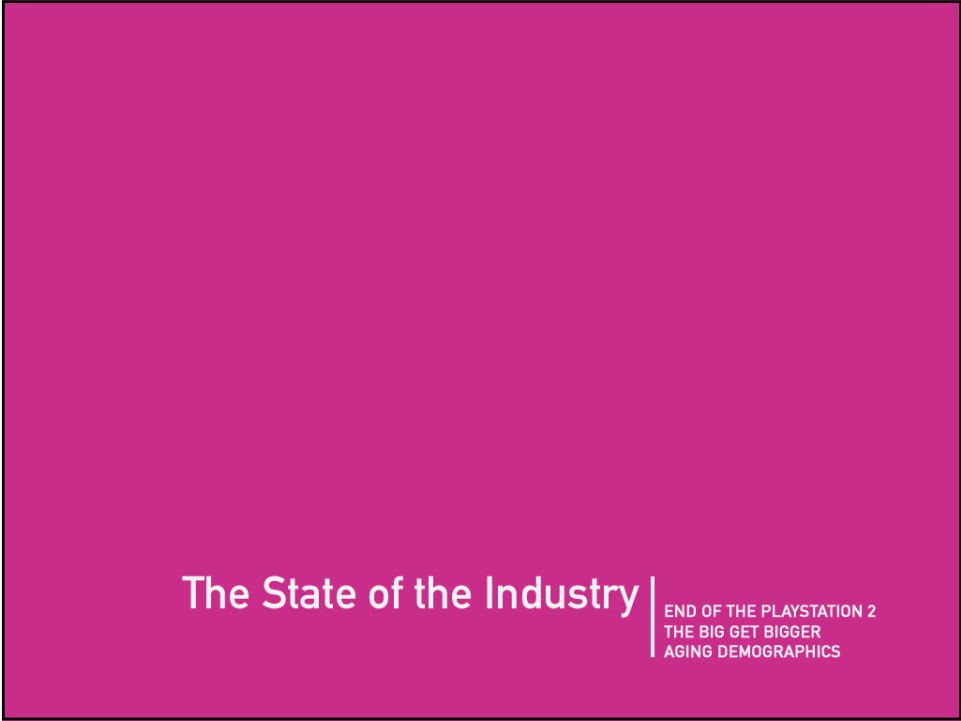




Take Two Interactive

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The State of the Industry

END OF THE PLAYSTATION 2
THE BIG GET BIGGER
AGING DEMOGRAPHICS



The Way Things Work

- **Developers**
 - Create/design the game
- **Publishers**
 - Fund the developers
 - Market the game
- **Distributors**
 - Channel the game to the consumer

Platform Royalties

- **PS2/Nintendo:** Royalties for hardware *and* manufacturing
- **Xbox:** Royalties for hardware; manufacturing optional



Cyclical Camaraderie

	1995	1996	1997	1998	1999	2000
Playstation	0.6	2.0	4.6	7.2	6.0	3.2
Nintendo 64	-	2.0	4.4	4.1	3.6	2.6
Handheld	1.9	1.7	2.1	3.1	7.3	6.9
	2000	2001	2002	2003E	2004E	2005E
Playstation 2	1.1	6.2	8.6	9.7	7.5	5.5
GameCube	-	1.2	2.3	2.5	2.0	1.5
Xbox	-	1.4	3.2	3.5	3.5	3.0
Handheld	6.9	7.7	7.0	7.5	8.0	9.0



Logistical Prowess

Industry Specific

- High supply vs. low demand
 - 60-80% more SKUs compared to last year
- Smaller packaging leads to more shelf space
- Publishing has higher margins than distribution
- PC games have higher margins than console games
- Firms set aside reserves of around 20% for returns/underselling

Company Specific

- 75% of sales are sequels or expansions
- 60-65% publishing / 35-40% distribution



Sneaking Around The Neighborhood

		Market Capitalization	P/E
Electronic Arts	ERTS	13.96B	42.34
Take Two	TTWO	1.55B	16.16
Activision	ATVI	1.07B	26.60
THQ	THQI	616.33M	89.22
Eidos	EIDSY	349.38M	N/A
Atari	ATAR	303.36M	8.12
Midway	MWY	145.84M	N/A



In A League Of Their Own

The Untouchables

- Sony
 - Playstation, Playstation 2
 - Developer & Publisher
- Microsoft
 - Xbox & PC
 - Developer & Publisher
- Nintendo
 - GameCube, GameBoy, GameBoy Advance
 - Developer & Publisher

The Lost One

- Vivendi Games
- Potentially top tier gaming company
- Potent franchises: Half-Life, Counter-Strike, Warcraft/Starcraft



