

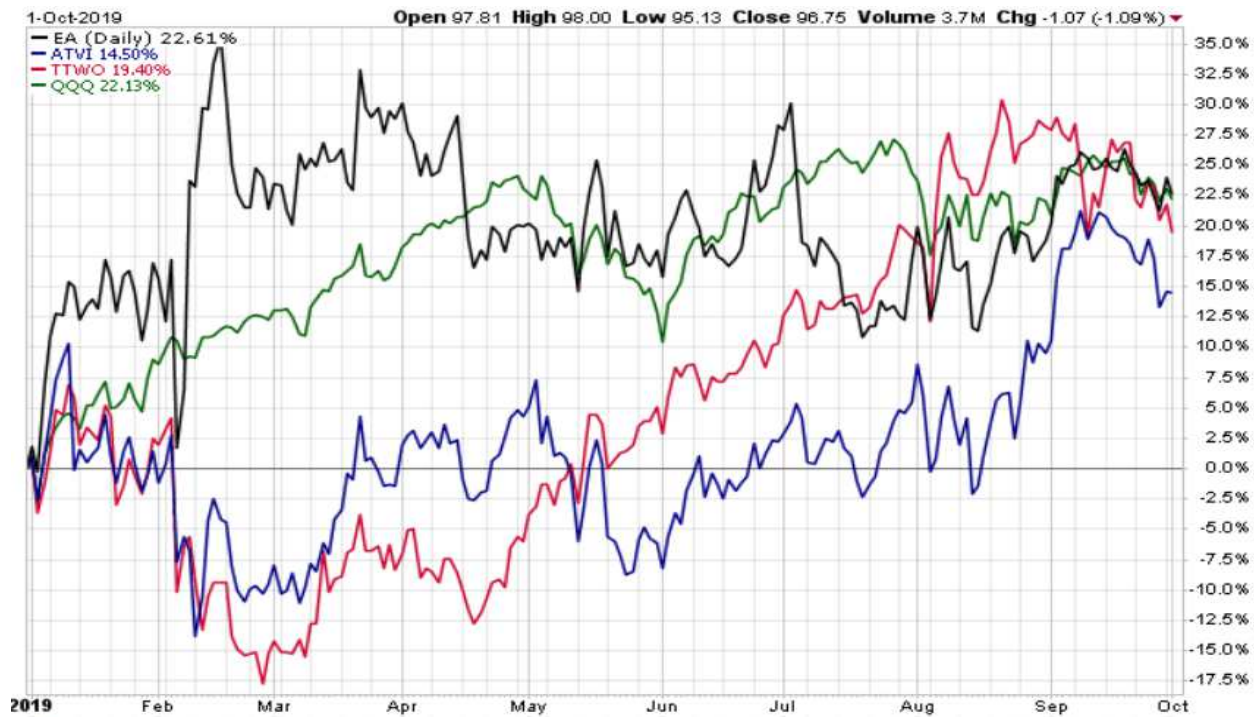
Option Traders Bullish Videogame Makers into 2020

One of the main advantages tracking options flow is noticing themes within industry groups and over the past few weeks it has become clear traders are positioning for upside in Q4 and into 2020 for the top videogame makers **Electronic Arts (EA)**, **Take Two (TTWO)**, and **Activision Blizzard (ATVI)**.

A view of the activity from the OptionsHawk Notables Database is below (Green is bullish, so a call buy or opening put sale and vice versa for Red):

