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# EDITED TRANSCRIPT

## GME - Q4 2015 GameStop Corp Earnings Call

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**OVERVIEW:**

Co. reported 2015 adjusted net income of $415.6m and adjusted diluted EPS, before charges, of $3.90. Expects 2016 revenues to range between flat and positive 3% and EPS to be $3.90-4.05. Expects 1Q16 total revenues to range from negative 7% to negative 4% and EPS to be $0.58-0.63.





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## CORPORATE PARTICIPANTS

**Paul Raines** *GameStop Corporation - CEO*

**Rob Lloyd** *GameStop Corporation - CFO*

**Tony Bartel** *GameStop Corporation - COO*

**Mike Mauler** *GameStop Corporation - President of International*

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## PRESENTATION

**Operator**

Good day and welcome to the GameStop Corporation's fourth-quarter and full year 2015 earnings conference call. A supplemental slide presentation is available at investor. GameStop.com.

(Operator Instructions)

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

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

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**Paul Raines** - *GameStop Corporation - CEO*

Good afternoon, everyone, and welcome to GameStop's fourth-quarter 2015 earnings call. We will start by thanking every single associate in our organization for extraordinary service and execution this quarter. This was a great quarter and year, and GameStop, once again, demonstrated that we will protect our family of associates, customers and investors going forward.

Our senior staff on the call today are Tony Bartel, our Chief Operating Officer; Rob Lloyd, our Chief Financial Officer; Mike Mauler, our President of International; Mike Hogan, our Executive Vice President of Strategy and Business Development, and Matt Hodges, our Vice President of Investor and Public Relations. We just completed a strong quarter and year.

Our year-end comps were 4.3%, with overall sales growth of 0.7% or 5.4% in constant currency. We also posted an all-time record gross margin rate of 31.2%.

These metrics rolled up into an all-time record of adjusted net income of $415.6 million. Adjusted diluted earnings per share were a record $3.90 before charges, up 12.4% from FY14. All in all, a year to be proud of.

And before I go further, I want to invite all of our analysts and investors to our 2016 Investor Day here in Great Vine, Texas, right by the Dallas/Fort Worth airport on April 13 and 14. Please contact Matt Hodges or see our Investor website for more information. We look forward to sharing our future expectations with you.

I would like to separate my remarks into two buckets. Transformation inside our core GameStop stores, and transformation outside our GameStop stores.

As you know, we now have several brands within the GME corporate family. Many have asserted that our GameStop branded stores are in secular decline due to physical software declines. But let me clear up that misconception with this interesting data point.

In 2015, the average per store profit contribution of our GameStop branded stores was $176,000. This is nearly a 15% increase compared to 2014. We achieved this growth in GameStop store revenues by adding Digital and Collectibles businesses to our cash generative long-tail physical software and hardware business.

Say what you will about physical games, GameStop's four-wall profits are strong and growing. And in 2016, we expect the physical gaming category to decline, but to be offset by growth in our non physical gaming businesses within our GameStop branded stores. That is how we expect to grow earnings for the full year.

On the new businesses inside the GameStop branded stores, Digital receipts' growth was strong at 16.3% in constant currency, led by DLC, mobile publishing and Steam, Xbox and PlayStation network currency. We continue to see our Digital business growing as fast as the average of our top four publishers.

Collectibles, or Loot, was also very strong, with sales of more than $300 million. Adding a significant category to our GameStop branded stores, as well as our online properties of GameStop.com and ThinkGeek.com. Top categories of Loot were toys, apparel, and statues.

Our ThinkGeek.com unit had a good first year, and is providing us with a unique licensed product for our stores and sites. And we now have strong multi-year licensing agreements with, among others, Disney and Marvel, and for popular intellectual property like Star Wars, Star Trek, Game of Thrones and The Walking Dead.

We are pleased that we have managed the transition of ramping up Digital and Collectibles inside our GameStop branded stores, while allowing for declines in physical software. In 2015, nearly 25% of operating earnings came from non-physical gaming sources like Digital, Collectibles and Technology Brands. Let me say that again.

In 2015, nearly 25% of operating earnings came from non-physical gaming sources like Digital, Collectibles and Technology Brands. This planned mix shift allows us to show the impressive results we have on profit contribution for this year and into the future. And our goal is to increase the contribution from Digital, Collectibles and Technology Brands to 50% by the end of 2019.

Outside our GameStop branded stores we also have a pretty good story. Tech Brands' profits increased 80% in the fourth quarter, excluding charges, and we now operate over 1,000 stores. The Tech Brands' story has been one of rapid growth, with very strong partnerships with AT&T and Apple.

We are selling new services like DirecTV and Digital Life, as well as the new Mac book and Apple Watch and are optimistic around future product launches. Our per store productivity and customer experience metrics continue to be industry leading at both AT&T and Apple, and we expect to double the amount of operating income this year. We'll provide more details on Tech Brands' performance at Investor Day.

Our capital allocation strategy remains disciplined. We bought back $50 million of stock this quarter at $31.28 per share, and bought back $202 million for FY15.

We also supported the $1.44 dividend for 2015, paying out $154 million. We also recently increased that dividend to $1.48. Currently providing a 4.8% yield to investors, which demonstrates our continued confidence in our transformation strategy.

We also returned to the debt markets to secure $475 million of long-term debt to support two strategic acquisitions in the AT&T dealer space. Now, some will say our quarterly and full-year guidance is conservative, but be aware that we have seen a shift of titles out of Q1 and are cautious about virtual reality.

