



Take Two Interactive **T2**



Research Report and Valuation Analysis

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Executive Summary



Recommendation: Buy

Company and Market Overview

- Take-Two is a leading console, PC and mobile videogame publisher serving a global audience of players with a diverse portfolio of established game franchises and hyper-casual titles across multiple genres
- Take-Two's revenue is expected to have decreased slightly over the last fiscal year while EBITDA has dipped significantly from pandemic-era highs, driven by the lower margins of their mobile game division
- The video-game industry is highly fragmented and is undergoing significant transformation, as the growing market share of hyper-casual mobile games is pushing companies that have historically focused on established PC and Console videogame franchises into the less profitable and more competitive mobile gaming space

Valuation

- DCF analysis suggests that Take-Two is currently valued at or below its "fair" value. Shrinking implied premiums between precedent transaction multiples and current public trading comps suggest the market sees higher profitability in the horizon for videogame companies given the advances in AI and its potential to lower costs
- Different valuation methods indicate an Enterprise value of between \$21B and \$31B for Take-Two
- Take Two's expected cash flows are highly dependent on the success of GTA VI and the revenue surge it is projected to generate. GTA VI's high expected sales may be masking weaknesses in other areas of the firm



Videogame Industry Overview

Videogame Industry: Competitive Landscape

Highly fragmented industry undergoing significant transformation, as the growing market share of hyper-casual mobile games is pushing companies that have historically focused on established PC and Console videogame franchises into the less profitable and more competitive mobile gaming space

