

# Take-Two Interactive Software Inc.

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## Financial Stock Analysis Report for Take-Two Interactive Software Inc. (TTWO)

### General Statistics:

Exchange: NASDAQ

Recommendation: Buy

Current price: \$151.52 (as of July 21, 2024)

Target price: \$181.22 (20% increase)

## 1. Background of the Company/Revenue Drivers

Take-Two Interactive Software, Inc. is a leading developer, publisher, and marketer of interactive entertainment solutions for consumers worldwide. Founded in 1993 and headquartered in New York, the company has established itself as a major player in the gaming industry, known for creating high-quality, engaging content across various platforms. Business Model: Take-Two's business model revolves around developing and publishing games through its key labels:

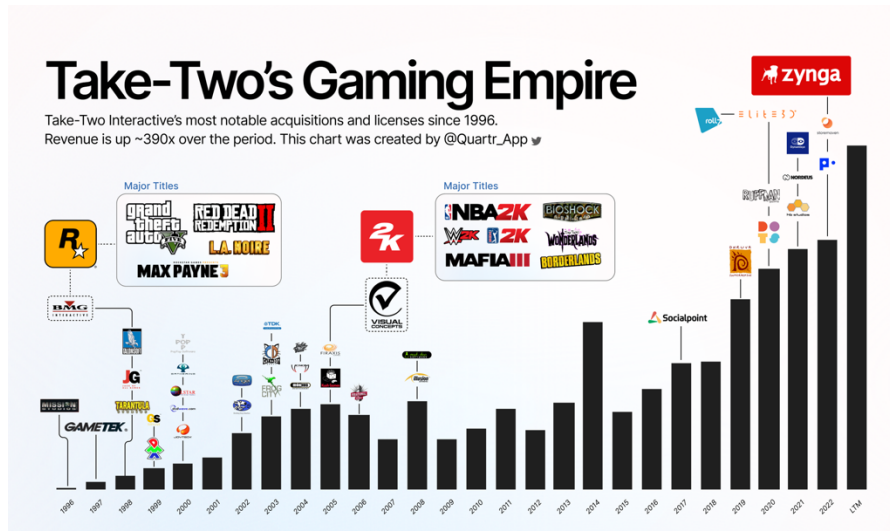
- Rockstar Games: Known for blockbuster franchises like Grand Theft Auto and Red Dead Redemption
- 2K: Publishes sports titles like NBA 2K and WWE 2K, as well as strategy games like Sid Meier's Civilization
- Private Division: Focuses on independent developer partnerships
- Social Point: Specializes in free-to-play mobile games

The company generates revenue through initial game sales, in-game purchases, and recurring consumer spending.

Product Portfolio: Take-Two's diverse portfolio includes:

- Action/Adventure: Grand Theft Auto, Red Dead Redemption, LA Noire, Max Payne
- Sports: NBA 2K, WWE 2K, PGA TOUR 2K
- Strategy: Sid Meier's Civilization, XCOM
- Shooter: BioShock, Borderlands
- Role-Playing: Tiny Tina's Wonderlands

- Mobile Games: CSR Racing, Dragon City, Empires & Puzzles, Words With Friends, Zynga Poker