Date	Description	Volume	Price	Delta	Impl Vol	Premium Paid	Symbol
3/13/2019	EA 100 17 JAN 20 85 PUT	4,250	\$6.00	-0.24	37.84%	\$2,550,000	.EA200117P85
9/9/2019	ATVI 100 17 JAN 20 57.5 PUT	3,550	\$6.15	-0.56	34.50%	\$2,201,000	.ATVI200117P57.5
9/4/2019	ATVI 100 18 OCT 19 55 CALL	11,382	\$1.93	0.43	35.15%	\$2,185,344	.ATVI191018C55
9/9/2019	ATVI 100 15 NOV 19 57.5 PUT	3,548	\$5.20	-0.6	37.21%	\$1,880,440	.ATVI191115P57.5
5/9/2019	EA 100 20 DEC 19 70 CALL	720	\$25.90	0.87	38.81%	\$1,864,800	.EA191220C70
9/11/2019	ATVI 100 17 JAN 20 52.5 CALL	2,503	\$7.00	0.67	37.45%	\$1,789,645	.ATVI200117C52.5
9/6/2019	ATVI 100 18 OCT 19 57.5 CALL	10,356	\$1.33	0.346	32.58%	\$1,377,348	.ATVI191018C57.5
8/6/2019	ATVI 100 19 JUN 20 45 PUT	2,500	\$5.10	-0.37	37.64%	\$1,312,500	.ATVI200619P45
5/31/2019	TTWO 100 17 JAN 20 105 CALL	829	\$14.82	0.62	36.95%	\$1,228,578	.TTWO200117C105
9/19/2019	ATVI 100 19 JUN 20 50 PUT	2,752	\$4.02	-0.31	35.80%	\$1,142,080	.ATVI200619P50
8/21/2019	ATVI 100 17 JAN 20 50 CALL	2,574	\$4.20	0.52	36.70%	\$1,093,950	.ATVI200117C50
7/30/2019	ATVI 100 17 JAN 20 50 PUT	2,031	\$5.35	-0.53	32.02%	\$1,086,585	.ATVI200117P50
7/30/2019	ATVI 100 15 NOV 19 45 PUT	4,757	\$2.08	-0.32	35.27%	\$1,022,755	.ATVI191115P45
6/13/2019	TTWO 100 20 DEC 19 115 CALL	1,000	\$10.21	0.509	35.57%	\$1,021,000	.TTWO191220C115
8/19/2019	EA 100 17 JAN 20 95 CALL	1,553	\$6.20	0.48	32.33%	\$978,390	.EA200117C95
7/11/2019	TTWO 100 17 JAN 20 120 CALL	1,012	\$9.40	0.5	32.41%	\$971,520	.TTWO200117C120
9/9/2019	TTWO 100 20 MAR 20 135 CALL	750	\$12.60	0.53	34.33%	\$937,500	.TTWO200320C135
8/29/2019	ATVI 100 21 FEB 20 50 PUT	2,001	\$4.60	-0.41	37.44%	\$920,460	.ATVI200221P50
9/23/2019	TTWO 100 20 MAR 20 135 CALL	1,001	\$8.91	0.45	34.12%	\$910,910	.TTWO200320C135
9/26/2019	EA 100 (Weeklys) 1 NOV 19 99 CALL	2,534	\$3.50	0.44	36.95%	\$899,570	.EA191101C99
8/6/2019	TTWO 100 20 MAR 20 130 PUT	546	\$14.70	-0.49	34.64%	\$862,680	.TTWO200320P130
6/24/2019	TTWO 100 17 JAN 20 110 PUT	851	\$9.13	-0.38	33.93%	\$776,963	.TTWO200117P110
9/5/2019	ATVI 100 15 JAN 21 50 PUT	1,106	\$6.45	-0.33	37.33%	\$741,020	.ATVI210115P50
8/7/2019	ATVI 100 15 NOV 19 47.5 CALL	1,620	\$4.35	0.55	42.05%	\$712,800	.ATVI191115C47.5
9/23/2019	TTWO 100 20 MAR 20 115 PUT	1,000	\$6.91	-0.3	35.68%	\$710,000	.TTWO200320P115
9/9/2019	TTWO 100 20 MAR 20 110 CALL	250	\$28.80	0.8	37.51%	\$695,000	.TTWO200320C110
10/1/2019	ATVI 100 (Weeklys) 11 OCT 19 55 CALL	14,679	\$0.46	0.24	37.44%	\$675,234	.ATVI191011C55
7/11/2019	EA 100 20 DEC 19 105 CALL	1,500	\$4.47	0.36	33.09%	\$670,500	.EA191220C105
8/29/2019	EA 100 18 OCT 19 95 CALL	1,938	\$3.40	0.459	30.37%	\$658,920	.EA191018C95
8/6/2019	TTWO 100 20 MAR 20 135 CALL	566	\$10.79	0.46	33.88%	\$594,300	.TTWO200320C135
8/21/2019	TTWO 100 17 JAN 20 125 PUT	800	\$7.00	-0.32	34.09%	\$552,000	.TTWO200117P125
8/12/2019	TTWO 100 20 DEC 19 125 CALL	392	\$13.00	0.59	37.51%	\$529,200	.TTWO191220C125
9/4/2019	ATVI 100 19 JUN 20 50 PUT	1,003	\$5.07	-0.35	38.08%	\$526,575	.ATVI200619P50
7/11/2019	EA 100 20 DEC 19 110 CALL	1,595	\$3.09	0.28	32.97%	\$518,375	.EA191220C110
6/13/2019	EA 100 20 DEC 19 90 CALL	437	\$11.65	0.628	35.43%	\$509,105	.EA191220C90
9/9/2019	TTWO 100 20 MAR 20 150 CALL	750	\$6.75	0.35	32.67%	\$502,500	.TTWO200320C150
6/13/2019	TTWO 100 20 DEC 19 130 CALL	1,000	\$5.00	0.315	34.21%	\$500,000	.TTWO191220C130
7/11/2019	TTWO 100 17 JAN 20 100 PUT	1,000	\$4.60	-0.23	35.76%	\$480,000	.TTWO200117P100
9/9/2019	TTWO 100 20 MAR 20 115 PUT	750	\$5.85	-0.25	36.21%	\$450,000	.TTWO200320P115

