



Dip Buyers Step into Leading Software Developer Expanding into New Markets

Ticker/Price: TTWO (\$155)

Analysis:

Take-Two Interactive (TTWO) dropping this week after their deal for Zynga (ZNGA) but seeing a lot of bullish flow into the gap lower including 6,000 February \$185 calls on 1/13 spread with the \$200 calls, 2000 March \$165 calls, 1500 February \$170 calls, and 18,000 of the March \$150/\$140 bull risk reversals. TTWO also had buyers in the July \$155/\$180 call spread, 3000X. Shares are back at the September lows and just above the breakout level from April/May 2020. TTWO has a gap back to \$165 but the bigger, long-term range has room to make a big move back to \$220 and above. The \$17.85B company trades 23X earnings, 5.3X sales, and 7.77X cash with mid-teens growth. The ZNGA deal brings together some of the most popular IP in the gaming industry and significantly bolsters their presence in mobile which is a massive industry that did \$136B in gross bookings in 2021 and growing in the mid-to-high single digits. TTWO sees opportunity for \$500M in net bookings growth from the merger as it enables a clearer path to bring some of their iconic titles from console/PC to mobile. They can also drive growth in crossover events, expand into new geographies, and boost their audience. TTWO is coming off of a strong quarter driving by further growth in digital sales as they remain one of the best operators executing on growth in DLC and expansions for their biggest titles like GTA. They have some big releases expected in 2022 including WWE 2K22 and a standalone version of GTA Online in March. Analysts have an average target for shares of \$207.75 with a Street High \$234. BMO Capital upgrading shares to Outperform this week noting that ZNGA will help smooth Take-Two's earnings variability while offering compelling synergy opportunities. They also highlight how TTWO has some of the most iconic videogame properties, yet has underleveraged these properties onto mobile and Zynga provides the capabilities to do so. Keybank upgrading to Overweight as they think ZNGA is a key strategic fit and one that significantly improves their position in mobile and likely accelerates the path for its high-quality IP to launch on mobile. Stifel likes the deal as well as it increases Take-Two's more stable/highly profitable recurrent consumer spending net bookings stream. Short interest is 1.89%. Hedge fund ownership rose 2%.

Hawk Vision:



Hawk's Perspective: TTWO remains my favorite name in the gaming space as their IP is nearly unbeatable and while the price tag is a bit high for this deal, the long-term ramifications of a faster transition for some of those title into mobile will be a game-changer

Confidence Ranking: \$\$