

# Take-Two Interactive

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# Overview

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# Brief Summary: “TTWO”

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- Take-Two Interactive (TTWO) develops and publishes video games, doing so under 2 primary segments: **Rockstar** and **2K**. They have other segments, but combined, they contribute ~10% of revenues.
- Over the last 3-4 years, despite being “late to the party”, TTWO has invested more in the fast-growing and largest gaming segment – free-to-play mobile by acquiring Social Point (2017, \$250m) and Playdots (2020, \$192m). Still, mobile makes up only ~10% of revenues.
- TTWO is the ~5<sup>th</sup> largest gaming company (depending on how you define Sony / Microsoft/ Google, etc. which have gaming segments but are small relative to the total enterprise). Notably, TTWO has a market cap of \$19.6bn, but with net cash on the balance sheet, an enterprise value of \$16.4bn.
- At its core, TTWO has some of the best gaming franchises (Grand Theft Auto, Red Dead Redemption, NBA 2K, WWE 2K). However, I think they are *under-monetized* given the strategy has too long of a gap in-between franchise releases(7-8 years+) and a lack of a mobile presence using most of their main IP.
  - TTWO may think they don’t have any content that is worth a new release by itself; instead, all new content should go on the Online version of the games, which builds up the RCS spend (which is their main goal).
  - Still, lacking a free-to-play mobile presence for their top franchises seems like a missed opportunity to me. I don’t understand why GTA couldn’t have similar success as Call of Duty: Mobile, unless the reason is they don’t know how to develop the game for mobile and Tencent won’t partner with them to make it, either, given the game is not allowed in China.
  - GTA has a few “mobile experiences” (like GTA: San Andreas) but it requires an upfront cost and is designed specifically for the iPad, not smartphone screen.

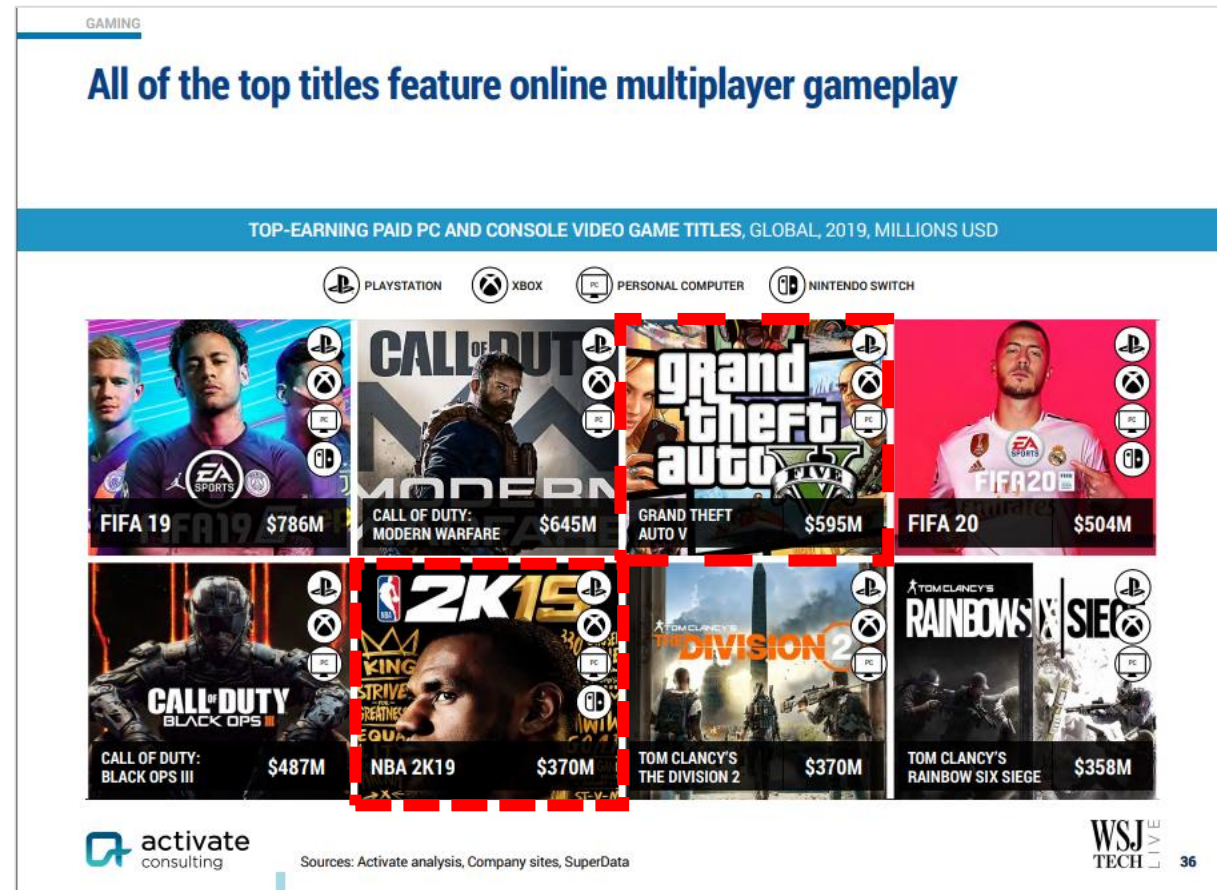
# Brief Summary: “TTWO”

