



Company Overview

- Take two interactive is an American entertainment holding company focused on developing, publishing, and marketing various interactive media products. Its subsidiaries are responsible for some of the best-selling video games of all time, with several billion individual sales across all product lines.
- TTWO's products fall under 2 main segments:
 - o **Recurrent Consumer Spending (84%)** - Segment includes sales of subscriptions, in-game purchases, downloadable Content, microtransactions
 - o **Full Game and Other (16%)** - Segment includes initial sale of full game software products, online and offline
- Highly tenured management (CEO: 16 years, President: 16 years, CFO: 20 years, CLO: 18 years)

Industry Overview

- **TTWO's Competitive Positioning**
 - o Although TTWO is dwarfed in in terms of market share by industry titans such as Microsoft and Sony, it makes up for that with its strong portfolio of in-house developed intellectual property and notable brand relationships
 - o It is the only company out of its competitors that has grown in market share the past year due to aggressive M&A
 - Market Share:
Microsoft (22.6%), Sony (21.4%), Electronic Arts (14.2%), Activision Blizzard (8.8%), Nintendo (6.9%), **Take Two (6.0%)**
- **Industry Characteristics**
 - o Value of video game industry currently valued at \$215.6 Billion as of 2023
 - Projected to reach \$312 Billion in 2027; 8.5% implied CAGR
 - o Global video game users will hit 3.4 billion in 2023, growing to 3.8 billion in 2026, growing 6.3% YOY
 - Mobile gaming products account for half of global video game market
 - Largest growth in Africa/Middle East & South America due to increase in technology accessibility
 - o Over \$100 Billion global M&A transaction value in 2022

Rationale

- **Thesis 1: Consistent and Successful Releases Guarantee Revenue for Years to Come**
 - o TTWO has a proven track record of developing well received and more importantly, profitable games
 - Massive brand value from Rockstar, 2K
 - Grand Theft Auto series sold 400 million+ copies, Red Dead, Borderlands series sold 140 million+ copies combined
 - Releases stemming from existing series will likely drive massive revenue growth because of existing fanbase
 - Yearly 2K sports releases; NBA 2K averages 10.5 million copies sold per year since 2016
 - o Products generate revenue well past initial launch through the use of DLC, microtransactions, and re-releases on next-gen consoles
 - Recurrent consumer spending grew 33% from last quarter, now makes up over 84% of revenue
 - Allows for buffer between release cycles and stable cash flows, shows loyalty of fanbase

- **Thesis 2: M&A Growth Strategy for Strategic Collaboration**

- Acquisition of Zynga
 - Diversification into mobile market
 - Mobile gaming is the largest and quickest growing segment for gaming TTWO had little presence in the market previously
 - Existing mobile titles further increase recurrent consumer spending
 - Ability to port existing IP to mobile platforms and leverage Zynga's expertise in the segment
 - TTWO will be able to capitalize on existing PC and Console player-base
 - Top Line growth
 - Projected \$100 million+ in cost synergies within two years and \$500 million+ in yearly net bookings
- Other acquisitions allow for inter-studio collaboration and synergies, such as the recent release Top Troops

Risks and Catalysts

- **Catalysts**

- *Multiple game releases in 2024-2026*
 - Grand Theft Auto 6 in active development
 - Expected to outperform release of Grand Theft Auto 5, which almost doubled TTWO's revenue in 2014
 - Video game market grew substantially since 2013
 - Sales will not be limited by in-store copies due to heavy shift towards online retailers (Steam, Epic Games, etc.)
 - 18 new mobile games
 - Imminent release of Grand Theft Auto: The Trilogy – Enhanced Edition
 - Top Troops (Released Oct 3, 2023) and Star Wars Hunters; In collaboration with Zynga
 - 34 other releases + re-releases on console and PC

Risks

- *Continued Net Loss & Liabilities Accumulation*
 - TTWO has been losing money for the past few quarters due to increasing operating expenses and COGS
 - Took on a lot of debt to fund Zynga purchase
 - No signs of profitability until late 2024/early 2025
- *Commercial failure of new releases*
 - TTWO's reliance on recurrent revenue is not sustainable
 - There is already negative consumer sentiment regarding recurrent purchases in the gaming industry
 - New releases cost a lot of time and money to produce, but no guarantees of success regardless of company track record

[October 6, 2023]

