity. GameStop customers are a great fit for collectibles. In a recent survey, 67% of GameStop customers indicated they plan to purchase collectibles in the next 12 months, which is a huge opportunity for us to tap into.

Our PowerUp base aligns well with the category. 45% of PowerUp members have purchased collectibles in the past six months, as compared to only 22% for all US consumers, and we see upside for these current buyers. While PowerUp members are spending twice as much on collectibles as the average category buyer, ThinkGeek customers actually spend four times the average. We see significant upside for PowerUp member spending and for the category overall.

ThinkGeek is a powerful brand. 46% of PowerUp members are already familiar with the brand, double the awareness for all consumers. And finally, consumers are extremely satisfied with ThinkGeek, giving the brand a very impressive 68% Net Promoter Score.

Now a few thoughts on synergy and the growth opportunity. On the cost side, we are already seeing supply chain and purchasing synergies, some of which will positively impact the business in the current fiscal year. Geeknet posted an $8 million loss in FY14. We expect the business to already be profitable for the back half of this current year.

There are a number of specific growth opportunities we are very excited about. Web traffic. We recently began highlighting a few ThinkGeek products on GameStop.com to refer traffic. GameStop is already driving greater than 10% of total ThinkGeek traffic.

Profitable customers. GameStop provides a high value customer for ThinkGeek, similar to what we have done successfully for Kongregate with mobile game purchasers. As with Kongregate, we expect traffic from GameStop to convert well above the average.

Web in store. We have added a number of top selling ThinkGeek products to our GameStop web in store program. This allows customers in GameStop stores to order products for home delivery. We just opened this up last week and we have already sold out of several key products.

Profitable promotions. GameStop and ThinkGeek collaborated to execute a 16th anniversary sale last week, which resulted in ThinkGeek's second highest gross margin day this year.

Pipeline. We expect significant growth in the back half of the year. We are excited about many exclusive new products, including a full lineup in support of the new Star Wars movie.

International expansion. We are also excited about the potential for offering ThinkGeek products in our European stores. We have already begun shipping a limited selection for the fall. ThinkGeek products are currently available in our Australian stores, as well.

As Mike Mauler mentioned, we will have several ThinkGeek stores opening in the US this fall and we will feature ThinkGeek heavily at our managers show in Las Vegas next week. We are very pleased with the progress to date and we anticipate meeting or beating our initial synergy and growth expectations.

And finally, for those of you making up your holiday gifts lists early, I wanted to highlight a few unique products that ThinkGeek will be featuring over the next few months. Don't miss out on the Star Wars R2D2 bento box. The Death Star waffle maker is sure to be a hit, or maybe a Tesla vacuum tube wristwatch or the ever popular Knight Rider Kit car charger. You can all look forward to seeing one of these in your Christmas stocking.

I will now turn it back over to Paul.

Paul Raines (CEO):

Thank you, Mike. We will now open it up for Q&A. Operator, please proceed.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

We'll take our first question from Colin Sebastian from Robert Baird.

Colin Sebastian (Analyst - Robert W. Baird and Company, Inc.):

Great. Thanks. Good afternoon and congratulations on a very nice quarter.

Paul Raines (CEO):

Thank you, Colin.

Colin Sebastian (Analyst - Robert W. Baird and Company, Inc.):

Thanks. Paul, first I wonder if you could add some color on the plan to reconfigure the stores, reduce the size of the video game category and how you'll manage that change, including timing.

And then secondly, looking back at the Q2 numbers, clearly you saw strength in the mobile and consumer electronics segments. Video game products declined a little bit. I wonder if you're seeing any impact there from full game downloads.

And then lastly, in terms of the outlook for the remainder of the year, if you could maybe talk about some of the titles where you're perhaps seeing some particular strength in preorders, that would be helpful. Thank you.

Paul Raines (CEO):

Thanks, Colin. Let me start and handle the first, and maybe Tony and Rob, you two guys think about two and three, on what you think. I think Colin, the way we see it, this loot thing, we've been researching it, Mauler and the team in Australia have been researching it for a couple years. It hasn't been a sudden event.