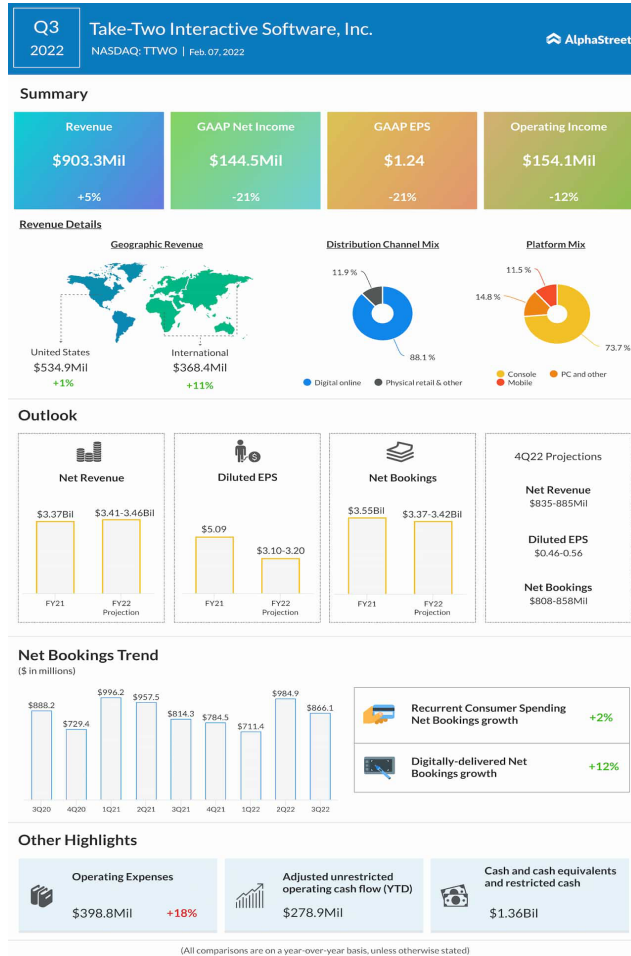


- Key People:
  - Strauss Zelnick: Chairman and CEO since 2007, credited with the company's turnaround and growth
  - Karl Slatoff: President, overseeing day-to-day operations
  - Lainie Goldstein: Chief Financial Officer, managing financial strategies
  - Geographical Exposure: While based in the United States, Take-Two has a global presence. Its primary markets include North America and Europe, with growing penetration in Asia and other regions.

○ Target Customers: Take-Two caters to a broad spectrum of gamers:  
 Console gamers (PlayStation, Xbox, Nintendo Switch)  
 PC gamers  
 Mobile gamers (smartphones and tablets)  
 Casual to hardcore gaming enthusiasts

## 2. Current Performance

Take-Two is currently demonstrating strong financial performance:  
**Revenue:** \$5.35 billion in the last fiscal year, showing steady growth  
**Current stock price:** \$151.52  
**Market capitalization:** \$26.52 billion



## Financial Ratios:

**Price-to-Earnings (P/E) Ratio: 35.24**

**Price-to-Sales (P/S) Ratio: 4.95**

**Debt-to-Equity Ratio: 0.31**

**Current Ratio: 0.65**

**Revenue Trend:** Take-Two has shown consistent revenue growth over the past five years, driven by successful game releases and increasing recurrent consumer spending.

**Profit Trend:** The company's profitability has been generally positive, though it can fluctuate based on game release schedules and development costs.

**Industry Position:** Take-Two is considered one of the "Big Three" American video game companies, alongside Electronic Arts and Activision Blizzard. Its market share in the video game industry continues to grow, particularly in the premium game segment.

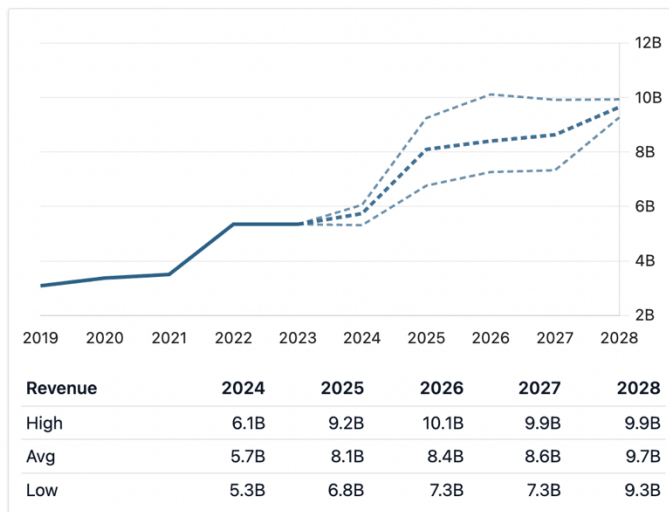
### 3. Valuation/Investment Thesis

Take-Two Interactive Software is a “Buy” target with a target price of \$181.22, projecting 20.22% upside growth.