Looking at our business, here are key points to remember about GameStop. The first is that we will continue to innovate and expand our share in our video game business.

While we anticipate physical game hardware and software will decline in 2016, this is a large and cash generative business. The second point is that our non-GAAP Digital business is over $1 billion, and growing at rates on par with the top four game publishers.

The next point is, our Technology Brands unit is expected to be $1 billion business by the end of 2016, with major technology partners, AT&T and Apple. And we expect to double its operating earnings before our anticipated transactions.

The next point is that the Collectibles, or Loot business, is adjacent to our core gaming business and is highly accretive to our gross margins. We sell Loot in our GameStop branded stores, online via ThinkGeek.com, through wholesale channels, and in our new standalone collectible stores.

The next point is that PowerUp Rewards is a foundational backbone to our merchandising strategy, now with 46 million members worldwide. Lastly, our capital allocation will continue to be disciplined. And with that, I will turn the call over to Rob.

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**Rob Lloyd** - *GameStop Corporation - CFO*

Thanks, Paul. Good afternoon. Today, I'd like to take you through a review of our Q4 and full year 2015 results and then our 2016 guidance.

I'd like this to serve as a pretty thorough review of last year so that we can focus our time on Investor Day on April 14 on our future. So let's begin with some highlights from the quarter and the full year.

We had record earnings, gross profit and gross margin rates. Net income for the year was a new record of $415.6 million, excluding one-time charges. Gross profit was a record $2.92 billion, with a record gross margin of 31.2%.

Overall results exceeded our expectations and our last guidance, due to increased operational effectiveness related to inventory quality and margin enhancement. We reported our third consecutive year of positive comps. We guided to significant profit growth in Tech Brands in Q4, and we increased operating earnings 80% from $10 million in Q4 last year to $18 million, excluding one-time charges in Q4 this year.

We exceeded our Collectibles target of $300 million for the year, with $309.7 million in sales. As you heard, our goal was to have 50% of our operating earnings come from sources other than physical gaming by the end of 2019. In 2015, we had approximately 25% from non-physical sources like Digital, Collectibles and Tech Brands.

Now I'll dig in a bit deeper. Sales increased 1.4% in Q4, and increased 0.7% for the full year. Excluding FX, sales increased 5.3% for the fourth quarter and 5.4% for the year. The FX impact on sales was $135 million and $430 million for the quarter and the year respectively.

Comparable store sales increased 3.1% for the quarter, and 4.3% for the year. US comps were 3% for Q4, and 4.8% for the year.

Gross margins expanded 150 basis points for the quarter at 29.6%, and 130 basis points for the year. Resulting in a 31.2% margin rate, which as I mentioned, is a record annual gross margin rate. Gross profit grew 5.1% to a record $2.9 billion.

We incurred one-time charges in the fourth quarter totaling $6.6 million before tax and $3.8 million after tax, relating to asset impairments and costs to exit Puerto Rico. Full-year charges totaled $17.4 million before tax and $12.8 million after tax, and included ThinkGeek acquisition costs, RadioShack costs, Puerto Rico exit costs and asset impairments. Note that we expect to incur between $3 million and $5 million in the first quarter of 2016 as we finalize lease related exit costs in Puerto Rico.

The following discussion of operating earnings excludes one-time charges. Operating earnings were flat for the quarter at $389 million, and increased 4.8% for the year from $635.3 million to $665.6 million.

FX negatively impacted operating earnings by $14 million for Q4, and $15.9 million for the year. Excluding FX, operating earnings increased 3.5% in the quarter and 7.3% for the year.

International operating earnings in Q4 declined 10.6%, but increased 2.4% excluding FX. For the full year, international operating earnings were flat, but increased 12.6% excluding FX.

SG&A as a percentage of sales increased from 15.8% in the prior-year quarter to 17.4% for the fourth quarter, and from 21.6% the prior year to 22.6% for 2015. The increases were due to the growth of Technology Brands, which we've stated in the past carry a higher SG&A rate.

Our tax rate was very favorable versus the prior year, with a positive impact of $0.06 on EPS for both the quarter and the full year. Due to the mix of profits in the various areas in which operate.

Non-GAAP net income increased 6.8% for the quarter, and 5.9% for the year. Non-GAAP EPS increased 11.6% for the quarter, despite a $0.09 negative impact from FX rates, and increased 12.4% for the year despite a $0.10 negative impact from FX.

Now let's look at sales for some of the categories. Hardware grew 1.6% in Q4 or 6.2% excluding FX, and declined 4.1% for the full year. Excluding FX, the full year grew 0.8%.

Software declined 10.8% in the quarter, 6.7% excluding FX, and 6% for the year, declining 0.8% excluding FX. It's great to note that we ended the year with our highest market share ever in hardware, software, and accessories.

Pre-owned revenue was flat in the quarter but increased 3% excluding FX, and was down 0.6% for the year but increased 3.3% excluding FX. Pre-owned margin rates for the quarter and full year were 46.6% and 46.9% respectively. Both figures were down 110 basis points from the prior-year periods, reflecting mix shift to next gen as we've discussed in the past.

Digital receipts grew 9.7% in the fourth quarter or 13.4% excluding FX. With GAAP Digital revenues growing 14.5%, or plus 20.4% excluding FX. For the year, Digital receipts grew 11.2% or 16.3% excluding FX. GAAP Digital revenues declined 12.9% or down 7.7% excluding FX, primarily due to a shift from gross to net sales and point of sale activated game time cards.

We closed a net of 156 video game stores around the world during the year. We acquired 319 Technology Brands' stores and opened another 233, for a total growth of 552 stores. We opened 31 Collectibles stores, and now have 35.

