

Take-Two Interactive (TTWO)

\$123.50 (As of 04/15/20)

Price Target (6-12 Months): **\$130.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: A

Summary

Take Two is benefiting from portfolio strength and solid increase in recurrent consumer spending. Digital revenues are growing on solid demand for *NBA 2K20* and *NBA 2K19*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Red Dead Redemption 2* and *Red Dead Online*, *Sid Meier's Civilization VI*, and *WWE SuperCard* and *WWE 2K20*. The company's portfolio strength and recent slate of releases, including *Borderlands 3*, *Ancestors: The Humankind Odyssey* and *The Outer Worlds* are major growth drivers in the near term. Notably, shares have outperformed the industry on a year-to-date basis. However, the company provided weak revenues and bookings guidance for the fourth quarter. Higher software development costs is keeping margins under pressure.

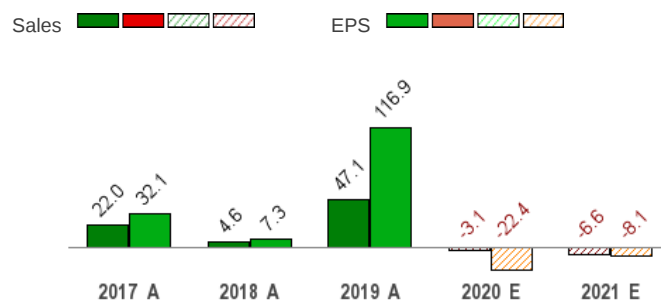
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$135.70 - \$87.97
20 Day Average Volume (sh)	2,424,116
Market Cap	\$14.0 B
YTD Price Change	0.9%
Beta	0.66
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Top 15% (38 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.9%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	05/11/2020
Earnings ESP	0.0%
P/E TTM	26.4
P/E F1	28.7
PEG F1	2.6
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	470 E	759 E	872 E	574 E	2,651 E
2020	422 A	951 A	888 A	576 E	2,837 E
2019	288 A	583 A	1,569 A	488 A	2,929 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.45 E	\$1.41 E	\$1.70 E	\$0.81 E	\$4.30 E
2020	\$0.24 A	\$1.89 A	\$1.68 A	\$0.87 E	\$4.68 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 04/15/2020. The reports text is as of 04/16/2020.

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.

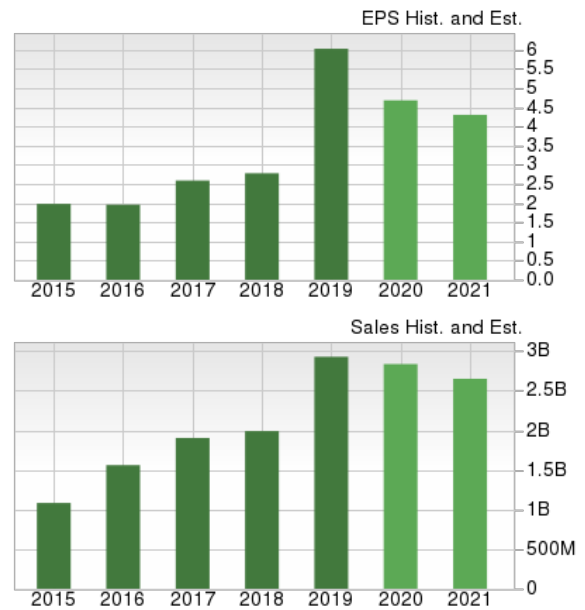
On Feb 7, 2020 Take Two's *Grand Theft Auto V* became the best-selling game of the past decade while *Red Dead Redemption 2* became the best-selling game in the past four years. Both the games sold more than 150 million units worldwide combined since their launch.

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 (TTWO) Q3 Earnings and Revenues Decrease Y/Y

Take Two Interactive Software reported third-quarter fiscal 2020 GAAP earnings of \$1.43 per share, down 8.9% year over year.

Net revenues declined 25.5% from the year-ago quarter to \$930.1 million.

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 15% and accounted for 37% of total GAAP net revenues.

Recurrent consumer spending on Grand Theft Auto Online grew 54% driven by Rockstar Games' continued release of new content.

The Zacks Consensus Estimate for earnings and revenues was pegged at \$1.73 and \$911 million, respectively.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-3.23%
EPS Surprise	-2.89%
Quarterly EPS	1.68
Annual EPS (TTM)	4.67

Top-Line Details

Digital revenues (74.2% of revenues) increased 17.8% year over year to \$700.3 million. Notably, growth was driven by *NBA 2K20* and *NBA 2K19*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *The Outer Worlds*, *Red Dead Redemption 2* and *Red Dead Online*, *Borderlands 3*, *Sid Meier's Civilization VI*, *Social Point's* mobile offerings, and *WWE SuperCard* and *WWE 2K20*.