What we see, though, is that there's a tremendous adjacency between popular culture and video games. And if you remember back to our franchise marketing efforts that we did a few years ago, we know that when the consumer is at a launch, they want to get every kind of item they can related to that particular title. If you're in line for Batman, you want the Batman T-shirt, the game, everything that there is.

And of course, there's always been a lack of that merchandise. So we believe that the loot has a significant place in our stores. Even if I was here today -- Mike Buskey's here, our store leader. Mike, I think, what are you at, 20% overall loot space, probably growing?

Mike Buskey (President - US Stores):

Yes. Yes.

Paul Raines (CEO):

It's going to be a big bigger part of our business. We believe it's a good investment in space, and candidly, it gives us good leverage with publishers who haven't had that kind of competition before. So I think that's a good use of our space. And as long as it's productive, I think we should continue to do so. What about mobile consumer full game downloads. Who wants to take that one?

Rob Lloyd (CFO):

Colin, it sounded like you said the video game products were down. I want to correct that and say that before the impact of FX, hardware was up, software was up, preowned was up, accessories were up and digital was up. So we're very pleased with what we saw in the quarter in the core video game business. I think I'll turn it over to Tony for any specifics on what we saw on the digital side.

Tony Bartel (COO):

Sure. And we continue to attach at a very high rate. For instance, in Madden that just launched, we had a 42% attach rate of digital to that title. So we have a very strong attach rate, and we continue to be --

Paul Raines (CEO):

That's very high.

Tony Bartel (COO):

Very high. And we continue to be good at letting people understand exactly what they can buy from a digital standpoint. Remember that digital always suffers from two things, discoverability and affordability. And we do a great job on both of those fronts.

In terms of the games that we're very excited about, it's really the new, some of the new IP, or at least IP that hasn't been out for a little while. Halo 5 is launching, as Rob talked about. It's going to be stronger in the fourth quarter than it is in the third quarter, because it launches so late in our third quarter.

Call of Duty Black Ops 3, we're excited to see the three-year development cycle, and so very excited about that game coming out. Fallout 4, which is announced, is also a game that we're looking forward to, and then Star Wars Battle Front, which is a whole new IP. So we're really excited about these new titles and that's why Rob, I think, shared his enthusiasm around the fourth quarter growth.

Colin Sebastian (Analyst - Robert W. Baird and Company, Inc.):

Thanks. See you next week.

Tony Bartel (COO):

We'll see you then.

Paul Raines (CEO):

See you there.

Operator:

We'll go next to Brian Nagel with Oppenheimer.

Brian Nagel (Analyst - Oppenheimer and Co.):

Good afternoon. Congrats on a nice quarter.

Paul Raines (CEO):

Thanks, Brian.

Brian Nagel (Analyst - Oppenheimer and Co.):

A couple questions. First off, maybe somewhat of a follow-up to the prior question, but on software, there was some noise there as we look at that year-on-year growth, given the currency fluctuations and then some of the comparisons with last year's launches.

But as we step back from that and you look at the underlying trends there, how would you characterize the underlying software sales trend, particularly with respect to the new generation sales versus current and prior generation sales? And then I'll have a follow-up question.

Paul Raines (CEO):

Tony, you want to take that one?

Tony Bartel (COO):

Sure. Given that the launch has been incredibly strong, we see them as definitely participating in that. Clearly, we've talked about attach rates are a bit lower.

And when you take a look at our attach rates on this incredible launch cycle that we have, when you look at our physical and our digital attach rates together, we're very consistent with the prior launch. So when you think about the fact that we've tripled the amount of units that we sold on the PS4 and almost doubled the Xbox One, you see that we have a very strong -- we feel very good about the growth that we're seeing.

Paul Raines (CEO):

Mike, anything you want to say on international unit growth pre-FX versus --

Mike Mauler (President - International):

I think what we're seeing is pretty strong software growth on new releases, especially new IP. We've talked about that little bit of (Inaudible). And so when you look at reservations for the big titles this fall, we're continuing to see that trend, where some of the new IP that's coming onto the new gens has really got a lot of customer excitement around it.