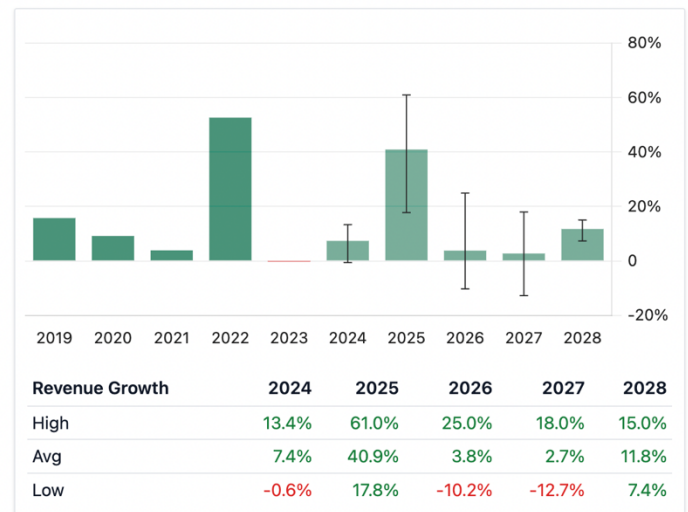
Based on Take-Two's strong franchise portfolio, upcoming game pipeline, and industry trends, we forecast the following:

**Revenue growth:** Projected 15% increase in the next fiscal year, reaching approximately \$6.15 billion

Revenue Forecast

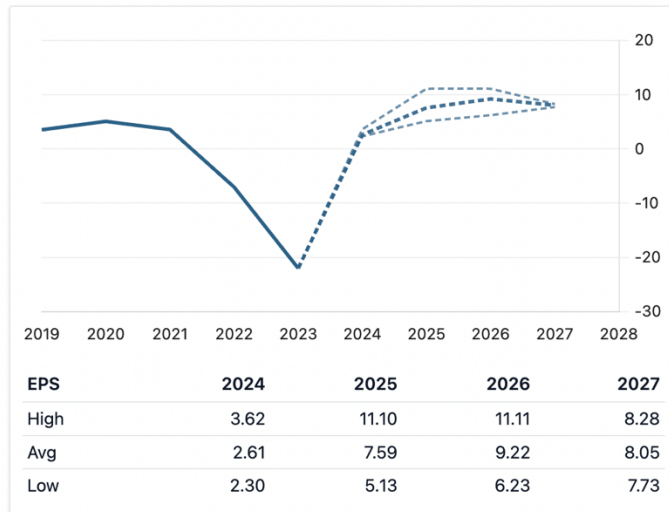


Revenue Growth

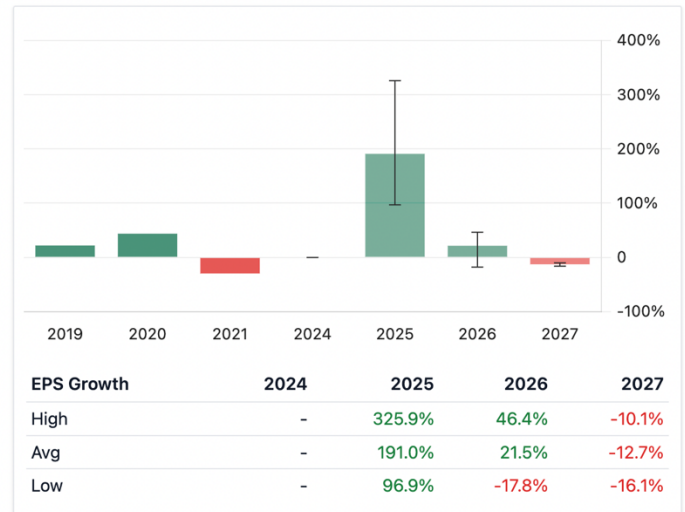


**Earnings Per Share (EPS) growth:** Expected to grow at a CAGR of 12% over the next five years

**EPS Forecast**



**EPS Growth**



Using a **Discounted Cash Flow (DCF) model** and considering the company's growth prospects, we arrive at a target price of \$181.22 for 2025, representing a 20% upside potential from the current price.

