

## Take-Two Interactive (TTWO)

**\$126.61** (As of 01/15/20)

Price Target (6-12 Months): **\$133.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: B

### Summary

Take Two is benefiting from portfolio strength and solid increase in recurrent consumer spending. Digital revenues are growing on solid demand for *Borderlands 3*, *NBA 2K20* and *NBA 2K19*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Red Dead Redemption 2*, *Red Dead Online*, Social Point's mobile offerings, *WWE 2K19* and *WWE SuperCard*. The company's portfolio strength and recent slate of releases, including *Borderlands 3*, *Ancestors: The Humankind Odyssey* and *The Outer Worlds* are key catalysts for the long haul. Shares have outperformed the industry in a year's time. However, intensifying competition from the likes of EA and Activision is compelling the company to spend more on software development and advertising. This is keeping margins under pressure.

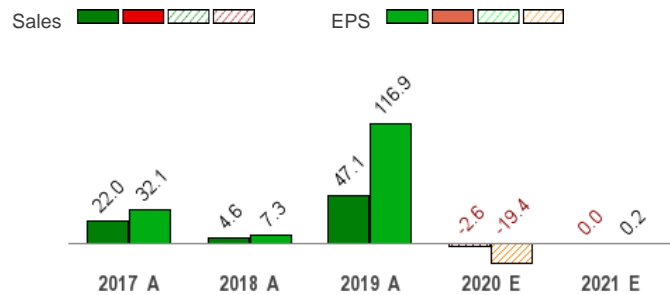
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$135.70 - \$84.41</b>
20 Day Average Volume (sh)	<b>954,875</b>
Market Cap	<b>\$14.4 B</b>
YTD Price Change	<b>3.4%</b>
Beta	<b>0.69</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Toys - Games - Hobbies</a></b>
Zacks Industry Rank	<b>Bottom 8% (233 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>13.2%</b>
Last Sales Surprise	<b>3.4%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>02/06/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>18.0</b>
P/E F1	<b>26.1</b>
PEG F1	<b>2.3</b>
P/S TTM	<b>4.5</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	461 E	816 E	1,024 E	572 E	2,853 E
2020	422 A	951 A	918 E	565 E	2,853 E
2019	288 A	583 A	1,569 A	488 A	2,929 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$1.46 E	\$2.12 E	\$0.77 E	\$4.87 E
2020	\$0.24 A	\$1.89 A	\$1.73 E	\$0.93 E	\$4.86 E
2019	\$0.19 A	\$1.05 A	\$4.05 A	\$0.86 A	\$6.03 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/15/2020. The reports text is as of 01/16/2020.

## Overview

Based in New York City, Take Two Interactive Software is a leading developer and publisher of video games.

Take Two's games can be played on video consoles, personal computers, mobile devices and tablets. The company earns revenues from the sale of disk-based video game products (known as packaged goods), downloadable contents (DLCs), subscription, micro-transactions and advertising.

Take Two reported net revenues of \$2.67 billion in fiscal 2019. The U.S. accounted for 53.5% of revenues, while the rest came from International operations. Channel-wise, digital online contributed 63% to net revenues, while the rest came from Physical retail and other segment.

The company develops and publishes games through Rockstar Games, 2K, Private Division and Social Point.

Rockstar publishes *Grand Theft Auto (GTA)* and *Red Dead Redemption* among others.

Take Two has sold more than 290 million units of the *GTA* series. Further, it has sold more than 105 million units of the latest installment, *Grand Theft Auto V*. The game also includes access to *Grand Theft Auto Online*.