Brian Nagel (Analyst - Oppenheimer and Co.):

I thought you'd given us in the past the actual year-on-year growth in new generation software titles. Is that something -- and if you have, what was that number here in Q2?

Tony Bartel (COO):

The number in Q2 was 64%. This is US numbers. So 64% for the PS4 and Xbox One, and down 56% on the PS3 and Xbox 360. So clearly, the one thing that is different in this launch cycle versus the other is the fact that PS3 and Xbox 360 have fallen off faster, and we've said that multiple times.

And so what we're seeing is very robust sales of PS4 and Xbox One offset by accelerated decline in PS3 and Xbox 360, on the new side. Now the preowned side is obviously outperforming that, which is why we actually grew faster than new this year, this quarter.

Brian Nagel (Analyst - Oppenheimer and Co.):

The other question with respect to guidance, and Paul, I heard your comments early, and you've made those comments before, about wanting to put numbers out there that are achievable. But you beat the -- EPS beat the mid-point of your guidance here by $0.08, and you're lifting your range, both the top and bottom end, by $0.03, so it's $0.05 that goes away there. Is that simply GameStop wanting to be conservative or should we read something else into that?

Paul Raines (CEO):

I wouldn't read anything else into it. I'll let Rob answer the meat of the question. Here's a couple things. There's, what, 75% of the year is left? A lot can happen in the rest of the year. We don't know. And number two, you told us, investors told us in the survey that we've done that you want us to set targets we can achieve. So we're trying to set those targets. Rob, what else would you say about it?

Rob Lloyd (CFO):

The point is I was going to make was that we're only a quarter of the way through the earnings for the year, and there is a lot to be learned from the titles as they come out this fall. And so we're a little cautious there.

Paul Raines (CEO):

I think if what you're worried about is, is there a looming digital scenario out there, I would say not one that we know about, that's for sure. But we're just trying to be cautious and trying to manage expectations and serve our shareholders.

Brian Nagel (Analyst - Oppenheimer and Co.):

Thank you and congrats again.

Paul Raines (CEO):

Thank you.

Operator:

We'll go next to Arvind Bhatia from Sterne Agee.

Paul Raines (CEO):

Hello, Arvind.

Operator:

Let's go to Mike Olson with Piper Jaffray.

Paul Raines (CEO):

Hello, Mike.

Mike Olson (Analyst - Piper Jaffray and Co.):

Hello, guys. Good afternoon. Just had a couple questions. If you look at the Collectibles, which is obviously doing well, growing fast, if you look at that in isolation, is the gross margin for Collectibles higher than your broader video game business, including software and new hardware, preowned? In other words, if Collectibles continues to grow, is that a favorable long-term trend for gross margin or not?

And then my other question was, last quarter you mentioned that preowned growth would accelerate throughout the year and end up outpacing new software growth by the end of the year. It sounds like that's still the case, but just wanted to check back on that.

Rob Lloyd (CFO):

Mike, this is Rob. The Collectibles category is margin accretive for us on the overall business. So we're very pleased with that, and expanding that obviously will be beneficial to margin as we go forward. In terms of the preowned growth guidance relative to new, I think we said both would be mid-single digits growth for the year.

Mike Olson (Analyst - Piper Jaffray and Co.):

Okay. Thanks very much.

Paul Raines (CEO):

Thank you, Mike.

Operator:

And now we'll go to Arvind Bhatia from Sterne Agee.

Arvind Bhatia (Analyst - Sterne, Agee and Leach, Inc.):

Sorry about that, guys. Congratulations from my side, as well.

Paul Raines (CEO):

Thank you, Arvind.

Arvind Bhatia (Analyst - Sterne, Agee and Leach, Inc.):

Okay. So I guess everybody's trying to figure out the back half, looks like you guys are talking about acceleration. You've got a great lineup. Just wondering if you would maybe quantify a bit more on the new software side. I think I remember previously you guys have talked about mid-single digit growth in new software, as well. I think you confirmed used. But I just want to be sure you're still comfortable with the mid-single digit growth number, ex-FX, or course. That's my first question.