PC & Console Focused



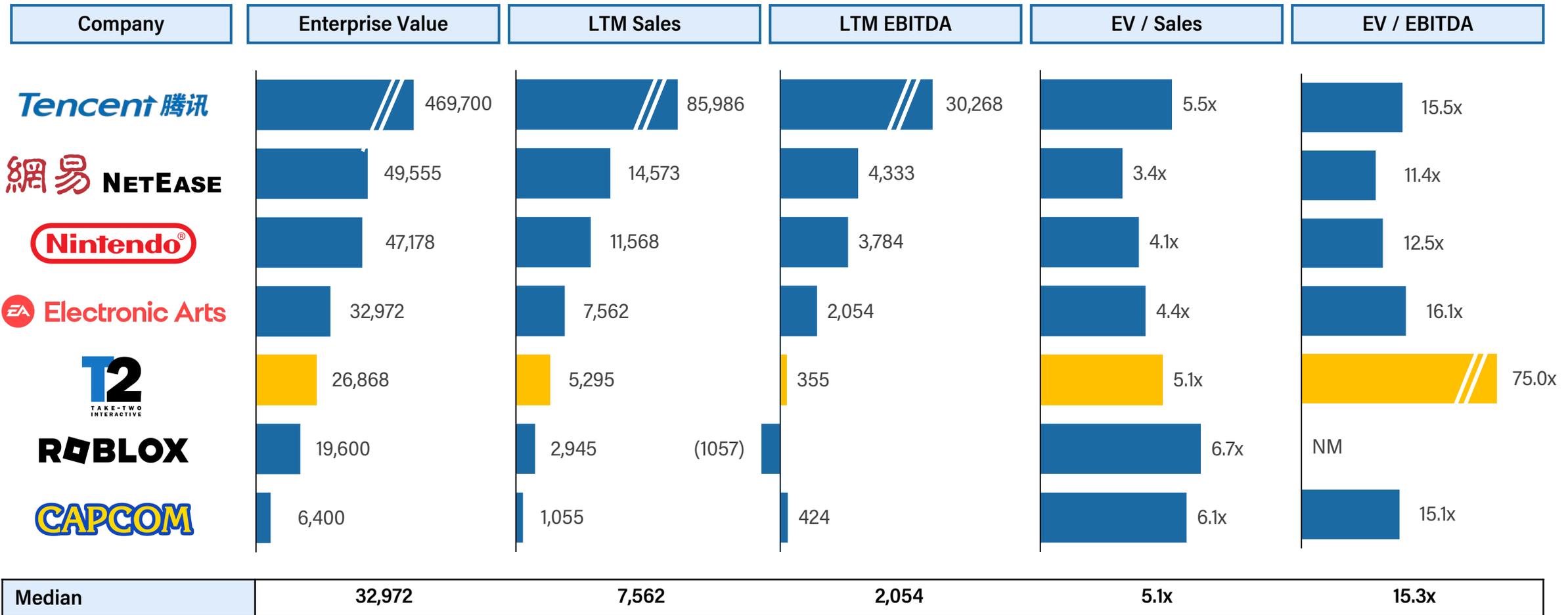
PC + Console + Mobile

Mobile Focused

Videogame Industry: Financial Overview

Asian companies dominate the list of top videogame companies by enterprise value, but firms such as Nintendo and NetEase trade at discount to the EV multiples of their US-based peers, despite owning titles with global appeal



Source: Company materials, SEC filings, Wall Street Journal.

Note: Figures in millions of US dollars. Enterprise value figures as of May 9, 2024 market close. LTM EBITDA and sales figures as of 03/31/2024, except for NetEase and Take Two Interactive, which are as of 12/31/2023.



Take-Two Interactive: Company Overview

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Key Facts

Headquarters
New York City

CEO
Strauss Zelnick

Franchises with 5 Million+ Units Sold

14

of Top 200 Grossing US Mobile Games

16

Development Studio Headcount

8,894

Game Publishing Studios & Key Titles



Rockstar Games



MAX PAYNE



2K Games



Zynga



Private Division



Take-Two Interactive: Financial Overview



Take-Two's revenue is expected to have decreased slightly over the last fiscal year while EBITDA has dipped significantly from pandemic-era highs, driven by the lower margins of their mobile game division

FY 2024E Results

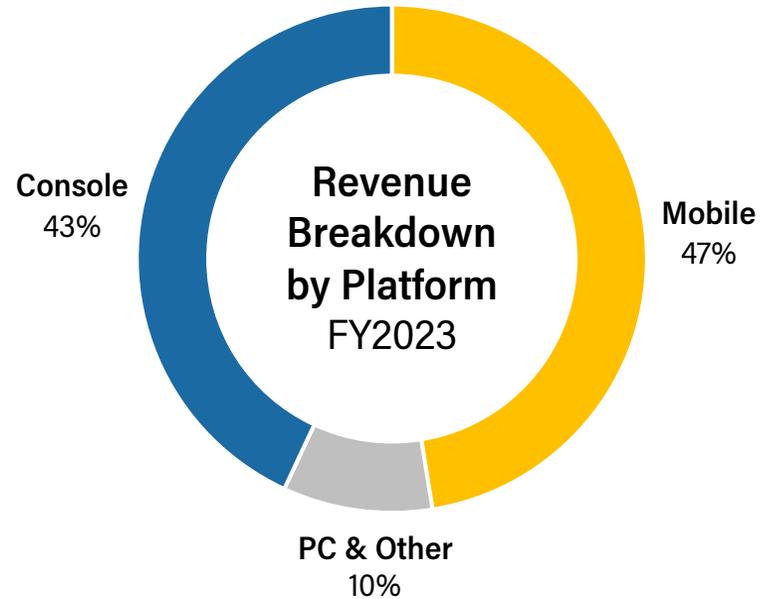
Management Guidance (Midpoint)