In 2015, we paid out $154 million in dividends and repurchased $202 million in stock or 5.2 million shares at an average price of $38.68. We generated free cash flow of $484 million, which was at the higher end of our guidance range, despite investments in working capital of $75 million to support Tech Brands and ThinkGeek.

Now I'll move on to 2016 guidance. Full-year revenues are forecast to range between flat and positive 3%, with same-store sales ranging from down 3% to flat.

The forecasted decline in hardware is the driver of the negative comp. As a reminder, Tech Brands' sales are not included in our comp and are expected to grow between 50% and 60% in 2016.

In terms of categories, we estimate new hardware in 2016 will decline approximately 10% before currency, given the third year of the cycle and the drop in price point since the beginning of last year. We estimate new software will decline between 5% to 10% before currency, based on our current visibility into the title lineup.

We expect pre owned to outperform new software within a range of down 2% to up 2% for the year. We forecast Collectibles' revenue to increase 45% to approximately $450 million next year, as we continue to optimize space in GameStop stores as we own ThinkGeek for a full year and as we open more Collectibles stores.

As stated in our earnings release, we are guiding to full year EPS ranging from $3.90 to $4.05 per share for 2016, or flat to an increase of 5%. For purposes of your models, the average number of shares outstanding we used in our guidance is 104.5 million shares for both the first quarter and the full year, as we do not assume any share buybacks in our guidance. This is approximately 2 million shares more than consensus models, which have 102.6 million shares.

If you divide the current consensus operating earnings of $418 million by -- I should say net earnings, by $418 million by 104.5 million shares, the consensus EPS would be $4 and would be within our guided range. We anticipate a foreign currency exchange impact of approximately $100 million to $200 million in sales, and between $0.05 and $0.08 per share for FY16.

In order to achieve guided EPS of $3.90 to $4.05, we expect to increase operating earnings between 3% and 7%. By continuing to expand gross margins to new record levels through the growth of Technology Brands and Collectibles, by reducing costs in our video game stores, and improving our operating margins. We expect to double the operating earnings of Tech Brands before considering the new acquisitions.

We project free cash flow for FY16 to range between $400 million and $500 million, with the largest variable being the growth in Technology Brands' stores and the working capital to support that. Looking at the first quarter of 2016, we expect total revenues to range from negative 7% to negative 4%, and same-store sales of negative 9% to negative 7%. The title lineup is not as strong as it was in the first quarter of last year when we drove a 9.6% increase in new software, particularly with uncharted moving into our second quarter.

We're seeing a slight decrease in the demand for hardware, coupled with lower price points. We expect pre owned to decline low single digits in the quarter, due to lower than planned inventory at the end of the year. We're building that inventory back up as trades have exceeded plans so far this year.

We expect earnings per share for the first quarter to be in a range between $0.58 and $0.63 per share. Keep in mind that the first quarter represents about 15% of our annual profits.

The guidance for the first quarter includes $0.03 per share related to interest expense on the $475 million borrowed earlier this month. We do not expect the two AT&T reseller acquisitions to close in the first quarter, but do expect to have them closed by July 31.

Note that the full-year guidance includes the interest on the new debt since issuance of approximately $30 million, and the projected earnings from these acquisitions for the back half of the year. As we said in the release, we expect the projected earnings to more than offset the interest.

In closing, the results for FY15 demonstrate that our diversification strategy is working. Despite a lack of growth from physical video gaming, we expect to again grow profits in 2016.

Our non-physical gaming businesses, both inside the GameStop branded stores and in Tech Brands will be the primary driver of this growth. On our path to having 50% of our profit come from sources other than physical gaming, we expect non physical to be more than 30% of our operating earnings in 2016.

Now I'll turn it over to Tony for his comments.

**Tony Bartel** - *GameStop Corporation - COO*

Thank you, Rob. As Rob and Paul stated, our fourth-quarter performance showed the effectiveness of our diversification strategy, as we drove growth both inside our GameStop branded stores and in our Technology Brands' segment.

In spite of a decrease in physical software, our GameStop branded stores generated 3.1% comps due to the strong performance of Digital, Collectibles, and omni channel sales as well as solid performance in our pre-owned business. Pre-owned sales increased 3% before FX and outpaced software sales growth by 10 points, as our strong trade programs provided in-demand inventory that sold well during the holiday period. As you can see in the supplemental deck on page 12 and 13, we continue to outperform new sales on both current gen software and next gen software.

For the year, we also grew market share in software, hardware, and accessories. This is the seventh consecutive year that we've driven software share increases. Despite market declines in software, we more than offset this loss in our GameStop branded stores with share gains and the addition of our non-physical video game profits which represented approximately 25% of operating earnings for the full year.

As you can see on slide 5, for the full year, we increased our store contribution in GameStop branded stores by nearly 15% year over year. And this is the second year in a row that we have increased store contribution in spite of software headwinds.

We also launched the first wave of VR, with the PlayStation VR reserving most of our disproportionately high allocation. We see this as another vehicle that has upside to our future growth prospects, and we will share more about our plans to address this opportunity during our Investor Day.

Now, let me walk you through the results for non-physical gaming components, Digital, Collectibles and Technology Brands. Digital receipts grew 16.3% before FX for the year to over $1 billion, continuing to keep pace with the growth of our top four publishing partners. This was driven by DLC, subscription revenue, full-game downloads of PC and console games and mobile publishing growth.