And then on the used category, I heard you talk about the extra refurbishment costs related to the hardware side and also how the next gen category has slightly lower margins. And so just your back half guidance on gross margins, I got that, but how should we think about used margins, say for 2016, on go forward basis?

Paul Raines (CEO):

Rob, you want to take the software question?

Rob Lloyd (CFO):

Sure. With respect to new software for the year, we're saying mid-single digits. I will clarify that with continued FX movement, we're saying mid-single digits growth for software, new software, and preowned, before considering currency.

On the refurb costs, looking forward, and the next gen versus prior gen, I think the point that I would make there is we're not yet ready to give guidance for 2016. But what you can directionally expect as we move through a cycle is the titles within the next gen age, and that gives us greater flexibility with respect to the buy price, as well as the retail prices.

Arvind Bhatia (Analyst - Sterne, Agee and Leach, Inc.):

Okay. And then I missed the part, I think, Tony, you mentioned on the Madden bundle, something about the physical bundle was there, but not the digital bundle. Can you clarify that again, please?

Tony Bartel (COO):

Sure. We worked with our partners -- clearly what is -- what took place last year were there were a lot of hardware promotional offers that were given where there was a packed in digital game and it was packed in for free.

I think we articulated in the first quarter that we have made it clear with our publishing partners that our preference is that we sell -- obviously, GameStop 's preference is -- we sell things at full price and provide great value through our trade program and that we have physical discs.

And so we've worked with our partners that there's a channel-wide offer that had, again, a digital pack-in in it of Madden. And we worked with both Sony , Microsoft , and EA, with all three of them, and we offered a free physical disc when you bought either a PS4 or an Xbox One. So that's clarification that's baked in. And then I said that if in fact these do continue, the platform holders do continue to put in free games as promotional items, we anticipate that at GameStop you will see more physical bundles from third parties as opposed to digital bundles.

Paul Raines (CEO):

Arvind, this digital -- of course, we've had lots of conversations on these digital bundles and so forth, right, Tony? But I think what's interesting to us is that consumers have a pretty strong preference in this.

And I think we've seen this play out in a variety of ways over the past few years. Consumers prefer those physical bundles, because they know that that disc has value in the trade-in program at GameStop . So we choose not to participate in the digital bundles, and Tony creates these promotions with Bob Puzon that are very effective.

Tony Bartel (COO):

And it did not hurt our market share. We actually increased market share on the launch.

Arvind Bhatia (Analyst - Sterne, Agee and Leach, Inc.):

One last one. The margins on mobile, consumer electronics is up significantly, I think 900 basis points. Did you talk about what was that this quarter?

Paul Raines (CEO):

I don't think we did, did we, Rob?

Rob Lloyd (CFO):

The driver for that is within the Tech Brands businesses. As we continue to grow the AT&T branded store count and those businesses mature, we're continuing to see rich margins in there that stem from the consumer's shift to the Next program from AT&T . So we're very pleased with the margin rates and the impact that that's having on the mobile category, as well as the business as a whole.

Arvind Bhatia (Analyst - Sterne, Agee and Leach, Inc.):

Great. Thank you, guys, and good luck for the rest of the year.

Paul Raines (CEO):

Thank you, Arvind. Are we going to see you this weekend, Arvind, or no?

Arvind Bhatia (Analyst - Sterne, Agee and Leach, Inc.):

Absolutely, yes.

Paul Raines (CEO):

Good, good. See you there.

Operator:

We'll go to Curtis Nagle with Bank of America .

Curtis Nagle (Analyst - BofA Merrill Lynch):

Great. Thanks very much for taking the call and good afternoon. I guess the first question in terms of looking at the software guidance for 3Q, are you guys factoring Metal Gear Solid in any way in there, just given that it's getting pretty phenomenal reviews and it's a pretty established franchise, I'd imagine it's going to be a pretty good game for you. And then just a quick follow-up.

Rob Lloyd (CFO):

Yes, we are factoring that in and excited about it.