Revenue

\$5.3B ↓ 1.0% YoY

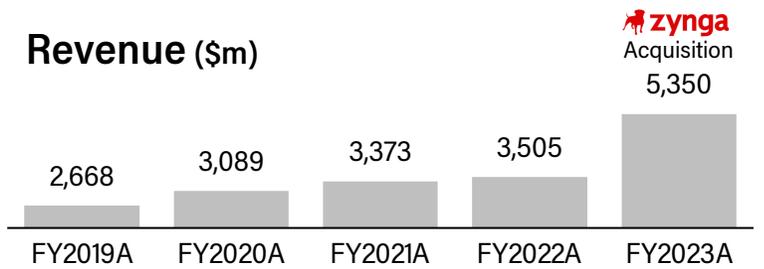
EBITDA

\$324m ↓ 7.9% YoY

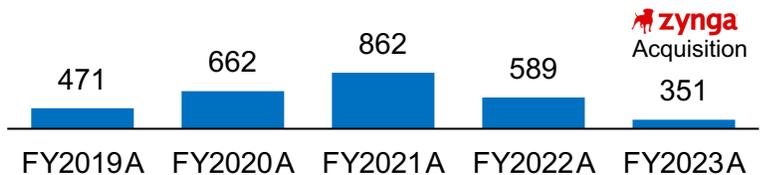


FY 2019-2023 Results

Revenue (\$m)



EBITDA (\$m)



LTM Stock Price Performance



Take-Two's IP Portfolio

Take-Two's most established, fully-owned IP is highly violent and, on occasion, lewd, which could inhibit potential film and TV adaptations and their utilization in amusement parks that appeal to families. That somewhat limits potential expansion into other media at a time when many videogame competitors are expanding into film, TV and live entertainment

Rockstar's violence and gore

- Rockstar Games, which develops many of Take Two's best-known titles is renowned, and arguably sought-after, for the violence and gore of their games. Toning the violence down in other media could alienate their existing fanbase and/or cause backlash from their creative team



2K: Popular games, but not owned IP

- 2K develops some of the most popular sports games in the world. Nevertheless, these are license-based games with established sports leagues. This creates a risk of losing the brand of a major game title, as it happened recently to EA Sports, who had to rename its FIFA soccer game. Nevertheless, according to EA, the name change it didn't have major impact in sales



Zynga: Hyper-Casual focus

- Zynga's portfolio of fully-owned mobile games appeals to a new generation of more casual videogame players looking for intuitive playing interfaces and less of a time commitment. Their IP is more family-friendly but less storytelling-based and could prove more difficult to adapt to other media





Take-Two Interactive: Valuation Analysis

Illustrative Summary of Valuation Analysis



DCF analysis suggests that Take-Two is currently valued at or below its “fair” value, while shrinking implied premiums between precedent transaction multiples and current public trading comps indicates that a theoretical acquisition of Take-Two would probably require reaching historically-high EV multiples

Methodology	Illustrative Price per Share		Commentary
Precedent Transactions	Current Share Price \$145.88	\$170  \$187	<ul style="list-style-type: none"> 17%-28% implied M&A control premium Expected premium is likely to be much higher Enterprise value range of \$29.3B-\$31.9B
Public Company Trading		\$142  \$158	<ul style="list-style-type: none"> EV / Sales multiple range: 4.7x-5.2x; 4.9x median Enterprise value range of \$24.7B-\$27.3B
52-week trading high-low		\$124  \$170	<ul style="list-style-type: none"> TTWO stock is up 15% YoY, down 9% YTD Enterprise value range of \$21.8B-\$29.1B
Sum of the Parts - Console + PC	\$75  \$83		<ul style="list-style-type: none"> Assuming 4.7x-5.2x EV / Sales multiple range based on trading comps; EV of \$13B-\$14.4B
Sum of the Parts - Mobile Business	\$67  \$75		<ul style="list-style-type: none"> Assuming 4.7x-5.2x EV / Sales multiple range Enterprise value range of \$11.7B-\$13.0B
DCF - Perpetuity Growth		\$146  \$172	<ul style="list-style-type: none"> 1.5%-2.5% LT growth; EV Range: \$25.3B-\$29.5B Implied Discount of 0-15% below “fair” value
DCF - Exit EBITDA Multiple		\$ 52  \$169	<ul style="list-style-type: none"> 14x-16x Exit EBITDA multiple range Implied discount of 4-14% below “fair” value Enterprise value range of \$26.2B-\$29.1B