**TTWO Stock Forecast**

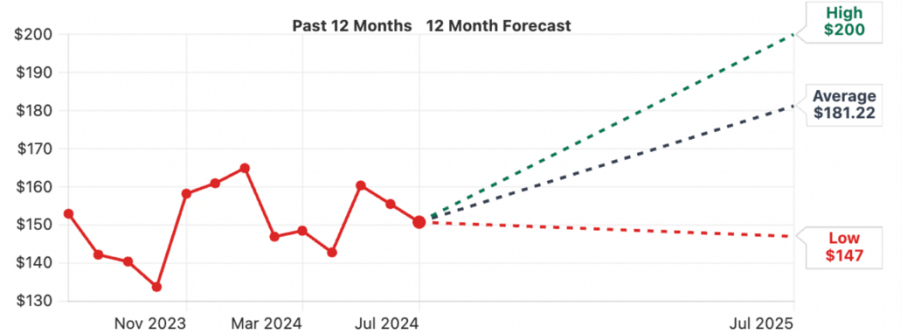
All Analysts | Top Analysts

**Stock Price Forecast**

The 23 analysts with 12-month price forecasts for TTWO stock have an average target of 181.22, with a low estimate of 147 and a high estimate of 200. The average target predicts an increase of 20.22% from the current stock price of 150.75.



Analyst Consensus: **Strong Buy**



Target	Low	Average	Median	High
Price	\$147	\$181.22	\$185	\$200
Change	-2.48%	+20.22%	+22.72%	+32.67%

**Assumptions:**

**Terminal growth rate: 3%**

**Discount rate (WACC): 8%**

**Forward P/E ratio: 25 (slightly above industry average due to Take-Two's strong brands and growth potential)**

**4. Potential Risks**

- **Delayed game releases:** The gaming industry is notorious for delays in major releases, which can significantly impact short-term financial performance. Take-

- Two has experienced this with some of its high-profile titles in the past.
- **Mitigation:** The company maintains a diverse portfolio of games across different genres and platforms, helping to stabilize revenue streams even when individual releases are delayed.
  - **Increasing development costs:** As games become more complex and consumer expectations rise, development costs continue to escalate, potentially pressuring profit margins.
    - **Mitigation:** Take-Two is investing in mobile and recurrent consumer spending models to create more predictable revenue streams and offset rising development costs.
  - **Intense competition:** The video game industry is highly competitive, with both established players and new entrants vying for market share.
    - **Mitigation:** Take-Two's strong brand recognition and high-quality content help maintain its competitive edge. The company also continues to invest in new IP and technologies to stay ahead of market trends.
  - **Regulatory challenges:** The gaming industry faces increasing scrutiny over issues like loot boxes and in-game purchases, which could impact monetization strategies.
    - **Mitigation:** Take-Two has been proactive in addressing these concerns and adapting its practices to comply with evolving regulations.

## 5. Critical Factors for Investment

### Sustainable Competitive Advantages:

**Valuable IP:** Take-Two owns some of the most valuable franchises in gaming, including Grand Theft Auto, which provides a strong moat and recurring revenue.

**Brand loyalty:** The company's reputation for high-quality games fosters strong customer loyalty.

**Diversified portfolio:** Take-Two's range of games across various genres and platforms reduces risk and provides multiple growth avenues.

### Macroeconomic and Industry Tailwinds:

**Growing gaming market:** The global video game market is projected to reach \$321 billion by 2026, with a CAGR of 8.94% from 2022 to 2026.