Tony Bartel (COO):

It should be noted also, Rainbow 6 did move out of the quarter, as well. So we are excited about both those titles, and so you had that as a tradeoff.

Curtis Nagle (Analyst - BofA Merrill Lynch):

And then just a quick follow-up. Just going back to used, so understand that was driven by next gen. But could any of it also have been driven by the fact that the title lineup for this quarter was a little light and maybe you had some people, I guess value-based gamers, shifting into used as a consequence?

Paul Raines (CEO):

I think as Rob shared a lot of that, I think where you saw that, Curtis, was in our strong hardware performance and accessory performance. That's exactly what you saw is you saw more people skewing our preowned business toward the hardware side. And as Rob talked about, we have refurb costs which are typically the same year-over-year at a slightly lower retail.

Curtis Nagle (Analyst - BofA Merrill Lynch):

Okay. Thanks very much. And good luck for the rest of the year.

Paul Raines (CEO):

Thank you, Curtis.

Operator:

We'll go to David Magee with SunTrust.

David Magee (Analyst - SunTrust Robinson Humphrey):

Hello, guys. Good afternoon.

Paul Raines (CEO):

Hello, David.

David Magee (Analyst - SunTrust Robinson Humphrey):

Just a couple questions. One is, given the strength in the hardware cycle thus far, what's your current thinking with regard to the duration of the cycle, how it plays out the next couple years, and also any color about the tie ratios, as well, would be helpful. Thank you.

Paul Raines (CEO):

That's a great question. First question, hardware strength and how long -- it's an interesting question, right, because we obviously accelerated and brought forward a bunch of demand. The question he's got is how long will this last.

Tony Bartel (COO):

Well, we see it continuing. I mean, it's continued to grow in strength. And I shared earlier about tie ratio, that when you combine our physical tie ratio and our digital tie ratio that we're fairly comparable to the prior launch.

And we have tremendous strength, as we talked about. What's happening is now we're selling the 1 terabyte hardware, which is creating an additional demand. So we see continued demand. Mike, you might want to share some of the PowerUp reward numbers on continued demand.

Mike Hogan (EVP - Strategic Business):

I would say number one, we're still pretty early in the cycle. The last one isn't gone in, what, seven years in most cases, and we're barely two years into it. I think we're seeing an acceleration on the software side in terms of the installed base is growing. You've seen more and more new IP coming out.

And then on the PowerUp side, one of the things we continue to track is PowerUp members' interest in purchasing new hardware. And those numbers are still very strong and similar to what we've reported in the past. So all of our indicators are positive that consumers are still very excited about these products. And there's a ton of consumers out there who still want these new consoles who haven't bought them or haven't been able to afford them yet.

Tony Bartel (COO):

And remember that some of the strongest multi player games are ahead of us, so Black Ops 3, when you look at Battle Front Star Wars, those are incredible multi-player games. And that is going to drive a whole [guilds] to go and migrate to a new platform. We see that really has not started to take place in earnest yet, and we think this fall, that will start to take place in earnest.

David Magee (Analyst - SunTrust Robinson Humphrey):

Thank you. And then secondly, can you talk about the breakdown in the preowned business between what we consider traditional preowned product versus the newer value product?

Tony Bartel (COO):

We had $41 million worth of value product this quarter, which was an increase over last year that we had. So it continued to drive. That's was our purchases were for the quarter. And so we continue to increase value offerings, as well. So that contributed similar growth, as well.

Paul Raines (CEO):

I haven't checked -- the goal, David, of the value, if you remember, the value introduction, I think it was in the March call last year, the goal of the value product was to increase our market share in titles below $20. That's our traditional weakness on the new software side. I think we did that in the first quarter.

Second quarter, I'm ashamed to say I haven't checked. But I suspect we probably increased that. It has not been as fast as we had hoped, and that's partly because we're just struggling to get to some of those publishers. On the other hand, there's a lot of activity in that space by us intent on purchasing more value products. I think you'll see more on that.

David Magee (Analyst - SunTrust Robinson Humphrey):

Okay. Great. Thanks, Paul, and good luck.

Paul Raines (CEO):

Thank you.