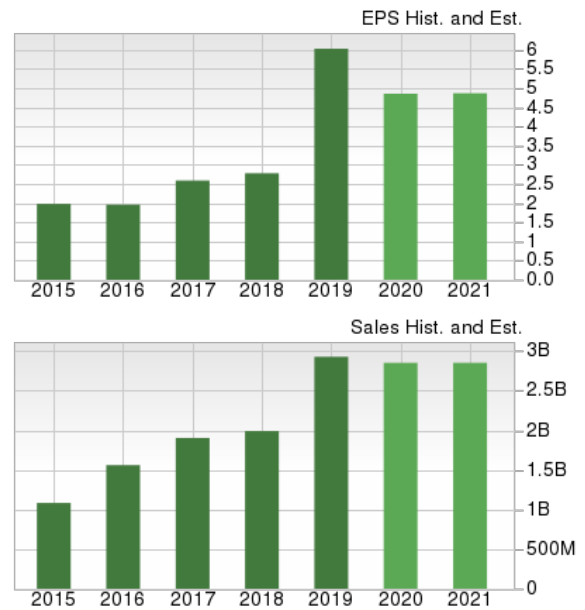
On Oct 26, 2018, Rockstar Games launched *Red Dead Redemption 2*, the latest installment of the *Red Dead Redemption* franchise.

2K's internally owned and published franchises include *BioShock*, *Mafia*, *XCOM* and *Sid Meier's Civilization*. It also publishes externally developed franchises such as *Borderlands*. Moreover, 2K's realistic sports simulation titles include *NBA 2K* series, the *WWE 2K* series, and the *Golf Club*.

Take Two's Private Division is the publisher of *Kerbal Space Program*.

Social Point develops and publishes popular free-to-play mobile games that include *Dragon City* and *Monster Legends*.

The company sells games both physically and digitally through direct relationships with large retail customers and third-party distributors. GameStop, Microsoft, Sony, Steam and Wal-Mart are the top customers. In fiscal 2019, the five largest customers accounted for 70.1% of net revenues.



---

## Reasons To Buy:

- ▲ Take Two's growth is primarily driven by its popular franchises — *Grand Theft Auto (GTA)* and *Red Dead Redemption*. Notably, *GTA* and *Red Dead Redemption* franchises generated 25.7% and 32.1% of net revenues in fiscal 2019. *Sid Meier's Civilization VI* also outperformed management's expectation owing to its expansion packs and the popularity of the Nintendo Switch skew. The company's portfolio strength and robust slate of releases, including *Borderlands 3*, *Ancestors: The Humankind Odyssey* and *The Outer Worlds*, are key catalysts for the long haul.
- ▲ The growing traction in *NBA* franchise bodes well for the company. Take Two expects *NBA 2K19* net bookings to continue the momentum owing to strong growth in recurrent consumer spending, which jumped 45% year over year in fiscal 2019. Moreover, *NBA 2K Online* was the most played PC game in China and the franchise has about 45 million registered users, which is expected to drive recurrent consumer spending. Additionally, *NBA 2K19* for PlayStation 4 has just been approved for release in China. This is expected to further boost top-line growth over the long term.
- ▲ Take Two's acquisition of Barcelona-based free-to-play mobile game developer, Social Point, is helping it fast penetrate the rapidly growing mobile gaming market. Per the latest report from Newzoo, more than 50% of revenues will come from mobile games by 2020. Social Point continues to expand its gaming portfolio with the launch of *Tasty Town* and *Word Life*. It has a robust slate of new releases (10 games) for the remainder of 2019.
- ▲ Compared with the physical platform, digital games are more profitable due to minimum packaging cost. This cost effectiveness help publishers like Take Two to keep a popular franchise running profitably over a longer period of time. In fiscal 2019, digital online revenues rallied 32.7% and accounted for 63% of net revenues. Moreover, recurrent consumer spending increased 20% and accounted for 39% of total net bookings. The consumer spending momentum, driven by rapid adoption of *NBA2K* (including *NBA 2K Online* in China) and *WWE SuperCard*, is a major growth driver for bookings in fiscal 2020.
- ▲ Take Two has been cautious in its approach towards e-sports market, which refers to live video game tournaments. With continued increase in viewership, corporate sponsorships and growing media coverage, e-sports is here to stay. Per the latest report from Newzoo, e-sports industry will reach \$1.4 billion by 2020. To grab a share of this lucrative opportunity, in February 2017, Take Two inked a deal with NBA to launch *NBA 2K eLeague*. This made NBA the only professional sports league to have its own e-sports league. Additionally, the company has a total of 21 teams. Notably, Take Two has been conducting an NBA e-sports tournament for the last two years.