**Increasing engagement:** Gaming is becoming more mainstream, with increasing engagement across all demographics.

**Technological advancements:** New technologies like cloud gaming and virtual reality present growth opportunities.

### Strong Management and Strategy:

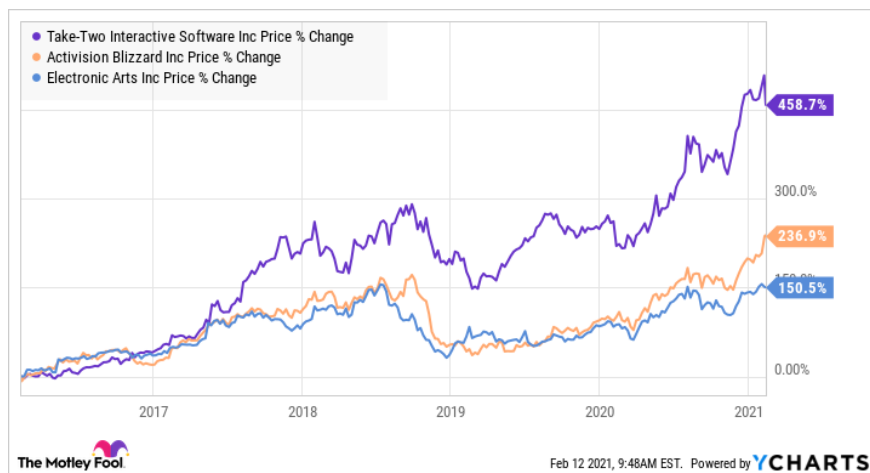
**Experienced leadership:** CEO Strauss Zelnick has a proven track record of delivering shareholder value and navigating industry changes.

**Strategic acquisitions:** The company has made smart acquisitions, such as Zynga, to expand its mobile gaming presence.

**Focus on quality:** Take-Two's strategy of prioritizing high-quality content over quantity has paid off in terms of brand reputation and financial results.

## 6. Competitive Positioning

- **Competitive Positioning of Take-Two Interactive Software: Strong Franchises:** Take-Two holds a significant position in the industry due to its strong lineup of franchises such as Grand Theft Auto, Red Dead Redemption, and NBA 2K.
- **Strategic Acquisitions:** The company has strategically acquired key studios, such as 2K Games and Zynga, further strengthening its market presence.
- **Market Segments:** Take-Two primarily competes in the console and PC video game market but has also made notable strides in the mobile gaming sector.
- **Quality Commitment:** The company's commitment to high-quality game development and leveraging existing IP helps maintain its competitive edge against rivals like EA and Activision Blizzard.



## 7. ESG Considerations:

- **ESG Considerations: ESG Risk Rating:** Take-Two Interactive has received a moderate ESG risk rating, ranking 138 out of 1,111 in the Software & Services industry.
- **Diversity, Equity, and Inclusion:** The company has initiatives in place to promote diversity, equity, and inclusion within its workforce.
- **Sustainability Efforts:** Take-Two's sustainability efforts include reducing greenhouse gas emissions and evaluating their impact on game development practices.
- **Transparency:** The company is focused on transparency regarding its ESG performance and acknowledges areas for improvement.

## Conclusion: Buy Recommendation

We recommend a "Buy" for Take-Two Interactive Software, Inc. (TTWO) based on the following key factors:

1. Strong franchise portfolio with proven revenue generation capability
2. Consistent financial performance and revenue growth
3. Strategic positioning in the growing gaming market
4. Experienced management team with a track record of success
5. Diversified product offerings across platforms and genres
6. Potential for significant upside with upcoming game releases

While risks exist, including potential game delays and increasing development costs, we believe Take-Two's strong market position, valuable IP, and strategic initiatives position it well for future growth. The company's focus on high-quality content and ability to generate recurring revenue from existing titles provide a solid foundation for long-term success. The target price of \$181.82 represents a 20% upside from the current price, offering an attractive opportunity for investors looking to gain exposure to the growing interactive entertainment industry. As always, investors should consider their own risk tolerance and investment goals when making investment decisions. This report provides a comprehensive analysis of Take-Two Interactive Software, Inc., addressing all critical aspects of the company's performance, competitive positioning, and ESG considerations.