A Company of Controversy |

GRAND THEFT STUDY TIME
ADOPTING A FEW MORE KIDS
JUST INCREDIBLY HOT



Sales By Geography & Platform



Grand Theft Market Share

- #1 Selling Game of 2001: Grand Theft Auto III
 - 8.5 million copies
- #1 Selling Game of 2002: Grand Theft Auto: Vice City
 - 9 million copies
- Grand Theft Bundle Pack for PS2/Xbox coming up
- Grand Theft Auto in Japan
- Grand Theft Auto 4 in October 04



Anatomy Of A Company

Three Primary Divisions

▪ Rockstar Games

(Mostly proprietary)

- Grand Theft Auto
- Max Payne
- Midnight Club
- Manhunt
- State of Emergency

▪ Gathering

(More outside developers)

- Mafia
- Hidden & Dangerous
- Chrome

▪ Gotham Games

(Mainstream/budget)

- Conflict Desert Storm
- Celebrity Deathmatch



Welcome To The Family

- TDK Mediactive (2003/\$22.3M)
- Frog City (2003/\$3.6M)
 - Tropico developer
- Destineer Games (2003/\$6.7M)
 - Access to Mac market
- Angel Studios (2002/\$40.1M)
 - Midnight Club
- Barking Dog Studios (2002/\$7.6M)
- Techcorp Limited (2001/\$0.6M)
 - HK firm that designs accessories

▪ PopTop Software

(2000/\$5.8M)

- Railroad Tycoon developer

▪ Gathering of Developers

(1999/\$10.4)

▪ Max Payne (2002/\$28M)

▪ Duke Nukem (2000/\$7.7M)

▪ Next: Vivendi Games?



Full Service Packaging

- Acquiring TDK Mediactive for \$22.7M
 - FY02 Sales: \$42.4M
 - FY02 EPS: (\$0.36)
- Access to mass market gaming
- Access to *decent* franchises
 - Shrek
 - The Muppets
 - Pirates of the Caribbean
 - Star Trek
- No internal studios



On The Horizon

Q4/03

- Max Payne 2 (PC)
- GTA Double Pack (PS2)
- Grand Theft Auto III (Japan)
- Hidden & Dangerous 2 (PC)
- Conflict Desert Storm 2 (PS2)
- Railroad Tycoon 3 (PC)
- Starsky & Hutch (All)
- MTV Celebrity Deathmatch
- Chrome (PC)

Q1/04

- Max Payne 2 (PS2/Xbox)
- Manhunt (PS2)
- GTA Double Pack (Xbox)
- Mafia (PS2, Xbox)

QX/04

- Duke Nukem Forever (PC)
- Grand Theft Auto "4" (PS2)



Always A Risky Business

- Failure of a “hit” game will result in disaster
- Console software demand is slowing
- Few titles lead to most revenues
- Overwhelming dependence on the Playstation 2
 - Only because that’s where the market is
- Delays in “hit” game productions
 - Duke Nukem Forever in production for... forever
- Legal controversy
 - Being sued for “shooting rampage by teens” in UK

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Valuating The Fun Times

BEAUTIFUL NUMBERS
FORECAST RAINY WITH CLOUDS
POSITIONED BETWEEN THE STARS



Financial Highlights

- Q303 Revenue (\$156M) up 27% YoY
 - Publishing: \$93M / 9% YoY
 - Distribution: \$62M / 69% YoY
- Net Margin increase from 7.0% to 9.8% (LTM)
- DSO decreased to 38 from 48 (LTM)
- Virtually no debt
- \$225M in cash



Free Cash Flow To Equity (FCFE)

Risk Premium	4.77%
Beta (via Bloomberg; 2 yrs vs. S&P)	1.33
30 Year Bond	5.07%
Cost of Equity	11.41%
Assumed HyperGrowth Rate	15.00%
Assumed Stable Growth Rate	4.50%



Worth The Hype?

Intrinsic Value (w/o R&D)	\$38.41
Intrinsic Value (w/ R&D)	\$42.05
Current Share Price	\$36.07
Upside Potential	14.22%



Techniques For Survival

- One solid title a year
 - Sequels/expansions are usually guaranteed moneymakers
- Developers under multiple platforms
- Distribution deals overseas
- Quality control
- Plenty of luck



The Recommendation

Long-Term

Buy

Short-Term

Buy

Buy Price

\$34

Target Price

\$40

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Ask Anything You Want

HOPEFULLY I'LL KNOW IT
OTHERWISE I'LL LOOK IT UP
OR MAYBE YOU'LL STUMP ME