

Take-Two and Zynga: Vote for Mobile Scale?

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Case overview

- **Audience / course level:** MBA strategy, corporate strategy, mergers and acquisitions
- **Company / industry / geography:** Take-Two Interactive Software and Zynga; video games; global
- **Decision owner and decision date:** Take-Two stockholders voting at the upcoming special meeting; decision pending as of the cutoff
- **Decision scope:** Vote on the share issuance and related charter amendment required by the signed Zynga combination. The ballot does not let stockholders renegotiate its terms.

The case

Opening decision

Take-Two Interactive Software has signed an agreement to acquire mobile-game publisher Zynga. The board recommends that Take-Two stockholders approve the share issuance and a charter amendment that increases the company's authorized share capital. The proposals are separate, but both relate to completing the transaction. The agreement is already signed: stockholders can vote on the required proposals, but they cannot use the vote to change the price, financing or integration plan. (P1, "Questions and Answers," pp. 5-9; "Take-Two Special Meeting-Required Votes," pp. 47-49.)

The proposed combination puts Take-Two's console and PC franchises alongside Zynga's mobile portfolio, publishing platform and advertising technology. Management expects mobile to become more than half of combined net bookings in fiscal 2023, compared with an estimated 12% for Take-Two in fiscal 2022. The opportunity is large. So is the uncertainty: the public filing gives no title-by-title evidence that Take-Two franchises will attract mobile players at the cost and retention levels needed to support the forecast. (P1, "Take-Two's Reasons," pp. 73-75.)

Decision question: Should a Take-Two stockholder vote for the share issuance and charter amendment needed for the signed Zynga transaction, given the price, proposed funding, strategic opportunities and execution risks?

Assignment: Prepare a one-page voting memo for a Take-Two stockholder. State a position on each proposal, explain the strongest argument on the other side, identify the assumptions behind your judgment, and name two pieces of evidence or milestones that would change your

view. Do not recommend renegotiating the signed agreement.

The strategic opportunity

Take-Two develops and publishes games across console, PC and mobile platforms. Its franchises include Grand Theft Auto, NBA 2K and Borderlands. Its December 2021 quarterly filing showed how revenue depended on both recurring player spending and individual titles. In the nine months ended December 31, 2021, company-defined recurrent consumer spending was 65.4% of net revenue, up from 61.9% in the comparable period. Mobile represented 11.7% of net revenue, compared with 7.3%. In the December quarter alone, recurrent spending was 60.6%, down from 64.2% a year earlier. These measures have different periods, and a changing release mix can move the quarterly and year-to-date figures in different directions. Recurrent spending is not a mobile-only measure. (P3, MD&A, printed pp. 27, 29-31.)

Management's thesis is that Zynga can help extend Take-Two intellectual property onto mobile and combine the companies' publishing, user acquisition, live-operations, data and advertising capabilities. Take-Two named potential channels including mobile versions of its franchises, cross-promotion, shared data, improved advertising targeting through Chartboost and expansion in new geographies. Those are proposed mechanisms, not contracted revenues or demonstrated title-level results. (P1, "Take-Two's Reasons," pp. 73-75; P2, announcement release, paragraphs 2-5.)

The industry offers examples but not a clean benchmark. Electronic Arts and Activision Blizzard also operated mobile businesses. Their public disclosures use different fiscal periods and, in some cases, different measures. Presence in mobile does not establish that Take-Two's franchises will convert successfully or that Zynga's platform will improve their economics. (P5, Q3 FY2022 release and platform/Net Bookings table; P6, selected King and platform-revenue excerpts.)