However, revenues from Physical retailer and other segments (21.2% of revenues) decreased 64.9% to \$242.1 million.

Region-wise, revenues from the United States (57.7% of revenues) decreased 17.6% year over year to \$536.8 million. Moreover, revenues from International markets (42.3% of revenues) decreased 34.1% to \$393.2 million.

On the basis of platforms, revenues from console (73.1% of revenues) decreased 40.6% to \$679.8 million while revenues from PC and other (26.9% of revenues) surged 140.1% to \$250.3 million.

Booking Details

Net bookings of \$888.2 million declined 43.2% on a year-over-year basis.

Net bookings from recurrent consumer spending grew 6% year over year and accounted for 41% of total net bookings.

Notably, Catalog accounted for \$359.7 million of net bookings. Strong demand for *Grand Theft Auto*, *Red Dead Redemption*, and *Social Point's* mobile offerings was observed in the reported quarter.

Digitally-delivered net bookings (77.7% of net bookings) declined 1.9% to \$690.6 million. Moreover, bookings from Physical retail (22.3% of net bookings) and other segments declined 77.1% to \$97.6 million.

Operating Details

Take Two's gross profit increased 40.8% year over year to \$493 million. Reported gross margin of 53% expanded significantly from 28% in the year-ago quarter.

Reported operating expenses increased 5.9% year over year to \$316.2 million, primarily due to higher research & development (R&D) and general & administrative (G&A) expenses in the quarter. R&D and G&A expenses increased 32.4% and 19.7%, respectively, on a year-over-year basis.

Meanwhile, selling & marketing (S&M) expenses decreased 15% year over year to \$137.1 million in the reported quarter.

Income from operations came in at \$176.8 million, up 241.5% year over year. Operating margin of 19% expanded significantly from 4.1% in the year-ago quarter.

Guidance

For the fourth quarter of fiscal 2020, Take Two expects GAAP net revenues between \$635 million and \$685 million. The company projects GAAP earnings between 92 cents and \$1.12 per share.

Net bookings are projected between \$540 million and \$580 million. Significant contribution to net bookings is expected to be made by *Grand Theft Auto Online* and *Grand Theft Auto V*, *NBA 2K20*, *Red Dead Redemption 2* and *Red Dead Online*, *Sid Meier's Civilization VI* and *Borderlands 3*.

The company projects recurrent consumer spending to grow approximately 10% year over year, driven primarily by growth in *Grand Theft Auto Online* and *Red Dead Online*.

Moreover, digitally delivered net bookings are expected to increase over 20%. The company assumes that 66% of current generation console games will be delivered digitally, up from 57% in the same period last year.

For fiscal 2020, net bookings are expected between \$2.8 billion and \$2.85 billion. GAAP net revenues are likely to be in the range of \$2.96-\$3.01 billion.

Take Two projects GAAP earnings of \$3.38-\$3.58 per share. The company projects operating cash flow to be more than \$500 million.

Take Two expects recurrent consumer spending for the *NBA 2K20* franchise to grow in strong double digits in fiscal 2020.

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.

Recent News

On Apr 14, Take Two's division 2K announced that *XCOM: Chimera Squad*, a new standalone title in the award-winning, turn-based, XCOM tactical series, is scheduled to release digitally for Windows PC on Apr 24, 2020, for a limited-time introductory price of \$9.99.

On Mar 10, Take Two's division 2K announced a multi-year partnership with NFL encompassing multiple future video games. The partnership marks the return of football-themed games to 2K's lineup of notable sports titles and original IP, as well as an expansion of video game properties for the NFL.

On Feb 20, Take-Two's Private Division today announced the establishment of a new studio in the greater Seattle area. It includes key members of the original *Kerbal Space Program 2* development team, studio head Jeremy Ables and creative director Nate Simpson among others.

On Feb 7, Take Two's *Grand Theft Auto V* became the best-selling game of the past decade while *Red Dead Redemption 2* became the best-selling game in the past four years. Both the games sold more than 150 million units worldwide combined since their launch.

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.

Valuation

Take Two shares are up 0.9% in the year-to-date period and 37.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.6% while stocks in the Zacks Consumer Discretionary sector are down 23.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 21% while the sector is down 19.2%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and 4.4% in the past year.

