

# Trade Idea Template

## Quantitative Analysis (Annual) - LONG

Shares Outstanding = 974,020,000

ZNGA	2017	2018	2019	2020	2021
Stock Price \$	4.00	3.89	6.25	9.29	
Market Cap \$M	2.58 bn	5.59bn	6.87bn	8.89 billion	
EPS	0.03	0.02	0.04	0.03	
Earnings Growth %	1.65	0.95	16	6.90	
Price/Earnings	133	194	31.98	30.11	
PEG			2.43	2.00	4.37
Sales \$M	861	907	1321	403(Q1)	
Sales Growth %		5.2	37	20.10	10.60
Sales Multiple					
Net Income	26	15	41	(245)	

### Comments on Annual Quantitative Analysis

. Company is forecasting a net loss of 245m due to the acquisition of the Istanbul based company Peak in 2020 for 1.8 billion. It will be financed by 900 million cash and newly issued stock. This will still leave Zynga with around \$600 million in cash to make other acquisitions or use elsewhere.

Positive to see sales growing significantly and forecast to be 1.65 billion for 2020.

## Quantitative Analysis (Sector Comps)%

ZNGA US	PE1	EG1(2019)	EG2(2020)	PEG1	Market Cap'
Capcom	23.18	14.49%	6.33	1.60	3.88bn
Strategic Ed Inc.	20.07	11.61%	9.32	1.73	3.29bn
Electronic Arts	25.8	6.99	11.09	3.69	375.84bn
Activision Blizzard	27.69	3.03	9.39	1.12	59.003bn
Nintendo	22.19	25.12	9.85	0.88	61.71bn
Hasbro	20.09	-4.83	21.41	-4.16	9.77bn
TakeTwo	38.2	-20.47	51.74	-1.87	16.17bn
Averages	25.31	5.13	17.01	0.42	75.67bn
ZNGA	31.98	16%	6.9%0	2.00	8.89bn

### **Comments on Quantitative Analysis Sector Comparison**

ZNGA is a much smaller company than its main competitors i.e. Nintendo, EA and Blizzard etc. This could be an advantage in that it concentrates on the mobile games rather than consoles and it also focuses on social interaction and has a number of 'cerebral' games which appeal to a different demographic too. It could ultimately be swallowed up by one of the larger players but I would expect this to be a longer term possibility. It has a number of launches in the Q2 pipeline although the main acquisition of Peak is in Q3.

I would look for the stock to move significantly in our chosen time frame due to the KPIs mentioned below

### **Comments on Business**

**Zynga** is a provider of social gaming services to be played on mobile platforms Apple, Android, Facebook and Snapchat. Generally games are free to play with most revenue generated through advertising and online game revenue virtual rewards. Focus on interaction with friends and family.

Company appears to be very dynamic and forward thinking always looking to accelerate growth which they have been doing successfully. They are a market leader in the handheld game section and continue to capitalize on the engagement levels of people in the current environment. Upgrades to existing and launches of new games below look promising based on performance of company to date. Company seem very open and transparent – to me anyway????

CEO Frank Gibeau led the company turnaround and transition to rapid growth. Giberau was formerly Exec VP at Electronic Arts having worked their for 20 years and brings that knowledge with him.

### **KPI's driving Revenue and Earnings**

March soft launch of Harry Potter, Puzzles and Spells, Puzzle Combat and Farmville 3 and progressing well in test markets. Expected to be released in second half of year worldwide.

Online game or user pay revenue up dramatically (see earnings announcements below)

Games "Empires and Puzzles", 'Game of Thrones', 'Slots Casino' and 'Merge Dragons' were the primary drivers of growth and continue to perform above expectations.

In Q2 many upgrades to existing games including:

Acquisition of Peak will enable Zynga to include "Toon Blast" and "Toy Blast" which will increase Zynga's business by 60% daily active users and 40%monthly active users. Deal will close in Q3

"Words with Friends" collaboration with Amazon to feature free content exclusively to Prime subscribers.

Zynga Poka will have more events launched in Q2

All employees successfully transitioned to work from home so no disruptions to business.

Q2 currently higher levels of engagement from current, lapsed and new players.

### **Earnings Announcements**

Q1 Company reported highest first quarter revenue earnings in their history. Revenue at \$404 up 52% year on year. Bookings of \$425 m up 18% year on year.

#### 2020 Guidance

Revenue of \$1.65 billion • Net increase in deferred revenue of \$150 million • Bookings of \$1.8 billion • Net loss of \$245 million • Adjusted EBITDA of \$210 million (PEAK Acquisition)

### **Catalysts excluding Earnings**

Checked the press releases for this year and saw that the stock was responsive to announcements. Company is very communicative with approx. 3 news releases per month. On news of acquisition of Peak June 1<sup>st</sup> stock opened at \$9.41 having opened at \$8.20 previous day.

**SMA three month is \$ 9.19**

**Three-month Relative Strength Index is 62**

**14 day ATR is 0.24 Historical volatility 45 percent.**

**What is your choice of trade structure and why? Include time horizon for trade.**

I believe that due to the new game launches in summer and the upcoming acquisition of Peak this is a trade which should be in anticipation of that. As the stock is already trending upwards the trade should be placed sooner rather than later at bid price of \$9.25. I would expect a minimum of 10 percent rise by end September.

I am in the process of learning about Options trades so right now it would be a long trade.

Caroline Moore