## Porter's Five Forces Analysis for Take-Two Interactive Software, Inc.

### Threat of New Entrants: 3 out of 5

Analysis: The threat is moderate due to high capital requirements and established brands creating barriers to entry. However, advancements in technology and the rise of indie games make entry feasible for smaller developers.

### Bargaining Power of Suppliers: 3 out of 5

Analysis: Supplier power is moderate. While Take-Two relies on skilled developers and technology providers, the company has the option to work with multiple suppliers and can attract talent due to its reputation.

### Bargaining Power of Buyers: 4 out of 5



Analysis: Buyer power is relatively high. Consumers have numerous gaming options and can easily switch between titles. Brand loyalty exists, but the abundance of choices increases buyer influence.

### Threat of Substitute Products: 4 out of 5

Analysis: The threat of substitutes is high. Consumers have many alternatives for entertainment, including mobile games, streaming services, and other interactive entertainment forms, which can divert attention from traditional gaming.

### Rivalry Among Existing Competitors: 5 out of 5

Analysis: Rivalry is very high in the gaming industry. Take-Two faces intense competition from major players like Electronic Arts and Activision Blizzard, necessitating constant innovation and marketing efforts to maintain market share.

## Investment Checklist From Warren Buffet:

Subject		Answer
■ Company	1. are the company's activities simple and easy to understand?	Yes
	2. does it have a long history?	Yes
	3. Does it have a bright future prospect?	Yes
■ Management	4. the quality of management and whether they have the courage to challenge industry practices	Yes
■ Fiancial Factors	5. Does the company emphasize return on equity over EPS (trending ROE)?	No
	6. How is Owner Earning (real profit, not accounting profit)?	Yes
	7. Does the company have a High Profit Margin?	Yes
	8. Does retained earnings increase market capitalization beyond retained earnings?	Yes

## Appendix A: Income Statement

Breakdown	TTM	3/31/2024	3/31/2023	3/31/2022	3/31/2021
✓ Total Revenue	5,349,600	5,349,600	5,349,900	3,504,800	3,372,800
Cost of Revenue	3,107,800	3,107,800	3,064,600	1,535,400	1,535,100
Gross Profit	2,241,800	2,241,800	2,285,300	1,969,400	1,837,700
✓ Operating Expense	3,385,700	3,385,700	3,435,900	1,495,000	1,208,300
Operating Income	-1,143,900	-1,143,900	-1,150,600	474,400	629,400
✓ Net Non Operating Interest In...	-75,000	-75,000	-110,100	-6,900	8,100
✓ Other Income Expense	-2,483,900	-2,483,900	-77,400	-2,100	40,300
Pretax Income	-3,702,800	-3,702,800	-1,338,100	465,400	677,800
Tax Provision	41,400	41,400	-213,400	47,400	88,900
✓ Net Income Common Stockho...	-3,744,200	-3,744,200	-1,124,700	418,000	588,900
Diluted NI Available to Com Stoc...	-3,744,200	-3,744,200	-1,124,700	418,000	588,900
Basic EPS	-8.71	-22.01	-7.03	3.62	5.14
Diluted EPS	-8.71	-22.01	-7.03	3.58	5.09
Basic Average Shares	169,425	170,100	159,900	115,500	114,600
Diluted Average Shares	169,425	170,100	159,900	116,800	115,700
Total Operating Income as Repor...	-3,590,600	-3,590,600	-1,165,200	473,600	629,400
Total Expenses	6,493,500	6,493,500	6,500,500	3,030,400	2,743,400
Net Income from Continuing & D...	-3,744,200	-3,744,200	-1,124,700	418,000	588,900
Normalized Income	-2,253,860	-2,253,860	-1,059,606.60	419,885.80	553,879.30
Interest Income	65,600	65,600	33,800	17,600	18,700
Interest Expense	140,600	140,600	143,900	24,500	10,600
Net Interest Income	-75,000	-75,000	-110,100	-6,900	8,100
EBIT	-3,562,200	-3,562,200	-1,194,200	489,900	688,400
EBITDA	-1,800,600	-1,800,600	582,500	747,000	890,800
Reconciled Cost of Revenue	1,517,400	1,517,400	1,410,200	1,339,400	1,388,300
Reconciled Depreciation	1,761,600	1,761,600	1,776,700	257,100	202,400
Net Income from Continuing Op...	-3,744,200	-3,744,200	-1,124,700	418,000	588,900
Total Unusual Items Excluding G...	-2,483,900	-2,483,900	-77,400	-2,100	40,300
Total Unusual Items	-2,483,900	-2,483,900	-77,400	-2,100	40,300
Normalized EBITDA	683,300	683,300	659,900	749,100	850,500
Tax Rate for Calcs	0	0	0	0	0
Tax Effect of Unusual Items	-993,560	-993,560	-12,306.60	-214.20	5,279.30

