

Take Two Interactive Software	
Ticker MyBolsa/website BiG	TTWO
Ticker BiGlobal Trade	TTWO
Ticker BiGTrader24	TTWO
Ticker BiG Power Trade	TTWO
P/E Ratio 2018E	29.70
P/BV Ratio	8.13
EV/EBITDA	6.71

Source: Bloomberg;

Price and Performance (Values in USD)	
Price	132.72
52 week high	138.65
52 week low	92.81
YTD	20.9%
Average daily volume (un)	2,056,890
Market Capitalization (mn)	15,107
Beta	0.94
Dividend	0.00
EPS	1.57

Source: Bloomberg;

Analysts Consensus (last 3 months)	
Buy	17
Hold	4
Sell	0

Source: Bloomberg;

Financial Data	
Sales (USD mn)	1,793
EBITDA (USD mn)	280
Number of Employees	4,492
ROA	5.5%
ROE	12.5%
D/E	0.0%
Dividend Yield	0.00%

Source: Bloomberg;

Notes:

All quotes were updated in Bloomberg at 09h28 of September 18, 2018.

Relevant Information:

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Take Two Interactive Software (Ticker: TTWO US)

Description

Take Two is a gaming company which distributes, publicizes and creates games under two main brands, Rockstar Games and 2K. Its main hits are Grand Theft Auto, Red Dead Redemption and NBA2K.

Take Two has a market capitalization of USD 15bn and has around 4,500 employees.

Investment Case

Take Two is relatively expensive vs peers as shown in our comparative analysis below. It will be crucial to understand if the company will be able to transform its revenues from the sale of games every year to recurrent revenues from big titles launched in a wider time horizon. The risk is that interest in the games may drop months or a year after being launched, dragging consequently the recurrent revenue down.

We see other players in the sector more attractive than Take Two to have currently in one's portfolio.

Comparative Analysis

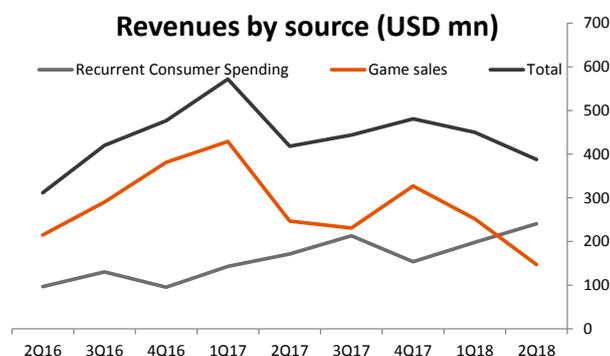
Take Two Interactive has a lower EBITDA margin than the rest of the peers, which justifies the lower P/E at which trades currently. However when we look to the P/E expected for 2019, it is evident that Take Two has lower earnings growth and consequently achieves a higher P/E than the peers which signals that it is relatively expensive.

Name	Country	Market Cap (mn)	Currency	P/E 2018E	P/E 2019E	EV/Sales	NetDebt/EBITDA	Margin EBITDA
ACTIVISION BLIZZARD INC	UNITED STATES	60,711	USD	30.4	26.5	7.9	-0.2	35.2
ELECTRONIC ARTS INC	UNITED STATES	34,338	USD	24.3	20.9	8.1	-3.5	23.4
UBISOFT ENTERTAINMENT	FRANCE	10,738	EUR	32.5	26.2	4.7	0.7	44.2
TAKE-TWO INTERACTIVE SOFTWARE	UNITED STATES	15,107	USD	29.7	26.8	6.7	-5.5	16.4
Average exc. Take Two				29.1	24.5	6.9	-1.0	34.3

Source: Bloomberg; BiG Research

Growth Drivers

Recurrent Revenue: The company is focused on increasing this source of revenue which has much less sazonalidade than game sales. The primary strategy is to develop huge good quality games such as GTA V or Red Dead Redemption 2. Thus, players have a big and rich environment to play and consequently will keep coming back to enjoy the game as new features and modes are added. Alongside this, the company will use microtransactions to sell virtual money or exclusive features in the game to attract users to spend money on it.



Source: Company's data

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Research:

research@big.pt

Income Stat. (USD mn)	2018	2017
Recurrent Revenues	746	459
Game sales	1047	1321
Revenues	1793	1780
Product Costs	898	1023
Depreciation & Amortization	44	31
R&D	196	138
Sales and Marketing	256	285
General Administrative Costs	263	211
Operational Expenses	1657	1688
EBIT	136	91
Other costs	-1	14
EBT	137	77
Taxes	-37	10
Net Income	174	67
Earnings Per Share	1.57	0.73

Source: Bloomberg

Free Cash Flow (USD mn)	2018	2017
Operational CF	394	331
Net Income	174	67
Depreciation & Amortization	161	282
Net Working Capital changes	-37	-98
Others	97	80
Investment CF	-272	-129
Capex	-102	-152
Short term investments	-170	23
Financial CF	-281	-50
Debt change	0	0
Share buyback	-155	0
Dividends	0	0
Others	-127	-50
Free Cash Flow changes	-159	153
Forex effects	25	-8
Final Free Cash Flow	809	943

Source: Bloomberg

Balance Sheet	2018	2017
Assets	3738	3149
Cash & Equivalents	809	943
Receivables	248	220
Property Plant & Equipment	775	491
Short term investments	615	449
Intangible Assets & Goodwill	503	469
Other Assets	787	577
Liabilities	2249	2145
Short term Debt	0	0
Long term Debt	8	252
Payables & accrued expense	915	751
Deferred Revenues	1133	914
Other liabilities	193	229
Total Shareowner's Equity	1489	1004
Total Equity and Liabilities	3738	3149