Price, ownership and funding

The announced consideration was \$3.50 in cash plus Take-Two shares valued at \$6.36 per Zynga share at the January 7 reference price, or \$9.86 in total at that reference point. The equity exchange ratio has a collar, so actual share value and the number of shares issued depend on the contract's defined pricing period. The \$9.86 figure is not a guaranteed value in every share-price scenario. The reference value represented a 64% premium to Zynga's January 7 closing price. The proxy cites approximately 4.0 times Zynga's estimated fiscal 2022 bookings and 18.2 times estimated adjusted EBITDA; these are banker calculations using estimates, not GAAP valuation multiples. Existing Take-Two holders were projected to own 67.2% to 70.4% of the combined company. (P1, "Summary-Merger Consideration," pp. 3, 61-63 and Annex A §1.7; "Zynga's Reasons," pp. 80-81; "Opinion of Goldman Sachs," pp. 96-102; "Take-Two's Reasons," pp. 75-76.)

The charter proposal increases authorized share capital from 205 million to 305 million shares, including 300 million authorized common shares and 5 million preferred shares. Authorization does not mean every authorized share will immediately be issued. The share-issuance proposal and charter-amendment proposal each require their own affirmative vote. (P1, "Take-Two Charter Amendment Proposal," pp. 43-46; "Required Votes," pp. 47-49.)

Take-Two reported \$986.7 million in cash and \$1.479 billion in short-term investments at December 31, 2021, with no borrowings under its credit agreement. For the transaction, the company intended to fund cash consideration and transaction costs with cash and maturing short-term investments plus a planned \$1.0 billion Term Loan A and \$1.7 billion of bonds. A separate \$2.7 billion unsecured bridge loan was arranged as a backstop if the planned financing could not be secured. It was not an additional planned borrowing on top of the loan and bonds.

The pro forma debt note's \$1.333 billion net debt adjustment is an accounting adjustment after assumed note conversions and other items; it is not gross borrowing or total post-close debt. (P3, balance sheet p. 5 and liquidity/credit note pp. 16, 33; P1, "Description of the Financing," p. 149 and pro forma debt note, pp. 164-165.)

What management expects-and what remains uncertain

Take-Two projected that mobile would exceed 50% of combined net bookings in fiscal 2023. Its detailed synergy projection shows bookings opportunities rising from \$27 million in fiscal 2023 to \$641 million in fiscal 2027, with associated operating contribution rising from \$2 million to \$252 million. Separately, management expected \$100 million of annual cost synergies within two years, with half phased in during year one and the full run rate by the end of year two, and estimated \$50 million of restructuring cost in year one. The operating-contribution series excludes those cost synergies. (P1, "Take-Two's Reasons," p. 74; "Summary of the Synergy Projections," pp. 108-109.)

The labels matter. Net Bookings is an operating measure of products and services sold or sold in, plus items such as licensing, merchandise, in-game advertising, strategy guides and publisher incentives. It is not GAAP net revenue. Operating contribution begins with GAAP net income associated with the bookings opportunities and adjusts to exclude the net effect of deferred net revenue and related cost of goods sold, stock-based compensation, business reorganization, amortization and impairment of acquired intangibles, business acquisition costs, one-time gains or losses on long-term investments, interest, depreciation and tax. It is an adjusted measure, not GAAP profit or cash flow. The projection depends on successful title development and launches, user acquisition, use of Chartboost on Take-Two titles, available talent and resources, stable economic and foreign-exchange conditions, and consumer acceptance. The filing says the timing and amount are uncertain and that additional costs may be needed. (P1, "Summary of the Synergy Projections," pp. 107-109; risk factors, pp. 121-138.)

The shareholder vote therefore combines a strategic bet with questions of price allocation and execution. Take-Two's board and financial advisers evaluated the transaction using forecasts and specified assumptions. Those analyses are evidence of the process and management's case, not assurance that the forecast will be realized. Public materials do not disclose player-acquisition cost, conversion of Take-Two franchise audiences to mobile, player retention by cohort, cross-promotion attribution, cannibalization, studio retention plans or a title-level bridge from bookings to cash flow.

Decision alternatives

The share-issuance proposal requires both a majority of votes cast and a majority of the voting power present at the meeting; an abstention counts against approval under the latter test. The charter amendment requires approval by a majority of outstanding common shares, so abstentions and failure to vote count against it. (P1, "Required Votes," pp. 47-49.)