In addition, we recently announced our publishing relationship with Insomniac. And in June, we will be launching our first game, Song of the Deep in our stores and on our websites, on Xbox Live, PlayStation Plus and on Steam.

In FY15, Collectibles grew more than 300% as we've benefited from dedicated merchandising in our stores as well as our ThinkGeek acquisition. We expanded our Collectibles section in all stores to correspond to the increased gross margin that we generate.

These sections drove a full 4.8 points of total revenue growth during the fourth quarter, and 2.5 points of growth for the full year. As Rob shared, we expect to see Collectibles sales increase 45% next year.

Our ThinkGeek acquisition allowed us to secure global licenses with Disney, Marvel, Star Wars, The Walking Dead, Game of Thrones, Dr. Who and others that provide us a strong slate for exclusive product to be sold online and in our stores. In addition, we opened three ThinkGeek stores in the US to bring our global standalone collectible store count to 35 at the end of the year.

We plan on building 25 standalone stores in the US, and 30 standalone stores internationally during 2016. Our ThinkGeek business contributed $2 million of operating profit for the year.

We continue to grow our omni channel business as we added ship-from-store capability to all of our domestic stores. Customers can now order online from their mobile device, computer or in our store and have the product shipped to their home, order online and pick up in our store, or order online and have it delivered from our store to their home.

Our omni channel gaming business grew 45% during the fourth quarter. The ship-from-store implementation doubled our online SKU count and allows us to sell hard to find product at full retail price. Half of the product that we ship from our stores is pre-owned product, so the margin on this product is highly accretive.

Our PowerUp Rewards program continues to be one of the best consumer loyalty programs in retail. We grew membership 2% over the quarter, adding some 600,000 members to the base. The total program now exceeds 46 million members worldwide.

Additionally, we've implemented automatic point redemption among our basic member population. Early indications of this change are resulting in a 33% lift in average transaction size from customers who receive their auto issue reward. These non-physical video game sources generated one half of the profit growth in our GameStop branded stores, with physical video games generating the other half of our 15% growth.

Turning to Technology Brands. We opened 202 stores in the quarter, and 552 stores for the full year. Increasing our Tech Brands' count to 1,036 stores.

We had significantly less structural investment in the fourth quarter, seeing operating profit increase 80% before one-time charges and generating 10% operating margin for the quarter. We plan on building approximately 50 stores, and doubling net income in 2016. That is before considering the proposed acquisitions of 450 to 500 stores.

Absent acquisitions, we will have stronger growth in the first two quarters of the year while still delivering strong, solid, double-digit growth in the back half of the year. As mentioned in previous quarters, while we are pleased with the unit and profit growth that we've delivered in our Technology Brands' division, we are even more pleased we remain the most productive authorized retailer in the AT&T network.

In closing, our diversification efforts are working to drive both four-wall profitability in our GameStop branded stores and corporate profitability in our Tech Brands and other segments. We look forward to providing more details on our growth plans for 2016, as well as Tech Brands' accretion from acquisitions and revenue and profit components at our upcoming Investor Day.

With that, I'll turn the call back over to Paul.

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**Paul Raines** - *GameStop Corporation - CEO*

All right. Operator, I think we're ready for some Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you.

(Operator Instructions)

And we'll take our first question from Colin Sebastian with Robert Baird.

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**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, guys. Good afternoon. Have a couple of questions.

First off, obviously you highlighted the full-game download as an issue. And I wonder if there's any broader indication that the mix shift of downloads for AAA console games is expanding at a steady rate, or do you see any reason why that rate may change, either accelerate or plateau?

And then as a follow up on the comments on profitability and margins. Obviously, one of the core drivers of earnings is the pre-owned games business, but even though we saw 110 basis point decline in used margins year over year, the overall Company's gross margins are increasing. So I wonder how sustainable that divergence is, and also if you expect to use margins to continue compressing? Thank you.

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**Paul Raines** - *GameStop Corporation - CEO*

Tony, you want to take the first one?

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**Tony Bartel** - *GameStop Corporation - COO*

Sure. On full-game downloads, Colin, we definitely do see, as we've talked about, that Digital is increasing and we talked about the rate of growth that we have is increasing just like it is at the publishers and we see 20% numbers come out on a fairly regular basis.

At launch, we saw that same number come out in Q4 of 2014, now it's coming out in Q4 of 2015. So I think that they are going to probably increase in the future a bit, but it seems to be at a very -- at a fairly comparable level on a year-over-year basis.

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**Paul Raines** - *GameStop Corporation - CEO*

As far as the divergence of the margins, Colin, I think what we're trying to do is transition to a new set of metrics. The old metrics around GameStop were watch the pre-owned margin, watch the hardware penetration, where you're at in the cycle, et cetera. Today, we just closed a year of record gross margins with pre-owned margin that was down.

And I think that tells you a lot about where the business is headed. Our in-store Digital businesses and Collectibles businesses are driving significant margin accretion, not to say that we're going to neglect the pre-owned margins but we don't believe the pre-owned margins are tied necessarily to our overall gross profitability any longer. In fact, we think it's going the other way.

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**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Okay, that's helpful. Thanks, Paul. Rob, just one quick one. How should we be modeling SG&A for 2016?

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**Rob Lloyd** - *GameStop Corporation - CFO*

You should model it with respect to the Tech Brands' business. We'll give you more color on that I should say in Investor Day. But with respect to the video game business or the GameStop branded stores, you can model the SG&A there to be declining year over year.

We put a lot of emphasis in our planning process around making sure that our cost structure was where we want it to be with the video game part of the business as we face declines. And making sure that we then had the available dollars to invest in our growing businesses.

