

 Innovating the future

To: Cecilia Twomey

From: Deborah Nagler

Date: August 1, 2014

SUBJECT: ACTIVISION, ELECTRONIC ARTS, TAKETWO STOCK RECOMMENDATIONS

In response to your request for recommendations for publically traded stocks that might be attractive to young investors, I have selected three of the leading video game software producers and distributers. Each of the following stocks is high-performing and traded on the NASDAQ: Activision/Blizzard (ATVI), Electronic Arts (EA), and Take Two (TTWO).

**Background**

These companies operate in a $22 billion industry with tremendous growth potential. The Entertainment Software Association (2014) reports that 59% of Americans play video games. Players include people of all ages, with men and women participating in roughly equal percentages. The fastest growing area of this industry is social games, which are most often casual games that are played on mobile devices and require interaction with other people.

Hard core gamers make up about one-quarter of the market and typically focus on action, sports, strategy, or role-playing games. The most popular of these types of games must be played either on a game console or on a personal computer. The top-selling games become franchises or branded series that offer the consumer opportunities to continue playing the game through sequels.

**The Contenders**

Activision Blizzard, Inc. (ATVI) is a developer and distributer of interactive software and related products. ATVI purposefully delivers only a limited number of franchises to the market, but is well known for the quality of its blockbuster products: World of WarcraftTM, Call of DutyTM, and Guitar HeroTM. A recent addition is Skylander, an innovative and highly successful gaming system developed in 2011. In this “toys to life” game, action figures are placed on a console in order to active avatars in the on-screen game. ATVI’s announcement that it will launch a new franchise called DestinyTM in early 2015 has generated tremendous excitement in the industry.

Electronic Arts, Inc. (EA) is one of the biggest entertainment software companies in the market, with 9000 employees and more than 300 million registered players worldwide. EA develops and distributes “games, content and online services for Internet-connected consoles, personal computers, mobile phones and tablets” (EA, 2014, p.8). Some of the best-known games produced by EA are The SimsTM , Madden NFLTM , and BattlefieldTM. In 2009, EA published more than 60 stand-alone games for consoles. They have reduced the number of console games produced each year since then, with only 13 console titles published in 2013. EA has turned its focus to online content, including additional content and features for its current titles. As well, EA has claimed a share of the growing mobile and Internet market with 22 new titles this year.

Take-Two Interactive Software, Inc. (TTWO) is a global developer and distributer of entertainment software. Its two labels, Rockstar Games and 2K Games were founded in 1998 and 2005 respectively. In just over 16 years, TTWO has established itself as a leader in the field with such games as Grand Theft AutoTM , Red Dead RedemptionTM , and Sid Meier’s Civilization VTM . TTWO games are largely console agnostic and many have been converted into mobile versions for play on Smartphones and tablets. TTWO recently announced a creative partnership with singer Pharrell Williams, who will curate the soundtrack on the upcoming addition to the NBA® 2k15 franchise.

It is important to note that all of these companies depend upon hardware for the delivery of their products. Concurrent monitoring of the performance of console makers, E.g. Sony, Xbox, Nintendo, etc.) and Mobile equipment producers (Apple, Samsung, LG, etc. ) are recommended.

**Company Comparisons: Profitability and Potential**

**Figure 1. Comparison of Stock Prices for EA, ATVI, and TTWO, July 2013 - June 2014**

Trend lines

EA

ATVI

TTWO

**Price per Share**

Source: NASDAQ

The trend lines in this chart (Figure 1) show that all three stocks have continued to increase in value over the past year. EA stock has the highest current closing price of the three at $34.34. This is an overall 12-month rise in the price per share of $7.81. Notwithstanding the mid-November to February, 2013 price slump, EA stocks have rallied and have outperformed the competition by a margin.

In a side-by-side comparison of these stocks, the one-year, return-on-investment for EA is a gain of 32.08%. This is only slightly higher than TTWO, with a gain of 31.24%, and ATVI, with a gain of 28.51%. By any standard, all three stocks can be considered profitable in the past year. For each, strong management and positive cash flow back this profitability.

Roughly 50% of the liabilities for these young companies are shareholder assets. Both EA and ATVI have significant stock buy-back plans in force.

**Recommendations**

Each of the stocks discussed above have seen active gains over the past year and all of them have reason to anticipate a continuing up trend in to 2015. In particular, the strong console game market and the burgeoning mobile game market point to continued growth and profitability. All three have a significant track record for producing top-selling games.

If your investors must select only one stock, the suggested order of priority would be:

1. Electronic Arts (EA)
2. Activision/Blizzard (ATVI)
3. Take Two (TTWO)

EA is a reliable giant in the industry. ATVI and TTWO appear to have a similar record of performance for the past year. However, AVTI’s reputation and the excitement generated by the announcement of the new Destiny franchise give it an edge over this competitor.

**Cautionary Note**

Past performance does not guarantee future earnings. There are a number of recognized factors that can have a negative impact on the market value and performance of these kinds of stocks: the economy, competition, unforeseen production difficulties, intellectual property suits, and so forth..

**Next Steps**

As the above recommendations have been greatly abbreviated. I expect that you might have questions. I recommend that we meet in a Web Conference using Gotomeeting next Tuesday, August 5 at 2PM. These are the sign-in instructions:

* Link to join the meeting: <https://global.gotomeeting.com/meeting/join/534716693>
* Use either the microphone/speakers (VoIP) on your computer or call in using your telephone. +1 (571) 318-3112
* Access Code: 534-726-693; Audio PIN: Shown after joining the meeting

Thank you for reaching out to EdTech2.0 for stock recommendations for your investors.

I look forward to meeting with you next Tuesday. If you have any questions prior to that time, please feel free to contact me at 201.694.0300, ext. 18.

**References**

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