Take Two benefits from the popularity of *GTA*, *Red Dead Redemption*, NBA and WWE franchises, strength in digital business, and expanding footprint in the e-sports space.

---

## Reasons To Sell:

- ▼ Video games are hit driven. Though Take Two has a powerful line-up of games that can be repeatedly upgraded, there is no assurance that a particular game will be a hit. Moreover, the video game business is highly cyclical and heavily dependent on time-to-time upgrade/introduction of new game software and hardware systems. This always keeps the margins under pressure.
- ▼ Moreover, the video game publishing industry is intensely competitive. The resultant pressure could tell on margins and also lead to market share losses. On the other hand, continued investment in the digital market may hurt its profitability in the near term. Notably, operating expenses increased 23.6% year over year, primarily due to higher selling & marketing (S&M) and research & development (R&D) expenses, up 52.8% and 17.2%, respectively, in fiscal 2019.
- ▼ Take Two's biggest problem is that it depends heavily on a handful of franchises, including *GTA*, *Red Dead Redemption* and *NBA 2K* series. The five best selling franchises make up for a major chunk of its revenues (91.8% in fiscal 2019). Underperformance of any of these franchises is bound to have a negative impact on the top line and profitability.
- ▼ Take Two is highly dependent on its few retail customers and third-party distributors to drive sales. Its top five customers accounted for 70.1% of net revenues in fiscal 2019. Sony, Microsoft and Gamestop each accounted for more than 10.0% of the company's net revenues. Customer concentration does not bode well for growth, as loss of any one such customer can drastically hurt financials.

Take Two's dependence on few franchises for top-line growth and customer concentration, and intensifying competition in the video game industry beget caution.

## Last Earnings Report

### Take Two's Q2 Earnings and Revenues Increase Y/Y

Take Two Interactive Software reported second-quarter fiscal 2020 GAAP earnings of 63 cents per share, up 186.4% year over year.

Net revenues surged 74.1% from the year-ago quarter to \$857.8 million. The growth was driven by robust performance of *Borderlands 3*, *NBA 2K20* and *NBA 2K19*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Red Dead Redemption 2*, *Red Dead Online*, Social Point's mobile offerings, *WWE 2K19* and *WWE SuperCard*.

Recurrent consumer spending (virtual currency, add-on content and in-game purchases, including the allocated value of virtual currency and add-on content incorporated in special editions of certain games) increased 32% and accounted for 37% of total GAAP net revenues. *NBA 2K20* launched by 2K Visual Concepts during the second quarter contributed to growth in recurrent consumer spending.

The Zacks Consensus Estimate for earnings and revenues was pegged at \$1.67 and \$913 million, respectively.

#### Top-Line Details

Digital revenues (81.1% of revenues) surged 35.8% year over year to \$615.8 million. Revenues from Physical retailer and other segments (29.7% of revenues) soared 80.2% to \$242.1 million.

Notably, the *Diamond Casino & Resort* update rolled out in July led to the highest player engagement and daily active users, weekly active users and monthly active users for *Grand Theft Auto Online* in the second quarter.

Region-wise, revenues from the United States (57.7% of revenues) surged 77.1% year over year to \$494.7 million. Moreover, revenues from International markets (42.3% of revenues) increased 70.2% to \$363.2 million.

On the basis of platforms, revenues from console (76% of revenues) surged 75.1% to \$651.8 million. Revenues from PC and other (24% of revenues) increased 71.1% to \$206 million.

#### Booking Details

Net bookings of \$950.5 million rose 63% on a year-over-year basis.

Net bookings from recurrent consumer spending accounted for 45% of net bookings and grew 39% year over year.

Notably, Catalog accounted for \$372.1 million of net bookings. Strong demand for *Grand Theft Auto*, *NBA 2K*, *Red Dead Redemption* and Social Point's mobile offerings was observed in the reported quarter.

Digitally-delivered net bookings (73.2% of net bookings) soared 63.2% to \$695.3 million. Bookings from Physical retail (26.8% of net bookings) and other segments increased 62.3% to \$255.2 million.