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**Paul Raines** - *GameStop Corporation - CEO*

As you can imagine, Colin, it's difficult to transition a Company like this, and Rob led us through a process last fall in our budget cycle. We need to force cost out of the video game side, so that we can fund SG&A for the new businesses and that's what we're doing.

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**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Thank you.

**Rob Lloyd** - *GameStop Corporation - CFO*

Thanks, Colin.

**Operator**

We'll take our next question from Arvind Bhatia from Sterne Agee.

**Arvind Bhatia** - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you very much. Couple questions. First, I wanted to maybe ask you about the virtual reality comment, and I think you said you were somewhat cautious there.

And then secondly, on the AT&T store acquisition that's pending, can you speak to these stores a little bit, meaning are these mature stores, underperforming? How do they compare to -- I think you had said $1 million per store was the target for mature stores. So relative to that, how do these stores compare? Thank you.

**Paul Raines** - *GameStop Corporation - CEO*

Let me start off with the VR comment, because I think it was my comment. We could spend this whole call talking about VR, so we can't do that.

I got in trouble for talking about VR a while back on some issue of a release date. So I don't think we can talk a lot about VR, other than, Tony, you're using up all your -- (technical difficulty).

**Tony Bartel** - *GameStop Corporation - COO*

We're definitely -- we had a very strong allocation of PlayStation VR, and we're through most of that allocation. We clearly have -- are staying very close to all of the developments, Arvind, that are taking place. And as Rob shared, we're going to be very -- or as Paul shared, we're going to be very cautious on including that in our forecast until we really see a couple things.

A, what the production cycle is going to look like, and B, what consumer demand around gaming is going to be. But every forecast that is out there has a billion behind it, so we know at some point it's predicted to be a multi-billion dollar category. And as it begins to mature, we'll be key to driving that category.

**Paul Raines** - *GameStop Corporation - CEO*

Is there anything you guys want to say about the AT&T?

**Tony Bartel** - *GameStop Corporation - COO*

And on the AT&T store basis, obviously, the acquisitions that we're doing are mature stores and we haven't disclosed for competitive purposes what we are paying on a per-store basis. Mike, anything that you would add?

**Arvind Bhatia** - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you.

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**Tony Bartel** - *GameStop Corporation - COO*

Thank you.

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**Operator**

We'll take our next question from Mike Olson with Piper Jaffray.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Hey, good afternoon. I had a couple questions. I heard you provide, Rob, the pre-owned guidance for Q1 of down low single digits. Did you or can you provide guidance for Q1 on new software and hardware?

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**Rob Lloyd** - *GameStop Corporation - CFO*

Well I think the guidance I gave for the full year on new hardware was down 10%. The guidance I gave on new software was down 5% to 10%. I'd say probably we're going to see numbers that are a little higher than that in the first quarter, hardware would be probably actually a bit higher.

We are facing that $50 lower price point. We had a strong 3DS launch with very high market share a year ago, and nothing comparable to that this year. And then the game slate is just different in Q1 than it was a year ago.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Got you. And then it would be interesting to know what kind of operating margin you see from overall non physical versus physical. I think that would help us get a sense for the mix shift that's ongoing and how favorable it is as we see more revenue coming from non physical. Is the overall margin for physical versus non physical something you could share?

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**Rob Lloyd** - *GameStop Corporation - CFO*

It is. So let's talk about that maybe at Investor Day. Unfortunately, Mike, I don't have that data in front of me to answer your question now. So I'd need to answer it in a way that it can be heard broadly.

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**Paul Raines** - *GameStop Corporation - CEO*

One thing you might look at, Mike, is the gross margins on these businesses are pretty dramatically different. Our older businesses in new software, new hardware, those are margin thin businesses, and our new businesses of Collectibles and Digital are margin rich businesses. As is Technology Brands is a margin rich business.

So I think you'll get more detail at Investor Day. But I think you've got to model them as a fairly significant difference in terms of the margin rate.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

That makes sense. And one more quickie in here. Are you making a commitment to buy a minimum amount of (technical difficulties) amount are you committing to?

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**Tony Bartel** - *GameStop Corporation - COO*

We're going to talk more about our capital allocation strategy at Investor Day. We'll make a commitment to buy back stock. You can expect to see the same mix of things in terms of the three components that we had this year.

We're committed to a dividend at $1.48 a share, as Paul mentioned. We will buy back shares. We'll talk more about amounts at Investor Day.

And we continue to believe beyond the two deals that we've identified, that there are opportunities in the M&A space. So more to come.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Got it. Thank you.

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**Operator**

We'll take our next question from Anthony Chukumba with BB&T Capital Markets.

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**Anthony Chukumba** - *BB&T Capital Markets - Analyst*

Good afternoon. Thanks for taking my question. Just wanting to focus a little bit more on Q1 in terms of the title lineup, and the fact that it's not as strong.

Could you just remind us of some of the -- I guess the big titles that came out in Q1 of last year? And then you mentioned that unchartered is moving into Q2. But I was just wondering if there are any particular titles you're excited about for Q1 of this year. Thank you.

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**Paul Raines** - *GameStop Corporation - CEO*

Tony?

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**Tony Bartel** - *GameStop Corporation - COO*

Sure. Just to remind you on what came out in Q1 of 2015, Anthony. Dying Light, Evolve, Battlefield, Zelda Majora's Mask, Bloodborne, Mortal Kombat and GTA V of last year was a big seller. We sold over 300,000 units last first quarter, so we've still had a lot of residual from that title.