Their top franchises (~80%+ revs) are:

- Grand Theft Auto
- Red Dead Redemption
- NBA 2K
- WWE 2K

Smaller titles:

- Borderlands
- BioShock
- The Outer Worlds
- Social Point’s games



# Brief Summary: “TTWO”

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- Their strategy is differentiated versus other gaming developers / publishers given they own both non-sports and sports franchises and how they try to monetize these assets. Example:
  - Goal is to release 5 AAA frontline games per year, in addition to the sports annual releases (PGA Tour, NBA, WWE, eventually NFL)
  - One of their largest assets (if not, the single largest) is Grand Theft Auto – but the last game was released in 2013. Much written about, the game continues to sell, with more than 140 million units sold, more than 20m from a year ago. Viewing this as a large installed base, Rockstar focuses more on consistent content drops, new heists or projects, and updates. I would not be surprised if they release GTA VI 1-2 years from now after the next-gen console cycle hits a higher installed base and GTA V hits maturity in selling on these next-gen consoles.
- TTWO continues to try to build up their portfolio. Recently, they stated they have 93 titles in the pipeline, which is more than 2x what it was 5 years ago. About 30% of these are free-to-play, which is interesting as only 10% of their net bookings are from FTP games currently.
- TTWO has 2 main segments that contribute ~90% of revenues: Rockstar and 2K.
  - Rockstar (35%)– GTA (~20-25% revenues), Red Dead Redemption/ others (~10%+)
  - 2K (55%)- NBA 2K, WWE 2K, WWE SuperCard, NBA 2K Online in China
- In viewing the strength of their IP:
  - Grand Theft Auto V, released in 2013, has sold more than 135m units to-date, including 20m in the last year
  - Red Dead Redemption 2, released in 2018, has sold more than 35m to-date
  - They have 11 franchises that have sold at least 5m in their unit release, and 67 that have sold at least 2m units in their release