Operator:

We have time for two more questions. We'll go next to Seth Sigman from Credit Suisse.

Seth Sigman (Analyst - Credit Suisse):

Great. Thanks very much. Nice quarter, guys.

Paul Raines (CEO):

Thank you, Seth.

Seth Sigman (Analyst - Credit Suisse):

A couple quick follow-up questions here. First, on the Tech Brand business, just wondering if you could talk about how those stores are comping, those that have been open for 12 months or however you disclose it? And then also the operating earnings performance of that business this quarter. I think you gave us revenue, but I'm not sure if I heard the actual operating earnings.

Paul Raines (CEO):

Guys, what can we disclose on that? We have to be careful here.

Rob Lloyd (CFO):

In terms of the revenue performance on a per store basis, Seth, it is not included in our comp number. And the reason for that is because historically, the wireless retail business is subject to a lot of volatility that's driven by changes in the commission and compensation structures that the carriers put in. We did a little bit of research, as we've said before, in terms of what companies were public in this space. I think there aren't any left. They've been acquired.

And the practice is to not disclose those comps, rather to talk in terms of, for us, the growth in profitability and growth in the store base, I think, is a significant thing. Not sure we disclosed the operating earnings number for the quarter, and I don't have that immediately in front of me. So we'll have to get back to you on that one.

Paul Raines (CEO):

I think the thing you've got to understand is we've got partners there who have rules about what they want to disclose. The mobile segment, though, I think it's a good proxy for -- of course, we don't have operating earnings (Inaudible).

Rob Lloyd (CFO):

That will be in our 10-Q, Seth. I apologize for not having that.

Seth Sigman (Analyst - Credit Suisse):

Fair enough. Clearly, that part of the business is in investment mode. We saw that last quarter and again this quarter. How do you think about the normalized operating margins for that business and when that will actually start to inflect positively following this investment period?

Rob Lloyd (CFO):

Well, as Tony and I both mentioned in slightly different ways in our scripts, we expect the third quarter profit to be comparable to last year's operating earnings for Tech Brands. We will continue, as we're opening 90 to 100 stores this quarter, to incur some of those infrastructure costs to prepare for those openings. But in the fourth quarter, we think we're going to be largely past that and we expect that the profit will grow significantly from last year. I think Tony said ex- those infrastructure investments, we would expect the Tech Brands profit for the year to be 40% to 50% up from last year.

Tony Bartel (COO):

In terms of operating profit margins, Rob, you may want to give him the long-term forecast that we've provided investors before for Tech Brands.

Rob Lloyd (CFO):

Yes, that is -- I don't have that slide in front of me, but if I remember correctly, it was approximately $170 million in operating earnings against a revenue base of about $1.5 billion. So in excess of 10% operating margin in that space.

Paul Raines (CEO):

Which would be accretive to us.

Rob Lloyd (CFO):

Obviously, yes.

Paul Raines (CEO):

On traditional operating margins.

Seth Sigman (Analyst - Credit Suisse):

Okay. Got it. And then just a follow-up question on the used game business. I think earlier you disclosed a breakdown between current and last gen performance for the new software business. Last quarter, you talked about that for the preowned business. Just wondering if you could give us some color on that this quarter.

Paul Raines (CEO):

Sure. There's a slide on this one, by the way, Seth. Did you take it down?

Seth Sigman (Analyst - Credit Suisse):

Took down the slide.

Tony Bartel (COO):

64% new software growth on PS4 and Xbox One, 117% preowned software growth. So significantly increased there. And then on Xbox 360 and PS3, as I shared earlier, new software was down 56%, preowned software was only down 25%. So we continue to see outpacing and a less decline in the preowned section than we do in the new.

Seth Sigman (Analyst - Credit Suisse):

Okay. And just one follow-up, if I may, on the preowned business. GameStop put out a survey this quarter in a press release discussing how consumers were leaving some money on the table by not trading more games in. What's the Company doing to stimulate that trade? And is increasing the trade-in values one option to sweeten the deal and drive that trade?