The stock is currently trading at 28.34X forward 12-month earnings, which compares to 27.69X for the Zacks sub-industry, 20.05X for the Zacks sector and 18.65X 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 33.53X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$130 price target reflects 29.8X 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	28.34	27.69	20.05	18.65
	5-Year High	55.61	30.46	23.23	19.34
	5-Year Low	19.9	19.51	16.15	15.19
	5-Year Median	33.53	25.1	19.89	17.45
P/S F12M	Current	4.95	5.1	1.83	3.09
	5-Year High	5.64	5.98	3.19	3.44
	5-Year Low	1.29	3.4	1.67	2.54
	5-Year Median	4.01	4.7	2.52	3.01
EV/EBITDA TTM	Current	20.17	23.13	9.38	10.17
	5-Year High	34.91	23.97	17.6	12.87
	5-Year Low	3	11.04	8.26	8.27
	5-Year Median	14.16	14.53	12.25	10.78

As of 04/15/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 253)



Top Peers

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

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	TTWO Neutral	X Industry	S&P 500	ATVI Neutral	EA Outperform	MSFT Neutral
VGM Score	D	-	-	F	D	C
Market Cap	14.01 B	6.44 B	19.18 B	50.55 B	32.88 B	1,307.33 B
# of Analysts	21	6	14	13	13	14
Dividend Yield	0.00%	0.00%	2.24%	0.62%	0.00%	1.19%
Value Score	F	-	-	F	F	D
Cash/Price	0.18	0.19	0.06	0.12	0.18	0.11
EV/EBITDA	23.51	21.96	11.46	21.96	23.10	21.42
PEG Ratio	2.57	2.17	2.08	2.17	2.81	2.38
Price/Book (P/B)	5.83	4.58	2.58	3.94	4.58	11.87
Price/Cash Flow (P/CF)	19.61	22.82	10.15	23.41	25.25	27.05
P/E (F1)	28.67	24.75	17.24	26.50	22.99	30.88
Price/Sales (P/S)	4.89	3.72	1.99	7.79	6.10	9.74
Earnings Yield	3.48%	3.67%	5.64%	3.77%	4.35%	3.24%
Debt/Equity	0.06	0.20	0.70	0.21	0.14	0.64
Cash Flow (\$/share)	6.30	1.99	7.01	2.81	4.50	6.35
Growth Score	C	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	29.79%	15.28%	10.92%	14.16%	16.39%	17.68%
Proj. EPS Growth (F1/F0)	-8.08%	11.26%	-2.92%	10.22%	4.75%	17.19%
Curr. Cash Flow Growth	98.75%	19.56%	5.93%	-23.97%	11.18%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	0.39%	5.21%	8.55%	9.90%	17.13%	11.99%
Current Ratio	1.64	2.50	1.24	2.50	2.84	2.80
Debt/Capital	5.93%	16.41%	42.36%	17.28%	12.09%	39.05%
Net Margin	11.81%	11.42%	11.64%	23.18%	52.52%	33.02%
Return on Equity	15.30%	14.23%	16.74%	13.16%	18.86%	40.41%
Sales/Assets	0.63	0.75	0.54	0.36	0.53	0.48
Proj. Sales Growth (F1/F0)	-6.56%	3.22%	0.00%	6.27%	3.22%	11.64%
Momentum Score	A	-	-	A	C	D
Daily Price Chg	0.59%	0.00%	-3.26%	3.84%	1.32%	-1.05%
1 Week Price Chg	0.77%	0.38%	16.01%	0.80%	2.89%	7.35%
4 Week Price Chg	15.83%	15.83%	16.73%	18.20%	25.83%	22.42%
12 Week Price Chg	-5.08%	-12.79%	-22.44%	8.94%	0.37%	3.73%
52 Week Price Chg	37.62%	-20.68%	-14.41%	46.09%	23.45%	41.15%
20 Day Average Volume	2,424,116	292,173	3,301,889	9,732,542	4,303,112	59,259,840
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.05%
(F1) EPS Est 4 week change	-0.33%	-0.34%	-6.78%	0.06%	-0.35%	-0.89%
(F1) EPS Est 12 week change	-5.48%	-5.91%	-9.07%	-1.28%	0.53%	3.89%
(Q1) EPS Est Mthly Chg	-1.40%	-0.14%	-11.31%	-0.28%	20.64%	-4.06%

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	C
Momentum Score	A
VGM Score	D

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.

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