Take Two's private division released *Ancestors: The Humankind Odyssey* for digital download on PC in the second quarter, which contributed to digitally-delivered net bookings.

#### Operating Details

Take Two's gross profit increased 51.1% year over year to \$389.6 million. However, reported gross margin of 45.4% contracted significantly from 52.3% in the year-ago quarter.

Reported operating expenses jumped 35.8% year over year to \$314.8 million, primarily due to higher selling & marketing (S&M), research & development (R&D) and general & administrative (G&A) expenses in the quarter. S&M, R&D and G&A expenses increased 58.8%, 13.9%, 25.8%, respectively, on a year-over-year basis.

Income from operations came in at \$74.8 million, up 187.9% year over year. Operating margin expanded 340 basis points to 8.7% in the reported quarter.

#### Guidance

For the third quarter of fiscal 2020, Take Two expects GAAP net revenues between \$915 million and \$965 million. Net bookings are projected between \$860 million and \$910 million. The company projects GAAP earnings between \$1.39 and \$1.49 per share.

For fiscal 2020, net bookings are expected between \$2.75 billion and \$2.85 billion. GAAP net revenues are likely to be in the range of \$2.93-\$3.03 billion.

Take Two now projects GAAP earnings of \$3.38-\$3.63 per share.

The company projects operating cash flow to be more than \$450 million.

*Note: The EPS data mentioned in the text of this section differs from the rest of report due to the difference in calculation or consideration of one-time items.*

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	3.43%
EPS Surprise	13.17%
Quarterly EPS	1.89
Annual EPS (TTM)	7.04

## Recent News

On Dec 09, Take Two division 2K announced its newest, wholly owned game development studio named Cloud Chamber under the company's publishing label.

On Dec 06, Take Two's Private Division launched *Ancestors: The Humankind Odyssey* for PS4, PS4 Pro and across the Xbox One family of devices, including Xbox One X.

On Dec 05, Take Two's Private Division launched *Kerbal Space Program Enhanced Edition: Breaking Ground* Expansion for PS4, PS4 Pro and across the Xbox One family of devices, including Xbox One X.

On Nov 22, Take Two division 2K announced the availability of *Sid Meier's Civilization VI* worldwide for the Xbox One family of devices including Xbox One X and PS4 systems.

On Nov 5, Take Two announced the availability of *Red Dead Redemption 2* for PC. Originally released on Oct 26, 2018, Red Dead Redemption 2 for PlayStation4 and Xbox One sold over 25 million copies worldwide and remains the highest rated game of the current console generation for the company.

On Oct 25, Take Two's Private Division and Obsidian Entertainment announced the launch of *The Outer Worlds* across the Xbox One family of devices, including Xbox One X, PlayStation4, PlayStation4 Pro and Windows PC.

On Oct 22, Take Two division 2K announced the worldwide availability of *WWE 2K20*, the newest addition to the flagship WWE video game franchise for the PlayStation4 and Xbox One, including the Xbox One X, and Windows PC.

## Valuation

Take Two shares are up 7.7% in the six months period and 20.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 14.8% and 6% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 18% and 20.9%, respectively.

The S&P 500 index is up 10.9% in the six months period and 23.8% in the past year.

The stock is currently trading at 25.99X forward 12-month earnings, which compares to 28.33X for the Zacks sub-industry, 20.68X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 55.61X and as low as 19.9X, with a 5-year median of 32.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$133 price target reflects 27.31X forward 12-month earnings.