DCF Valuation



Take Two's expected cash flows are highly dependent on the success of GTA VI and the revenue surge it is projected to generate. GTA VI's high expected sales may be masking weaknesses in other areas of the firm

	FY2024E	FY2025P	FY2026P	FY2027P	FY2028P	FY2029P
Total Revenue	5,295	6,976	8,160	8,515	8,700	8,889
Cost of Revenue	2,797	2,861	3,182	3,832	3,828	3,822
Operating Expenses	3,550	3,728	3,914	4,084	4,173	4,264
EBIT	(1,052)	388	1,064	599	699	803
D&A	1,241	1,298	1,359	1,321	1,268	1,222
<i>% of Revenue</i>	23.4%	18.6%	16.7%	15.5%	14.6%	13.7%
EBITDA	355	1,685	2,424	1,921	1,967	2,025
Tax rate	21%	21%	21%	21%	21%	21%
UFCF Calculation						
EBIT (1-t)	(831)	306	841	473	552	635
D&A	1,241	1,298	1,359	1,321	1,268	1,222
Changes in NWC	(50)	(50)	(50)	(50)	(50)	(50)
Capital expenditures	(150)	(198)	(231)	(241)	(246)	(252)
Unlevered free cash flows (UFCF)	210	1,356	1,919	1,504	1,524	1,555
WACC		8.3%	7.8%	7.3%	7.3%	7.3%
Sum of present values of projections	6,357					
Terminal value - Perpetuity Growth (Base Case)						
Long term growth rate (Base Case)	2.0%	Terminal value - EBITDA multiple (Base Case)		15.0x	Value per Share (Base Case)	
2029 FCF x (1+g)	1,586	EBITDA multiple			Perpetuity	Multiple
Terminal value in 2029	29,708	Terminal value in 2022		30,381	<u>approach</u>	<u>approach</u>
PV of TV	20,849	Stage 2: PV of TV		21,322	\$157.65	\$160.60
Enterprise value						
Enterprise value (Base Case)	27,206	(Forecast PV +TV PV)		27,679	TTWO Share price	\$145.88

Key Assumptions and Commentary

- Revenue figures for FY25 and FY26 are the current Wall Street analyst consensus, with high revenue growth estimates being driven by launch of GTA VI, expected to be a massive hit
- Projecting sales to grow close or at worldwide industry rate from FY27-29
- The expected success of GTA VI is likely masking weakness in other areas of the business such as mobile games
- COGS and Operating expenses as a % of revenue have increased substantially since the Zynga acquisition, reflecting the lower profitability of mobile videogames
- Assuming slightly decreasing WACC over the next 5 years given likelihood of interest rate decreases
- Assuming 2% base case terminal value perpetuity growth rate (range of 1.5-2.5%)
- Alternatively, assuming 15.0x base case exit EBITDA multiple (range of 14x-16x)

Precedent Transactions Analysis



Over the past decade, Console & PC gaming companies have used M&A to add mobile titles and capabilities to their portfolios given the growth in smartphone usage and changing videogame playing habits

Announcement Date	Target	Acquirer	EV (\$mm)	EV/Sales	EV/EBITDA
04/17/2023			742	2.2x	16.3x
01/18/2022			68,700	7.8x	18.2x
01/10/2022			12,700	4.5x	19.8x
07/19/2021			1,392	9.0x	40.0x
06/03/2021			1,400	9.6x	15.2x
02/08/2021			2,100	3.9x	20.2x
12/14/2020			1,200	12.1x	24.9x
08/28/2020			1,400	7.0x	23.9x
06/21/2016			10,202	4.4x	10.6x
11/02/2015			5,000	2.5x	7.5x
			Mean	6.3x	19.7x
			Median	5.8x	19.0x

Sum of the Parts Analysis



Take Two's revenue is split roughly in half between its legacy PC & Console businesses and its Mobile business, which is composed largely of games brought in through the Zynga acquisition