This year, I'm very excited about the division that came out, Far Cry Primal, Street Fighter, Zelda Twilight and Dark Souls III. So even just in count alone, you can hear that in terms of large sellers for us there's a smaller amount.

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**Anthony Chukumba** - *BB&T Capital Markets - Analyst*

Okay. That's really helpful. Thank you.

**Tony Bartel** - *GameStop Corporation - COO*

You're welcome.

On the 3DS, it was a I think $0.25 billion category wide, at least in the US last year. And so clearly, if you -- we all saw NPD in February, where it was -- and I think it was about half that amount in February alone. So we anticipate that that's going to be a tough rollover in the first quarter.

**Anthony Chukumba** - *BB&T Capital Markets - Analyst*

Got it. That's helpful. Thanks.

**Tony Bartel** - *GameStop Corporation - COO*

Sure.

**Operator**

We'll take our next question from Brian Nagel with Oppenheimer.

**Dan Farrell** - *Oppenheimer & Co. - Analyst*

Hello, this is Dan Farrell on for Brian Nagel. I was just wondering if you guys could provide a little more detail on the guidance for the upcoming year? What are the puts and takes between the first quarter and the rest of the year?

And if you can provide any color on the cadence throughout the year. Because it seems to imply an improvement in trends after Q1.

I know you called out the closing of some acquisitions in the back half. But I was just wondering if there was anything else -- any other color you could provide on that? Thanks.

**Rob Lloyd** - *GameStop Corporation - CFO*

Yes, I think as we talked about the title lineup in Q1 and how that frames the Q1 guidance. And as you look at the rest of the year and think about the full-year guidance, obviously those acquisitions are going to have an impact. We stated that we expect to close those by the end of July, so those are Q3 and Q4 impacts.

Tony talked about them being mature stores. So you can imagine that they roll right into the operations.

Additionally, we continue to expand what we're doing in the Collectibles category. In terms of both the square footage that's designated to Collectibles inside the GameStop stores, the programs that we're -- I should say three things, the programs we're running on ThinkGeek.com, and the expansion of the Collectibles store base.

**Paul Raines** - *GameStop Corporation - CEO*

The other thing to remember too, Dan, is that if you remember Q1 and Q2 last year were very significant growth in earnings per share. I think the Q1 was $0.58. We went up to -- $0.59, went up to $0.68 I think it was.

And then Q2, it was even bigger than that. It was much bigger. Those are traditionally the lighter side of the year, traditionally for GameStop, and last year they improved a lot.

So we're overlapping pretty significant growth from last year as well. I think the back half will be very, very strong for us.

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**Dan Farrell** - *Oppenheimer & Co. - Analyst*

Great. Thanks. Just a quick follow-up.

I know you talked about the title lineup in the first quarter. Any detail you can provide about the title lineup for I guess the rest of the year, and how that is shaping up to compare to the current year?

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**Tony Bartel** - *GameStop Corporation - COO*

Well, I think it's definitely brought into our negative 5% to negative 10% guidance all that we know today. So all that we can say I think today would be a better statement, honestly, because we know a lot but we're under NDA on a lot of the titles that we have. But I think I would agree with Paul's statement that Q3 and Q4 look to be stronger.

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**Paul Raines** - *GameStop Corporation - CEO*

The way you've got to think about it is certainly there is our traditional title lineups, and we expect that we will get a Call of Duty and Madden and NBA2K and all those traditional titles.

But remember now there's also IP that runs through our Collectibles. Mike Mauler, what are some of the IPs coming this fall?

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**Mike Mauler** - *GameStop Corporation - President of International*

There's some really strong IP this year in the Loot category. We have Batman versus Superman, Zootopia, Star Wars Rogue One, The Walking Dead, some of the other shows like Game of Thrones.

It's really interesting how they fill in the gaps with the video game new releases. So it's going to be a real strong year for Loot IP.

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**Paul Raines** - *GameStop Corporation - CEO*

And then you've got to add what are the iPhone launches coming in our phone business. So we've created this business where we have video game titles, but we've also got Collectibles launches and we've got phone launches.

And between all that, that's where you see our guidance. We can't disclose all of it, but that's where you see our guidance for the year go that we think it will be a healthy growth year.

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**Dan Farrell** - *Oppenheimer & Co. - Analyst*

Great. Thanks, guys.

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**Operator**

We'll take our next question from Curtis Nagle with Bank of America-Merrill Lynch.

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**Curtis Nagle** - *BofA Merrill Lynch - Analyst*

Thanks very much for taking the question. I guess just the first, you guys have dealt or touched on this a little bit, but how are you thinking about attach rates for new software this year?

And then just a quick follow-up. What was behind the decline in AP in the fourth quarter?

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**Rob Lloyd** - *GameStop Corporation - CFO*

I'm sorry, the decline in AP?

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**Paul Raines** - *GameStop Corporation - CEO*

ThinkGeek I think he said.

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**Curtis Nagle** - *BofA Merrill Lynch - Analyst*

AP, accounts payable.

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**Rob Lloyd** - *GameStop Corporation - CFO*

Let me take that one first. If you look at the balance sheet, you can see a dramatic increase in accrued liabilities. It's really the categorization of checks we cut and held at the end of the year, basically the accounting rules wouldn't let us keep that in the AP line.

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**Tony Bartel** - *GameStop Corporation - COO*

In terms of attach rates, we anticipate that again this year we will gain share in all three categories, hardware, software and accessories. So we'll continue to outpace the market.

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**Curtis Nagle** - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much. Appreciate it.