The table below shows summary valuation data for TTWO

Valuation Multiples - TTWO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.99	28.33	20.68	18.97
	5-Year High	55.61	30.46	23.35	19.34
	5-Year Low	19.9	17.34	16.16	15.17
	5-Year Median	32.75	24.02	20.11	17.44
P/S F12M	Current	5.03	5.26	2.39	3.53
	5-Year High	5.64	5.98	3.19	3.53
	5-Year Low	1.25	3	1.81	2.54
	5-Year Median	3.68	4.48	2.54	3
EV/EBITDA TTM	Current	16.22	20.69	12.71	12.12
	5-Year High	34.91	20.76	17.76	12.86
	5-Year Low	3.13	10.55	11.07	8.48
	5-Year Median	12.7	14.35	12.43	10.67

As of 01/15/2020

## Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 254)



## Top Peers

Activision Blizzard, Inc. (ATVI)	Outperform
Changyou.com Limited (CYOU)	Neutral
Electronic Arts Inc. (EA)	Neutral
Microsoft Corporation (MSFT)	Neutral
Nintendo Co. (NTDOY)	Neutral
Tencent Holding Ltd. (TCEHY)	Neutral
Zynga Inc. (ZNGA)	Neutral
Glu Mobile Inc. (GLUU)	Underperform

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	TTWO Neutral	X Industry	S&P 500	ATVI Outperform	EA Neutral	MSFT Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>F</b>	<b>F</b>	<b>C</b>
Market Cap	14.35 B	8.93 B	24.22 B	45.82 B	32.00 B	1,244.87 B
# of Analysts	21	5.5	13	14	14	14
Dividend Yield	0.00%	0.00%	1.75%	0.62%	0.00%	1.25%
<b>Value Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.15	0.13	0.04	0.11	0.15	0.11
EV/EBITDA	24.67	22.97	14.11	14.75	22.97	20.35
PEG Ratio	2.34	1.80	2.06	1.80	1.79	2.56
Price/Book (P/B)	6.58	4.67	3.34	3.74	4.51	11.74
Price/Cash Flow (P/CF)	20.11	22.24	13.57	16.01	24.38	25.68
P/E (F1)	26.09	23.51	18.90	23.47	23.33	30.46
Price/Sales (P/S)	4.50	3.45	2.65	6.66	6.30	9.59
Earnings Yield	3.84%	4.16%	5.29%	4.26%	4.29%	3.28%
Debt/Equity	0.05	0.22	0.72	0.22	0.14	0.69
Cash Flow (\$/share)	6.30	2.86	6.94	3.72	4.50	6.35
<b>Growth Score</b>	<b>B</b>	-	-	<b>F</b>	<b>F</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	33.73%	16.17%	10.56%	15.57%	16.76%	16.25%
Proj. EPS Growth (F1/F0)	-19.47%	16.46%	7.59%	14.37%	0.18%	12.80%
Curr. Cash Flow Growth	98.75%	11.18%	14.73%	2.15%	11.18%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	0.39%	17.55%	9.00%	17.97%	17.13%	11.99%
Current Ratio	1.48	1.60	1.24	3.43	3.32	2.85
Debt/Capital	5.16%	17.93%	42.99%	17.93%	12.20%	40.81%
Net Margin	11.14%	8.37%	11.14%	23.66%	54.01%	31.66%
Return on Equity	26.81%	13.94%	17.16%	13.91%	17.54%	39.14%
Sales/Assets	0.72	0.80	0.55	0.39	0.53	0.48
Proj. Sales Growth (F1/F0)	-2.86%	5.72%	4.23%	8.08%	3.75%	11.39%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>A</b>
Daily Price Chg	-0.25%	0.00%	0.27%	-0.68%	0.03%	0.65%
1 Week Price Chg	3.72%	0.00%	0.39%	0.48%	1.30%	1.71%
4 Week Price Chg	3.39%	2.36%	2.17%	1.05%	2.36%	5.71%
12 Week Price Chg	3.20%	4.41%	6.65%	8.83%	14.52%	18.90%
52 Week Price Chg	19.52%	19.52%	22.43%	26.54%	21.90%	54.85%
20 Day Average Volume	954,875	81,531	1,545,017	4,287,288	1,639,118	19,835,970
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.08%	0.00%	0.11%
(F1) EPS Est 4 week change	0.00%	-0.19%	0.00%	-0.37%	0.00%	0.11%
(F1) EPS Est 12 week change	2.05%	-6.61%	-0.41%	-0.27%	0.44%	2.80%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	3.14%	0.00%	0.22%

---

## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

---

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.