Take Two - PC & Console Businesses



FY 2024E Revenue

\$2.8B

% of Total Revenue

53%

EV / Sales Range

4.7x-5.2x

Enterprise Value Range

\$13.0B-\$14.4B

Share Price Range

\$75-\$83



Take Two - Mobile Business



FY 2024E Revenue

\$2.5B

% of Total Revenue

47%

EV / Sales Range

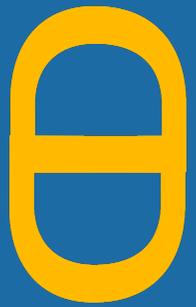
4.7x-5.2x

Enterprise Value Range

\$11.7B-\$13.0B

Share Price Range

\$67-\$75

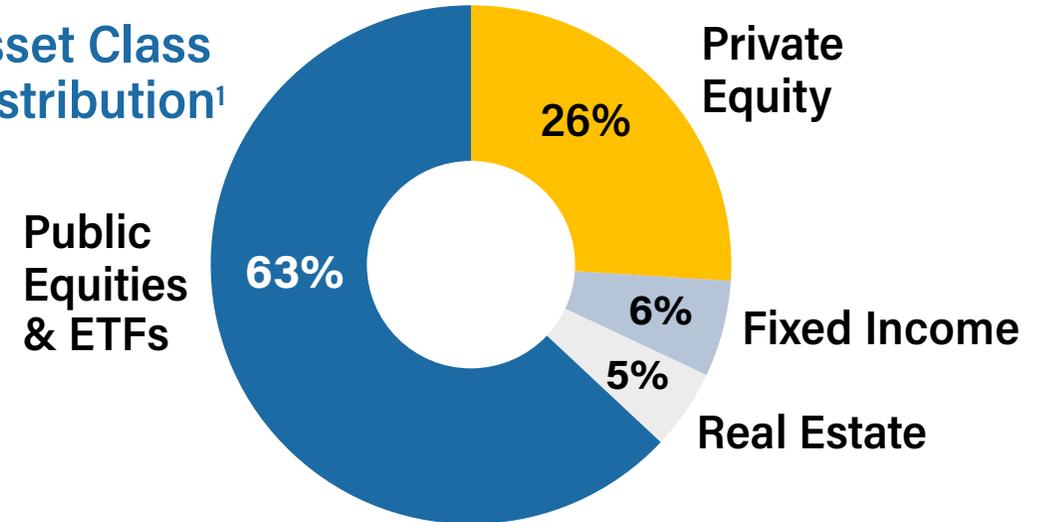


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About the Firm

- Handal Dunaway is a registered investment management firm dedicated to building and managing diversified, multi-asset portfolios and investment funds for high-net-worth individuals, corporations and institutional investors
- Through extensive technical and fundamental analysis, our team constructs investment portfolios and manages proprietary investment funds that help meet clients' financial objectives and create long-term wealth for their stakeholders
- Our investment strategy deploys capital across sectors, asset classes and public and private markets globally to maximize returns while moderating portfolio exposure

Asset Class Distribution¹



+34%

Investment team's
3-year average
annual return²

Proprietary Investment Funds

 **HD PRIVATE EQUITY**
TACTICAL OPPORTUNITIES FUND

 **HD PRIVATE CREDIT**
HIGH YIELD FUND³

 **HD PRIVATE EQUITY**
STRATEGIC SITUATIONS FUND⁴

Firm Leadership



Esteban Handal
CEO & Managing Partner

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- Served as a Mergers & Acquisitions Investment Banker at Nomura's Technology, Fintech and Business Services Group in New York City and at Centerview Partners, the leading independent investment bank on Wall Street
- Formerly founded and served as CEO of Washington Academy, which he grew to become the largest operator of vocational schools in Mexico and Central America
- Received a Master of Business Administration (MBA) degree from the Yale University School of Management and a Bachelor's degree in Finance from Babson College



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