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**Operator**

We have time for two more questions. We'll take our next question from David Magee with SunTrust.

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**David Magee** - *SunTrust Robinson Humphrey - Analyst*

Hello, everybody.

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**Paul Raines** - *GameStop Corporation - CEO*

Hey, David.

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**David Magee** - *SunTrust Robinson Humphrey - Analyst*

A couple of questions. First on the Tech Brands side, you mentioned doubling the operating income with the contribution from Tech Brands before the acquisitions. I'm assuming that a big part of that is just having the full-year impact of the stores you that brought onboard last year.

What would you say would be the risk to that not being achieved this year? That's my first question.

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**Paul Raines** - *GameStop Corporation - CEO*

Okay. Who wants to take it?

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**Rob Lloyd** - *GameStop Corporation - CFO*

I'll take that. David, we talked last year as we moved through the year about some of the costs that we incurred in terms of flipping GameStop stores into AT&Ts and flipping RadioShack stores into AT&Ts. So a portion of what you're getting is the fact that we don't anticipate having those kinds of costs this year.

I think Tony mentioned we intend to open 50 stores. So it's really a maturation of the store count that we opened last year, again, 233 that we flipped or opened last year and the ramp costs on those can be high. And then the second aspect is, as you mentioned, it's really just owning that year-end store count for the full year.

In terms of the risks, we feel pretty good about that. We feel pretty good about the acquisitions and what they're going to deliver to us in terms of operating earnings in the back half as well, and we're excited about the product launches that we see on the horizon.

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**Paul Raines** - *GameStop Corporation - CEO*

One thing to think about, David, too, is on these Tech Brands stores, remember that you're not dealing with titles that may or may not sell or products that may go in and out of vogue, et cetera. These are telecommunications services that people have.

Now, we're not just selling phones. We're also selling extended AT&T services.

So DirecTV has been a huge boom for us. We're going to sell every service that they have, and that's one of the important things about -- this is why we stress that it's so important to have a partner like AT&T that's progressive. Right, Tony?

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**Tony Bartel** - *GameStop Corporation - COO*

Absolutely.

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**Paul Raines** - *GameStop Corporation - CEO*

Just trying to build out new services. So that I think mitigates the risk for us or derisks this buildout a little bit.

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**Tony Bartel** - *GameStop Corporation - COO*

Absolutely.

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**David Magee** - *SunTrust Robinson Humphrey - Analyst*

Thank you for that. Do you think there's any risk that one or both of these deals could slip until the third quarter?

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**Paul Raines** - *GameStop Corporation - CEO*

I don't think we can comment on that.

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**Rob Lloyd** - *GameStop Corporation - CFO*

I would say look at the disclosures we have in the Risk sections of our documents. We try to look at the range of possibilities as we talk to you about when we anticipate having those deals in house, and we probably can't say much more than that. Other than I'll say, David, I'm glad you noticed we said we were going to double that profitability since each of us covered it in our comments.

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**David Magee** - *SunTrust Robinson Humphrey - Analyst*

(Laughter) But I did catch that.

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**Paul Raines** - *GameStop Corporation - CEO*

Let me make a point on this too, David. It's not that there are only two deals to be done with AT&T dealers. There are many, many deals yet to be done.

So we will do deals. The question is which ones, where, how, but I think the risk of us not doing deals is pretty low.

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**David Magee** - *SunTrust Robinson Humphrey - Analyst*

Great. Thank you. And then just lastly, as you think about the new software guidance this year, I think you said down 5% to 10%, can you parse out what you expect the new gen to do -- or I'm sorry the next gen versus the old gen within that number?

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**Rob Lloyd** - *GameStop Corporation - CFO*

I would say we expect to see the kinds of declines in the prior gen that we have seen in recent years. Obviously, the base becomes smaller. We talked about the impact of some of the 3DS stuff we saw last year.

So not having those kinds of launches is an impact as well. And within the next gen, as the old bases get smaller it becomes about the next gen. And I don't have the numbers right in front of me on what we expect there, but that business remains healthy for us and it's driving most of our new software sales now.

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**Paul Raines** - *GameStop Corporation - CEO*

One of the difficulties, right, Tony, is trying to predict what Nintendo is going to do. Because historically, we're overlapping, as Tony mentioned earlier, a big, big 3DS quarter in the first quarter. So we don't have a lot of sales built in for that.

On the other hand, there's all kind of rumors about what they're going to do console wise in the back half. So we've not put anything in for that. But Nintendo is a wild card on its software.

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**David Magee** - *SunTrust Robinson Humphrey - Analyst*

Great. Thanks, Paul.

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**Paul Raines** - *GameStop Corporation - CEO*

Thank you, David.

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**Operator**

We'll take our last question from Seth Sigman with Credit Suisse.

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**Seth Sigman** - *Credit Suisse - Analyst*

Hey, guys. Thanks.

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**Paul Raines** - *GameStop Corporation - CEO*

Hey, Seth.

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**Seth Sigman** - *Credit Suisse - Analyst*

Good afternoon. So I wanted to follow-up on the used business. Just wondering if you can elaborate on the inventory challenges that you were seeing, how you address that? And then ultimately, how do you see this business evolving given the outlook you provided for new software?

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**Tony Bartel** - *GameStop Corporation - COO*

Well like I said, we've got -- the great news about that business is we control the input prices and the retail prices as well. So we have some great promotions that are out there that are -- again, they are not eroding margins, but they are targeting some of the -- definitely the games that we need.

So we see strong demand and we are after product. And we did a great job in the fourth quarter of getting in-demand product, while at the same time selling through a lot of the 360 and the PS3 as you could see on the pages that we put in the deck.