Paul Raines (CEO):

Sure it is. I think Tony had in his script, our inventory level in trades has gone up.

Tony Bartel (COO):

Our inventory level's very strong, up 6%, and we've done that without having to pay more for the games. So that's been -- obviously, that's been a good opportunity for us. It is a constant awareness game.

And that's where PowerUp rewards is helpful and so forth. And part of the survey, to be candid, was to allow people to understand that if you go into our stores today, you will find that we've just kicked off another trade more, save more campaign, where each store will have the top trader of the week listed, where there will be top trade values listed. I think this is a blocking and tackling issue in our stores, where we will constantly be working to educate the customer on the great trade values that we have.

Paul Raines (CEO):

The issue is, the debate here around here, if you were in our offices every day, the constant debate is trade values versus new launches that drive trades versus marketing, kind of the big three. And what we've found -- and we can get proven wrong -- what we've found is big launches and in-store execution drives trades more than trade value. Mike?

Mike Hogan (EVP - Strategic Business):

I would just add to that, from a consumer standpoint, it's value and awareness. We made a huge step last year with our simplified trade pricing. What we found is that consumers responded extremely well to that. And with a lesser mix of promotion and a greater mix of everyday value, people really responded well to that.

And then the other thing we find is that trade awareness is still always an opportunity. And every time we have an opportunity, we want to communicate that, and every time we communicate that, we bring new people in. And all the evidence we have suggests that when we make people aware of the trade values and what they can get, they respond very positively to it. So we'll continue to work on awareness.

Paul Raines (CEO):

Yes.

Seth Sigman (Analyst - Credit Suisse):

Okay. Thank you for all the color. Appreciate it.

Operator:

We'll go next to Scott Tilghman from B. Riley.

Scott Tilghman (Analyst - B. Riley and Company):

Thanks. Good afternoon.

Paul Raines (CEO):

Hello, Scott.

Scott Tilghman (Analyst - B. Riley and Company):

I just have a few, I hope, relatively quick questions. First off on the Collectibles side, as you gear up in that category and have a little bit of history with it, do you expect it to ultimately be lumpier than new content sales or do you think you have an opportunity to provide some smoothing of the revenue with merchandising within the category?

Mike Mauler (President - International):

This is Mike Mauler. I think that what we'll see, because it's a broader range of IP, we will see it to be smoother. So you're consistently having new movies, new television shows and video game launches throughout the year. And so for example, the movie launches in the summer, there's frequently not a lot of new releases on video games, but there's a lot of loot you can sell with that new IP. So it seems like it will be more consistently strong.

Paul Raines (CEO):

I think the fact that you're seeing us outperform in the second quarter indicates how the loot is really contributing to balancing our demand flow. And as Mike says, there's a lot of IP that's not video games. So it should.

Scott Tilghman (Analyst - B. Riley and Company):

And I assume that you will be following up with marketing support behind that, as the collection grows.

Mike Mauler (President - International):

Absolutely.

Paul Raines (CEO):

We hope so. I'm looking at Hogan. He's shaking his head.

Mike Hogan (EVP - Strategic Business):

I'm nodding.

Paul Raines (CEO):

He doesn't have a big checkbook, but he's nodding.

Scott Tilghman (Analyst - B. Riley and Company):

Second, on international, I missed a couple of comments. I know Australia was up over 10% on a comparable basis. And if I heard that correctly, that means the other markets, Europe and Canada, were down. I was wondering if you could compare and contrast a little bit what you're seeing on the -- across the international geographies.

Paul Raines (CEO):

Want to take that, Mike?

Mike Mauler (President - International):

Sure, just a second.

Rob Lloyd (CFO):

I'll go ahead and give the comps. The Canadian comp was 8.5% and we were down in comp in Europe 3.8%. As far as color, I'll turn it over to Mike.

Mike Mauler (President - International):

The color would be our two strongest markets have been Australia and Canada. In Europe last year, we had very good hardware allocations and Europe really exceeded the rest of the international markets in terms of hardware sales. This year we're back to our normal -- closer to our normal market size in hardware, and so that was a little bit of headwind for them.