## Appendix B: Balance Sheet

Breakdown	3/31/2024	3/31/2023	3/31/2022	3/31/2021	3/31/2020
∨ Total Assets	12,216,900	15,862,100	6,546,300	6,028,218	--
∨ Total Liabilities Net Minority I...	6,549,000	6,819,600	2,736,600	2,696,326	--
∨ Total Equity Gross Minority In...	5,667,900	9,042,500	3,809,700	3,331,892	--
Total Capitalization	8,726,200	10,775,500	3,809,700	3,331,892	--
Common Stock Equity	5,667,900	9,042,500	3,809,700	3,331,892	--
Capital Lease Obligations	451,100	407,200	250,200	191,266	--
Net Tangible Assets	-3,265,600	-3,250,000	2,112,700	2,184,103	--
Working Capital	-146,700	-1,343,500	1,766,100	1,985,800	--
Invested Capital	8,750,800	12,122,300	3,809,700	3,331,892	--
Tangible Book Value	-3,265,600	-3,250,000	2,112,700	2,184,103	--
Total Debt	3,534,000	3,487,000	250,200	191,266	--
Net Debt	2,328,900	2,252,400	--	--	--
Share Issued	194,500	192,600	139,048	137,584	--
Ordinary Shares Number	170,800	168,900	115,367	115,163	--
Treasury Shares Number	23,700	23,700	23,681	22,421	--

## Appendix C: Statement of Cash Flow

Breakdown	TTM	3/31/2024	3/31/2023	3/31/2022	3/31/2021
∨ Operating Cash Flow	-16,100	-16,100	1,100	258,000	912,300
∨ Investing Cash Flow	-28,200	-28,200	-2,876,300	139,200	-806,800
∨ Financing Cash Flow	-91,400	-91,400	1,930,300	-256,800	-57,400
∨ End Cash Position	1,102,000	1,102,000	1,234,600	2,195,400	2,060,200
Income Tax Paid Supplemental ...	150,200	150,200	176,800	31,000	70,700
Interest Paid Supplemental Data	137,000	137,000	79,000	--	1,900
Capital Expenditure	-141,700	-141,700	-204,200	-158,600	-68,900
Issuance of Capital Stock	39,400	39,400	65,400	19,700	14,200
Issuance of Debt	1,348,900	1,348,900	3,248,900	--	--
Repayment of Debt	-1,339,600	-1,339,600	-1,366,800	-200	--
Repurchase of Capital Stock	--	--	--	-200,000	--
Free Cash Flow	-157,800	-157,800	-203,100	99,400	843,400