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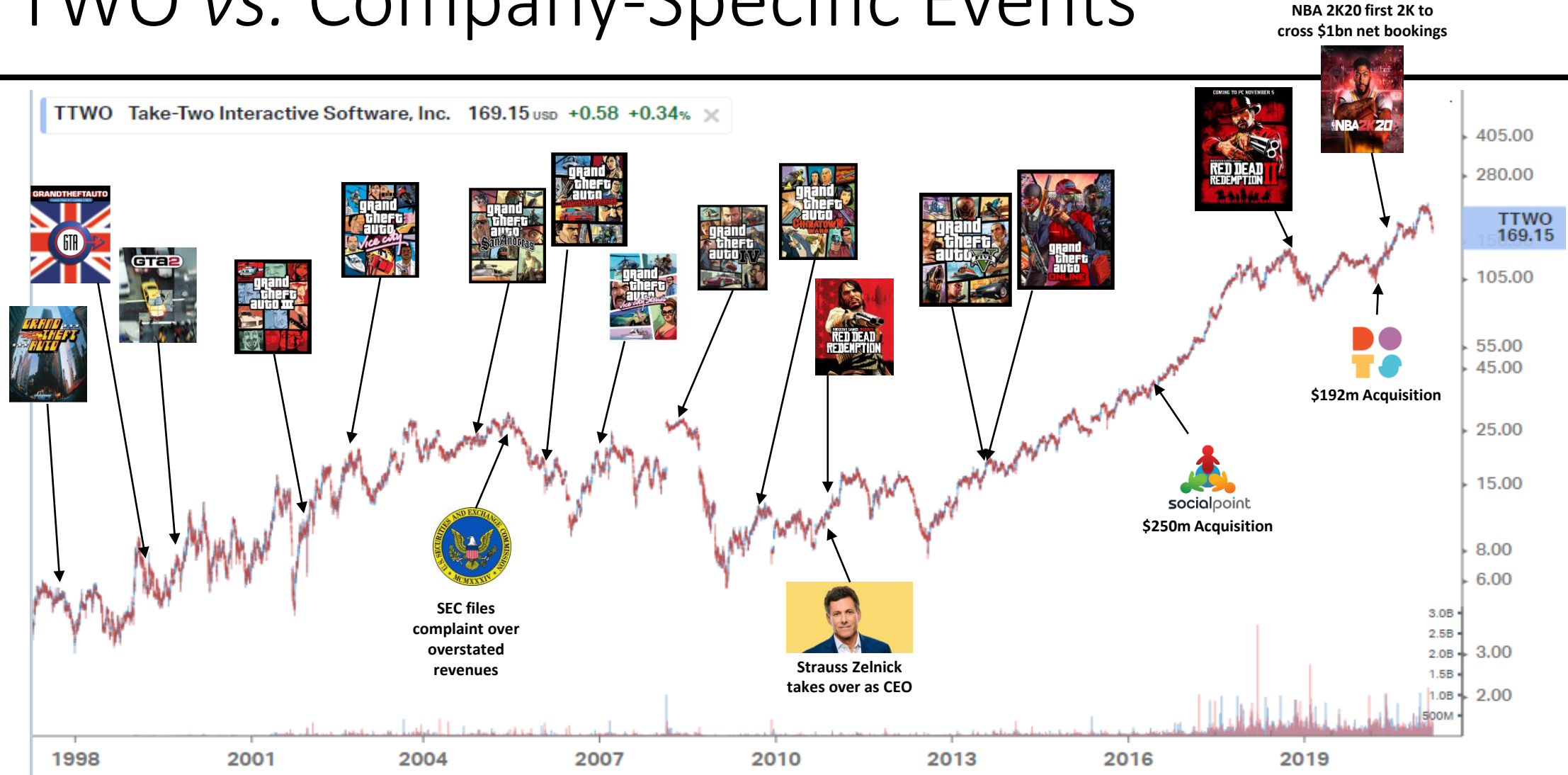
- High level strategy:
  - Maximize hit ratio by limiting the amount of risk taken on new releases
  - Taking the existing IP, such as Grand Theft Auto, Red Dead Redemption, NBA 2K, and WWE 2K and try to extend the “average player life” much longer than historical measures. For example, NBA 2K used to be played for about 1-3 months, now it is played for around 9 months.
  - How does this happen? TTWO spends most of their development on updates and content drops on existing games and on the online version of their primary IP, such as GTA Online, RDR Online, and NBA 2K Online (China).
  - So far, this has worked, as they no longer annual release their blockbuster games, and the annualized sports titles keep players engaged and spending more than just the upfront buy-in.
  - It is more about utilizing the large installed base and offering new content (similar to that of a subscription service)
- The focus is mostly on **recurrent consumer spend (RCS)**, which is more stable and higher margin (digital revenue)
  - 58% of revenues in Q3/2021 (ended Dec. 2020) was recurring consumer spend; 45% of total in 2020, 40% in 2019
  - Below are two excerpts from their most recent earnings call (“Q3/2021”) where they go in detail about their content drops for GTA / RDR Online

In December, Rockstar Games released **Grand Theft Auto Online's biggest update to date**, the Cayo Perico Heist. Featuring a radical new approach to heist design as well as a new tropical island to explore, the Cayo Perico Heist is an all-new Grand Theft auto Online adventure in which players can choose to take on a heist with a crew of up to 4 or, for the first time, plan, prepare and execute the daring island heist all on their own. Notably, more than 50% of those playing the Cayo Perico Heist are engaging with this as a new single-player experience. Cayo Perico Heist also introduces an array of exciting new weapons and vehicles, a new virtual night club and social space for players to get together and experience the world's best DJs, plus a host of updates across the entire world.

In addition, during the quarter, **Rockstar Games released an array of content updates for Red Dead Online**, including new legendary animals and sightings missions for the Naturalist role; action-packed new missions for the Bounty Hunter role, with the addition of the prestigious Bounty Hunter License, plus Outlaw Pass #4 and an assortment of new clothing, weapons, enhancements and more. **As a result of these offerings, engagement with Red Dead Online reached new heights**, and there were more players including more new players in the month of December than in any other month since its beta launch in 2018. In addition, Red Dead Online grew its audience and had more overall players in calendar 2020 than 2019. Rockstar Games will continue to support both Red Dead Online and Grand Theft Auto Online with more content updates throughout calendar 2021 to keep new and returning players excited and engaged.



# TTWO vs. Company-Specific Events





# Thank You

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