Paul Raines (CEO):

One thing to add, Mike, maybe might be that the concept of loot appears to be more of an Anglo, maybe Northern European concept. Southern Europe, we haven't seen the kind of results we've seen maybe in some of the Northern European markets.

Mike Mauler (President - International):

That's true. The growth of loot in Australia, Canada, the United States, Northern Europe, the Nordics and Ireland have been consistently ahead of what we've seen in Southern Europe. So that's something we continue to have to explore.

Paul Raines (CEO):

We may not have the right assortment yet. That's one possibility. But we certainly have work to do.

Scott Tilghman (Analyst - B. Riley and Company):

That's helpful. The last question I have, just in terms of the competitive environment, you've had some smaller regional players pull out of the category. It seems like some of the big boxes even have diminished the importance of CE as a leading or as a leading category or a traffic driver. But I'm curious what your take is, one, the competitive environment, both domestically and abroad.

Paul Raines (CEO):

For video games or loot or -- ?

Scott Tilghman (Analyst - B. Riley and Company):

For the broader product mix.

Paul Raines (CEO):

I'll let these guys add their comments. We've been watching all of these players around the world for a long time, and I can't say I've seen much diminishing of anything they're doing. They're all running their play. Best Buy did have a good number yesterday, it appears. I haven't seen the video game comp. Tony?

Tony Bartel (COO):

I have not.

Paul Raines (CEO):

I'd be surprised if they really gained a ton of share. But we don't see a huge amount of activity. Our competitor base is so broad now, too. Used to be we'd get on a call and we'd talk about Wal-Mart and Best Buy , Media Mart and [Satur] and JB Hi-Fi, Amazon . Today we talk about lots and lots of other people, digital players, publishers who are trying to go direct versus through retail. And so I have not seen a ton of activity here that's new, other than the players.

Mike Hogan (EVP - Strategic Business):

I don't see a lot of change in activity. I think that there is a -- we continue to gain market share. And so like we say quarter in and quarter out, we're selling over 50% of the games. We have made a very distinct effort to try and win this console launch. We've been very clear about that for the last two years, and I think we've been effective in that.

So I'm sure that there are people at some of those other locations that Paul mentioned that are seeing a significant reduction. The whole category is not -- has not tripled the sale of PS3s, and the whole category has not nearly doubled Xbox One. So clearly, we've taken a lot of share from a lot of those other people. I don't think that they're trying less. I just think we're running our play and it seems to be working.

Paul Raines (CEO):

Guys, we should talk about, on the mobile loot side, there's a whole new cast of characters. We are a committed AT&T partner, so we are in partnership with them. We compete directly with Verizon , Sprint and T-Mobile. And we sort of live and die by those fortunes. On the loot side, there's probably a lot of players on the loot side. Don't have share data on loot, unfortunately. But I suspect we're growing very, very fast on the share data on loot.

Scott Tilghman (Analyst - B. Riley and Company):

Paul, to your point, I assume installment billing is actually a benefit to you, given that some of the others out there competing can't offer it.

Paul Raines (CEO):

Yes, yes, I think that's accurate. I think that's accurate. And there's just a lot going on under one roof. Don't forget, we also offer Cricket in 2,000 stores or so. So 2,000 GameStop stores, we will sell you a Cricket prepaid phone and a contract.

So when you can do prepaid phones in a store, you can probably do some other prepaid things. So we're exploring that very aggressively. There's just a lot -- as I said in my notes, there's just a lot going on here, and we don't have the luxury of slowing down.

Maybe today it feels less scary, but there was a time here where we were coming in every day, figuring out how we're going to get through the day and so forth. Today, fortunately, I think we're past that. But we can't slow down, so --

Scott Tilghman (Analyst - B. Riley and Company):

Okay. Well, thank you for taking the questions.

Tony Bartel (COO):

Thank you.

Paul Raines (CEO):

All right. Well, thank you for your support of GameStop and we'll look forward to talking to everyone. If you're coming to our show next week, we'll see you there; and if not, we'll talk to you during the quarter. Thank you.

Operator:

This does conclude today's conference.