

'Big Short' Investor Michael Burry Is Now Going Long on GameStop

By [Tae Kim](#) Aug. 21, 2019 6:00 pm ET



Michael Burry Photograph by Tony Avelar/Bloomberg

Michael Burry, whose prescient bet against subprime mortgages before the financial crisis was depicted in the book and movie [The Big Short](#), is making another contrarian call: going long [shares of GameStop](#).

GameStop's "balance sheet is actually in very good shape," Burry told *Barron's* in a phone interview on Wednesday. "I believe they will have the cash flow to justify a much higher share price."

[Burry](#), a major character in Michael Lewis' best-selling *The Big Short*, was depicted by actor Christian Bale in [the movie based on the book](#). The investor was among the first to bet against subprime mortgages using credit default swaps going into the financial crisis. He rarely talks to the press.

On Monday, his firm, [Scion Asset Management](#), revealed it had sent a letter to the board of GameStop (ticker: GME) urging the company to fully execute the \$237.6 million remaining on its current \$300 million share-buyback authorization. The statement also disclosed that Scion now owns three million shares of GameStop, or some 3% of shares outstanding.

GameStop shares have fallen 72% this year after a series of disappointing earnings reports and worries over its future in an increasingly digital-download dominated landscape.

Burry believes the market is overly pessimistic over the videogame retailer's prospects, noting that both [Sony](#)'s (SNE) and [Microsoft](#)'s (MSFT) next-generation consoles, which are widely expected next year, are likely to have physical optical disk drives. He also played down concerns over competition from new videogame streaming competitors like [Alphabet](#)'s (GOOGL) Stadia.

Next year's consoles still using optical disk drives "is going to extend GameStop's life significantly," Burry said. "The streaming narrative dovetailing with the cycle is creating a perfect storm where things look terrible. [But] it looks worse than it really is."

The investor noted that 90% of GameStop's roughly 5,700 stores are free-cash-flow positive. He explained how during the previous video-game console cycle, its free-cash flow tumbled in the last year before rebounding smartly the following years. He thinks 2019 will be the bottom for this cycle.

"We're at low tide on the cash balance," Burry said. "The balance sheet checks out for me."

GameStop declined to comment on Burry's remarks or on his letter to the company's board.

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With GameStop's stock down so much this year, Burry thinks it is an opportune time for the company to buy back its shares. He noted there may be mechanical selling by quant-oriented funds because of new lease accounting guidelines that went into effect earlier this year. The new guidelines drove GameStop's leverage ratios higher, he says, while nothing has changed fundamentally.

"Technical factors driving the stock to lows has created an opportunity

for substantial buybacks at below private market prices," Burry said. "There is no better use of capital [than buybacks]."

Scion's letter noted the short interest for GameStop represented more than 60% of the shares outstanding.

Burry added that he is concerned GameStop's management may make a bad acquisition, citing its ill-fated [move into wireless stores](#) around 2013, instead of returning capital to shareholders.

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