Source: Bloomberg

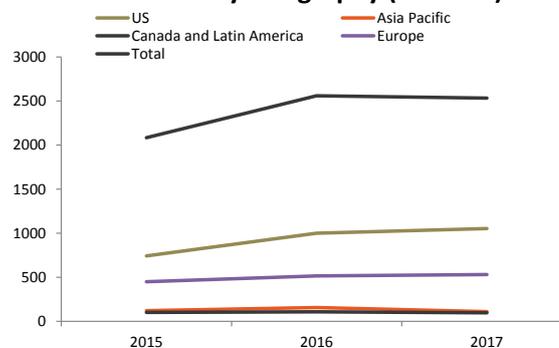


Source: Company's data

Revenues and margins

In 2018 fiscal year, Take Two achieved USD 1.8bn in revenues, growing less than 1% vs 2017's fiscal year. This was mainly due to lower releases of games than in 2017, which were offset by a growth in recurrent revenues.

Revenues by Geography (USD mn)



Source: Company's data

Free Cash Flows

Take Two does not pay dividends, but bought back shares in the amount of USD 155mn in the 2018 fiscal year.

Balance Sheet

The company's debt is residual and it has a comfortable USD 809mn position in cash and other USD 615mn in short term investments. The company has been acquiring small companies and may

Earnings

In the second quarter of 2018 (company's first fiscal quarter of 2019), Take Two had net bookings of USD 288mn vs est. of USD 258.7mn. Net revenues were USD 388mn. The company achieved USD 0.12 EPS, vs est. USD 0.04.

For the next quarter the company anticipates revenues between USD 500mn and USD 550mn, while the market expected USD 589mn. The guidance for FY revenue was in line with estimates (USD 2.7bn-2.8bn vs est. USD 2.77bn), while EPS will be below expected according to the company (USD 4.15-4.39, vs est. USD 4.42).

Management Team

Strauss Zelnick (CEO): After the SEC accusation in 2006 against the at the time CEO and executive committee, several investors joined and appointed Strauss Zelnick as Chairman and Ben Feder as CEO. Zelnick accumulated the CEO position in 2010. Zelnick studied in Wesleyan University and later did an MBA in Harvard Business School and a has a JD from Harvard Law School. After graduating he worked in Fox for 3 years, was CEO of Crystal Dynamics and BMG and founded Zelnick Media Capital in 2001. He is now 61 years old and still practises exercise frequently, which led him to write a book with the title "Becoming Ageless".

Take Two has an agreement with Zelnick Media to provide the executive team composed of Mr. Zelnick and Mr. Strauss, which may receive up to a maximum of 60% and 40% of this payment respectively. Zelnick Media received in the end of 2018 fiscal year, USD 17 mn.

▲ **Main games**

Main Games	Launch date
Star Crusader	1994
Grand Theft Auto	1998
Grand Theft Auto II	1999
NBA 2K (annual franchise)	1999-Present
NHL 2K (annual franchise)	2000-2014
Max Payne	2001
Grand Theft Auto III	2001
Mafia	2002
Grand Theft Auto Vice City	2002
Midnight Club II	2003
Max Payne 2: The Fall of Max Payne	2003
Grand Theft Auto San Andreas	2004
Midnight Club 3	2005
Grand Theft Auto IV	2008
Red Dead Redemption	2010
Mafia 2	2010
Max Payne 3	2012
Grand Theft Auto V	2013
Mafia III	2016
WWE 2K19	09-10-2018
Red Dead Redemption 2	26-10-2018

Grand Theft Auto: This is an action-adventure, which has as scenario cities, where the player is part of a gang or mafia and fulfills missions, usually violent, to earn money and have access to better features in the game. It has been a huge success and despite the latest version being launched in 2013 (which sold almost 100 million copies), it still has many gamers playing the game in its online version where they connect with other gamers around the world. In the online version, gamers may buy clothes, cars, boats, planes, apartments and other things in the game by using virtual money. Take Two is able to extract recurrent revenue from this game by selling virtual money for real money.

Red Dead Redemption: This is an open world game in a western scenario, where the gamer acts as a cowboy and fulfills several missions. The 2nd version of the game will be launched in October and the expectations are high.

Mafia and Max Payne: Are 2 cinematic third-person shooter games, where players are immersed in the life of criminal that wants to take down the Italian Mafia and a NYC cop which becomes a vigilante, respectively.

2K Sports: The company also has 2 main sport games, the NBA 2K (basketball) and the WWE 2K (wrestling).

▲ **M&A**

Take Two acquired BMG Entertainment in 1998, which had just released the first Grand Theft Auto game. It later rebranded it as Rockstar games. In 2005 it acquired 2 studios who were fundamental in the development of the sports games 2K. In 2008 EA made an offer for Take Two of USD 26 per share which valued the company at the time at USD 2bn. By that time Take Two was preparing the release of GTA IV and rejected the offer claiming the price was too low and the timing was not the best. In 2017 Take Two acquired Social Point (a mobile game publisher) for around USD 276 mn.

▲ **Risks**

Possible acquisitions: A consolidation in the sector may increase the power of Take Two competitors, unless Take Two takes part in that process by acquiring other small firms or being acquired.

Launch of Red Dead Redemption is crucial: This game will be launched in October of this year and is the major game launch of the company in the last 2 years. It is extremely important for Take Two to have good reviews and subsequently attract the maximum number of players that will make purchases within the game, and enable the company to achieve its recurrent revenue objective.

▲ **Calendar**

7/11/2018: Earnings 3Q18

▲ **Chart Analysis**



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

Research:

research@big.pt

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 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
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PSI20 Notes in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
Total	4	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	11	78,6%
Stop Loss	1	7,1%
In Place	2	14,3%
Total	14	100,0%

Pair Trades in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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