So we feel comfortable about our ability to grow inventory to meet the demand for pre owned. And like Rob said, we're ahead of where we anticipated we would be at this point already. So the operations team is doing an excellent job of going out and getting that product that we need.

Also, Paul articulated -- I think we all talked about -- maybe Rob didn't, but we all talk about the power of PowerUp Rewards. And one of the most powerful things about PowerUp Rewards is its ability to go after that great pre-owned product that we need. We can really be surgical about talking with customers, individual customers, about the product that they have in their libraries and we use that very effectively.

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**Paul Raines** - *GameStop Corporation - CEO*

The challenge on that is always not that there's not inventory in people's homes, it's that we've got to find ways to motivate them to bring it in. And that's where PowerUp plays a role, Tony is right.

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**Seth Sigman** - *Credit Suisse - Analyst*

Okay. Thank you. And then just back to Tech Brands.

I wanted the clarify. The 50% to 60% revenue growth that you're targeting that's before acquisitions, so that's off the year-end sales base of I think it was $530 million or so. Is that the right wait way to be thinking about it?

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**Paul Raines** - *GameStop Corporation - CEO*

That is the right way to be thinking about it.

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**Seth Sigman** - *Credit Suisse - Analyst*

Okay. So based on that number and then the operating earnings outlook that you provided, it would seem to imply lower operating margins than the 10% that you've talked about in the past. Am I calculating that right? Can you help me reconcile that?

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**Tony Bartel** - *GameStop Corporation - COO*

Rob, I think that he's talking -- he's probably talking about the fact that -- just about the acquisition, how much you've included for the acquisition.

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**Rob Lloyd** - *GameStop Corporation - CFO*

I'm just running some math in my head. I'd say it would be in the neighborhood of 10%.

You saw 10% in the fourth quarter, or you'll see it when we -- when you read the 10-K next week, and you can see what the revenues were for Tech Brands. I'll have to dig into some numbers, Seth, to go beyond that. But I think our expectation is that it would be at or near that and then --

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**Tony Bartel** - *GameStop Corporation - COO*

We'll address it at Investor Day.

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**Rob Lloyd** - *GameStop Corporation - CFO*

We can come back to that at Investor Day.

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**Seth Sigman** - *Credit Suisse - Analyst*

Okay, fair enough. Let me just sneak one in on Collectibles, since that's a big focus as well. The $300 million this year that you were able to achieve, can you gives us a sense of how big that business was in 2014?

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**Rob Lloyd** - *GameStop Corporation - CFO*

Yes, give me just a second.

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**Paul Raines** - *GameStop Corporation - CEO*

While he's looking that up, in 2014 -- in 2013, we used to sell Collectibles as an ad hoc. We used to call it -- what was the name we had for (multiple speakers)?

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**Tony Bartel** - *GameStop Corporation - COO*

Franchise.

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**Paul Raines** - *GameStop Corporation - CEO*

Franchise marketing, where we would sell you -- Assassin's Creed was a typical one. We'd sell you the title, and then we'd sell you the blade, the plastic blade, that would come out of your sleeve. But, and then we got into it. What's the number?

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**Mike Mauler** - *GameStop Corporation - President of International*

In 2014 it was $75 million. I don't know if everybody remembers, but last year on a number of occasions on the earnings call, we talked about this being a business that could be $500 million in three years.

And so it's exceeded expectations, this year we predict it will be $450 million and that's with still two years to go. So it's growing fast and it's a very good business for us.

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**Paul Raines** - *GameStop Corporation - CEO*

The customer set is very close to our customer gaming set, by the way. If you look at the customers in our Collectibles stores, the people who buy Collectibles, a lot of them are similar, not the same. But a lot of overlap in those customer sets.

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**Seth Sigman** - *Credit Suisse - Analyst*

Which is part of the opportunity, but I guess one of the questions that we're trying to understand is how incremental that sale is. So is someone coming in with an incremental trip to buy some of those products, or are you just doing a really good job of capitalizing on existing traffic?

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**Paul Raines** - *GameStop Corporation - CEO*

I think there's a fair amount of incrementality. Remember that we sell Collectibles not just in the GameStop store, although that's an important source of revenue for the GameStop store.

That's why our contribution per store is up 15% year over year, et cetera. But we also sell it at ThinkGeek.com. We sell it in our own standalone stores as well.

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**Tony Bartel** - *GameStop Corporation - COO*

And clearly, we're seeing strong returns from those standalone sales which is why we're expanding them.

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**Seth Sigman** - *Credit Suisse - Analyst*

Okay, Terrific.

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**Tony Bartel** - *GameStop Corporation - COO*

And that's clearly -- the overlap between what we sell in those standalone stores and what we sell in our GameStop stores is extremely small. I think it's in the teens, which means that's fully incremental.

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**Seth Sigman** - *Credit Suisse - Analyst*

Okay. Thank you.

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**Tony Bartel** - *GameStop Corporation - COO*

Thank you, Seth.

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**Paul Raines** - *GameStop Corporation - CEO*

Great. Okay. I guess with that we'll wrap it up.

I want to thank everybody for participation on the call. We had a record net income year. Nobody mentioned that, but I will.

We had a record net income year, so thank you for joining us. And we'll look forward to seeing everybody April 13 and 14 at the Gaylord Hotel in -- right here just by DFW. You can catch an Uber from DFW and be there in five minutes. So thanks a lot, bye-bye.

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**Operator**

That does conclude the presentation. Thank you for your participation.

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