Discounted Cash Flow \$ Millions	Historicals					Projections									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
						1	2	3	4	5	6	7	8	9	10
Revenue	2668	3089	3373	3505	5350	5564	10738	6980	7259	14446	11556	13406	14478	15057	15509
% Growth		16%	9%	4%	53%	4%	93%	-35%	4%	99%	-20%	16%	8%	4%	3%
Less: COGS	-1524	-1542	-1535	-1535	-3065	-2448	-4725	-3071	-3194	-6356	-5085	-5898	-6370	-6625	-6824
% Of Revenue	57%	50%	46%	44%	57%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%
Less: OpEx	-938	-1121	-1208	-1496	-3451	-1947	-3758	-2443	-2541	-5056	-4045	-4692	-5067	-5270	-5428
% Of Revenue	35%	36%	36%	43%	64%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
EBIT	207	425	629	474	-1165	1168	2255	1466	1524	3034	2427	2815	3040	3162	3257
Tax Rate	-43%	12%	13%	10%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
EBIAT	296	375	547	425	-980	983	1896	1233	1282	2551	2041	2368	2557	2659	2739
(+) D&A	40.2	48	56	61	122	20	38	25	26	51	41	47	51	53	55
% of Revenue	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
(+/-) Change in NWC	194	579	530	-219	-3110	147	284	185	192	383	306	355	384	399	411
% of Revenue	7%	19%	16%	-6%	-58%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
(-) CapEx	94	65	171	-320	-3512	35	68	44	46	91	73	85	91	95	98
% of Revenue	4%	2%	5%	-9%	-66%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Free Cash Flow	624	1067	1305	-53	-7480	1115	2151	1398	1454	2894	2315	2686	2901	3017	3107
WACC						7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%
Discount Factor						93%	87%	82%	76%	71%	66%	62%	58%	54%	51%
PV of Free Cash Flow						1041	1877	1140	1107	2058	1538	1667	1682	1634	1572

Comparable companies analysis

\$ Millions

Name	Equity Value	Enterprise Value	EV/EBITDA			EV/Revenue			P/E		
			TTM	2023	2022	TTM	2023	2022	TTM	2023	2022
Electronic Arts	\$ 32,723.0	\$ 32,419.0	16.24x	16.38x	20.07x	4.28x	4.37x	4.64x	37.28x	41.43x	43.74x
Activision Blizzard	\$ 74,148.0	\$ 67,215.0	21.88x	30.96x	17.80x	7.72x	8.93x	7.64x	34.31x	39.48x	19.30x
Ubisoft	\$ 3,885.0	\$ 4,547.3	8.74x	8.74x	5.11x	2.51x	2.51x	2.14x	N/A	N/A	44.47x
Playtika	\$ 3,523.0	\$ 5,177.9	6.93x	10.98x	9.16x	1.98x	1.98x	2.00x	11.81x	12.46x	23.20x
Median	\$ 18,304.0	\$ 18,798.5	12.49X	13.68X	13.48X	3.39X	3.44X	3.39X	34.31X	39.48X	33.47X
Average	\$ 28,569.8	\$ 27,339.8	13.45X	16.77X	13.04X	4.12X	4.45X	4.10X	27.80X	31.13X	32.68X
Take Two Interactive	\$ 23,931.0	\$ 24,486.7	31.43x	28.34x	32.49x	4.43x	4.58x	6.99x	N/A	N/A	42.48x

Perpetuity Growth Method	
WACC	7.05%
Last Year FCF	1604.8
Growth Rate	2.1%
Terminal Value	32406.1
PV of Terminal Value	16393.6
PV of FCF	15316.3
Enterprise Value	31709.9
Less: Debt	6,585
Add: Cash	827
Equity Value	25952.2
Shares Outstanding	169.4
Implied Share Price	153.2
Current Share Price	140.0
Implied Upside	9.4%

Exit Multiple Method	
WACC	7.05%
Multiple	12.49x
Growth Rate	2.1%
Terminal Value	40686.4
PV of Terminal Value	20582.4
PV of FCF	15316.34
Enterprise Value	35898.72
Less: Debt	6,585
Add: Cash	827
Equity Value	30141.02
Shares Outstanding	169.4
Implied Share Price	177.93
Current Share Price	140.00
Implied Upside	22.4%

DCF: Perpetuity
Growth
50%DCF: Exit Multiple
50%