In terms of performance YTD we can see that both **EA** and **TTWO** are tracking in-line with the **NASDAQ** while **ATVI** has lagged some. The paths have varied with EA started the year strong and has since consolidated while ATVI/TTWO have started to gain momentum in Q3. Chart courtesy of Stockcharts.com



Now to look at the fundamentals of this group **EA** is trading at the cheapest valuation on EV/EBITDA, EV/FCF and P/E while having the best gross margins of the group. EA also has the steadiest revenue/EPS growth outlook of the group. On valuation, **EA** is the most attractive and trading at the midpoint of its five year EV/EBITDA range of 10-20X. With earnings season coming it is important to be aware of upcoming earnings dates, EA reports 10-29, ATVI on 11-6, and TTWO on 11-6.

Tickers	Company Name	1 Year % Change	Mkt. Cap	EV/EBITDA	EBITDA Change	FY2 PE	FY1 EPS Change	FY2 EPS Growth	FY1 Revenue YoY (%)	FY2 Revenue YoY (%)	Gross Margins	SG&A as % Sales Change	EV/FCF	FCF Yield
ATVI	Activision Blizzard, Inc.	(36.87%)	40,284.20	17.6x	-16%	20.73x	-15.59%	15.42%	-15%	10%	72.25%	-17.12%	20.4x	36.93%
EA	ELECTRONIC ARTS INC.	(20.99%)	28,056.15	14.9x	-11%	18.82x	7.91%	10.28%	5%	7%	76.88%	8.91%	16.1x	13.27%
TTWO	TAKE TWO INTERACTIVE	(10.94%)	13,908.46	15.8x	33%	24.91x	-3.06%	5.38%	4%	1%	57.33%	-8.85%	33.2x	7.79%

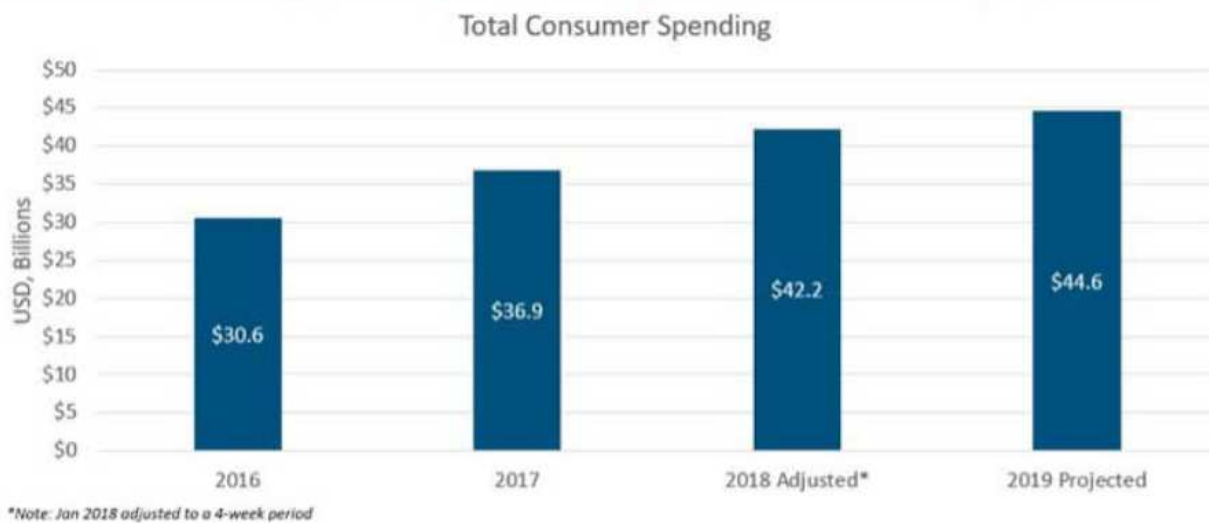
Zynga (ZNGA) is another play in the group though prefer to separate it out as it is not involved in console games and focused on mobile. ZNGA trades at a higher valuation of 21.5X Earnings and 20.3X EV/EBITDA with gross margins around 70%. ZNGA has recently launched new titles like "Empires & Puzzles" and "Merge Dragons!" with three new releases due later this year. It also is seeing much stronger growth than peers, a \$5.6B market cap that is small enough that it could become a desirable M&A target. ZNGA has also seen significant options positioning including 10,000 December \$5 calls, 10,000 March \$6 calls and 35,000 January \$7 calls in open interest as well as longer dated 35,000 January 2021 \$10 calls bought in open interest. **Glu Mobile (GLUU)** is another developer of mobile games, the smallest of the group with a \$795M market cap trading 19.2X EV/EBITDA and 65% gross margins, not seeing the kind of options action as the others and not as attractive compared to ZNGA.

Date	Description	Volume	Price	Delta	Impl Vol	Premium Paid	Symbol
9/11/2019	ZNGA 100 17 JAN 20 5 PUT	10,000	\$0.27	-0.25	47.23%	\$300,000	.ZNGA200117P5
9/6/2019	ZNGA 100 (Weeklys) 25 OCT 19 6 CALL	12,256	\$0.38	0.49	49.14%	\$465,728	.ZNGA191025C6
9/6/2019	ZNGA 100 15 NOV 19 6 CALL	2,750	\$0.47	0.51	51.13%	\$129,250	.ZNGA191115C6
9/6/2019	ZNGA 100 18 OCT 19 6 CALL	6,081	\$0.20	0.41	36.75%	\$127,701	.ZNGA191018C6
9/3/2019	ZNGA 100 20 DEC 19 5 CALL	3,019	\$0.85	0.72	42.82%	\$256,615	.ZNGA191220C5
8/15/2019	ZNGA 100 20 DEC 19 5 CALL	5,028	\$0.86	0.72	40.77%	\$442,464	.ZNGA191220C5
8/14/2019	ZNGA 100 20 MAR 20 6 CALL	2,077	\$0.67	0.53	39.12%	\$137,082	.ZNGA200320C6
8/8/2019	ZNGA 100 20 MAR 20 6 CALL	2,000	\$0.86	0.6	40.39%	\$176,000	.ZNGA200320C6
7/26/2019	ZNGA 100 20 MAR 20 5 CALL	901	\$1.70	0.79	61.68%	\$153,170	.ZNGA200320C5
7/11/2019	ZNGA 100 15 JAN 21 10 CALL	6,333	\$0.39	0	#ERROR!	\$246,987	.ZNGA210115C10
7/10/2019	ZNGA 100 15 JAN 21 10 CALL	13,175	\$0.41	0	#ERROR!	\$553,350	.ZNGA210115C10
5/23/2019	ZNGA 100 15 JAN 21 10 CALL	3,000	\$0.48	0.28	41.85%	\$144,000	.ZNGA210115C10
5/15/2019	ZNGA 100 15 JAN 21 10 CALL	8,040	\$0.50	0	#ERROR!	\$418,080	.ZNGA210115C10

Looking at a broader industry overview, the NPD posts monthly videogame numbers, and in August sales of \$666M were down 18% Y/Y and hit a 20 year low with declines across all categories. Although growth has slowed, NPD estimates 6% total growth for the US video game industry across content, hardware and accessories, slowing from 14% growth in 2018 and 20% growth in 2017.

Total Industry Spending 2019 U.S. Forecast

Total 2019 industry spending forecast to grow 6% versus 2018*, to \$44.6B.



The NPD Group, Inc.

Source: The NPD Group/ Retail Tracking Service

However, it is important to look forward when analyzing companies and the videogame industry remains in the middle innings of some strong secular tailwinds driving strength in mobile/digital, incremental in-game purchases, and the emerging eSports theme. Also, recent launches of subscription gaming services from Apple (AAPL) and Google (GOOG) are likely to drive increased spending. The industry is also looking forward to major new launches from Microsoft and Sony for consoles, so a strong gaming cycle appears likely in 2020. As we enter Q4 and Holiday Spending there are a number of key launches taking place throughout the group to jumpstart momentum into 2020. Take Two recently launched Borderlands 3 which sold 5 million copies in the first five days, tracking 50% higher than the previous edition. TTWO will next be launching The Outer Worlds and Red Dead 2 on PC. ATVI launched Call of Duty Mobile on October 1st as it focuses on a major mobile opportunity with Diablo Immortal the next launch in 2020. It also is seeing success with the recent World of

Warcraft Classic and has a number of launches planned over the next few quarters. EA will launch Star Wars Jedi: Fallen Order in mid-November while its Apex Legends titles continues to be very successful.

In closing, 2020 appears to be shaping up positively for the videogame makers with a number of positive tailwinds. EA appears to be the best value of the group while TTWO has the best titles and ATVI has a big opportunity in mobile. Lastly, ZNGA is a pure-play on mobile that has strong growth momentum. The group really offers something for everyone and think a rising tide will lift all boats in this case.