Alternative	Terms known to stockholders	Strategic trade-off	Evidence still needed
Vote for both proposals	Approve the share issuance and charter amendment under the signed terms.	Enables the planned combination and its mobile/IP, publishing and advertising opportunities; accepts the price, dilution and execution exposure.	Title-level mobile economics, integration costs, talent retention, financing terms and downside liquidity cases.

Alternative	Terms known to stockholders	Strategic trade-off	Evidence still needed
Vote against one or both proposals	Withhold a required approval; completion may be prevented, subject to the agreement and its conditions.	Avoids supporting the proposed issuance or charter change, while risking loss of the combination and possible contractual consequences in specified circumstances.	Whether standalone investment, licensing, partnership or a later acquisition could deliver comparable strategic value; no such substitute is guaranteed.
Abstain where permitted	Do not cast an affirmative or negative vote on a proposal.	Abstention counts against the share-issuance proposal's majority-of-voting-power-present test and against the charter amendment, which requires a majority of outstanding common shares.	Consider the proposal-specific vote thresholds and the consequences of non-approval.

The signed agreement limits the practical choice to approval or non-approval of required proposals, not a choice among a newly negotiated price, financing package or integration design. A \$550 million termination fee applies only in specified circumstances; it is not an automatic charge for every “no” vote. (P1, “Summary-Termination Fees,” pp. 25-26; merger agreement §9.2, Annex A.)

Exhibits

All amounts are U.S. dollars. **[F]** disclosed fact; **[C]** author calculation; **[A]** teaching assumption; **[I]** interpretation; **[G]** evidence gap.

Exhibit 1. Consideration and projected ownership

Item	Amount / definition
Cash consideration	[F] \$3.50 per Zynga share
Reference equity value	[F] \$6.36 per Zynga share at the January 7, 2022 reference price
Total reference value	[C] $\$3.50 + \$6.36 = \$9.86$ per Zynga share; not guaranteed after the collar and subsequent price movements
Premium	[F] 64% to Zynga's January 7 closing price; based on reference value
Implied January 7 close	[C] $\$9.86 / 1.64 \approx \$6.01$; approximate because the disclosed premium is rounded
Exchange-ratio collar	[F] 0.0350-0.0406 Take-Two shares per Zynga share, subject to contractual VWAP terms
Post-close ownership	[F] Existing Take-Two holders projected to hold 67.2%-70.4%

Source and locator: P1, "Summary-Merger Consideration," pp. 3, 61-63, Annex A §1.7; "Take-Two's Reasons," pp. 75-76; "Zynga's Reasons," pp. 80-81. Premium/multiples are banker calculations, not independent valuation evidence. **[G]** No publicly disclosed title-level data lets stockholders reproduce the expected strategic value.

Exhibit 2. Take-Two operating mix before the transaction

Measure	Period	Current	Comparison	Definition / scope
Recurrent consumer spending / net revenue	Nine months ended Dec. 31, 2021	65.4%	61.9%	Company-defined spending category; all platforms
Mobile / net revenue	Nine months ended Dec. 31, 2021	11.7%	7.3%	GAAP net revenue by platform; not bookings
Recurrent consumer spending / net revenue	Quarter ended Dec. 31, 2021	60.6%	64.2%	Quarterly mix; title and release mix may differ from YTD

Source and locator: P3, MD&A, printed pp. 27, 29-31. Comparison period is the corresponding fiscal quarter or nine months of the prior year. **[I]** Rising year-to-date recurring spend and falling quarterly recurring-spend share can coexist. Neither establishes future mobile conversion.

Exhibit 3. Management's synergy projections

Take-Two fiscal years ending March 31; \$ millions.

Fiscal year	Net-bookings opportunities [F]	Operating contribution [F]
2023E	27	2
2024E	185	43
2025E	305	85
2026E	495	162
2027E	641	252

Separate cost-synergy estimate	Amount / timing
Annual run-rate cost synergies	[F] \$100m within two years; half phased in year one, full run rate by end of year two
Year-one restructuring cost	[F] \$50m
Relationship to contribution series	[F] Cost synergies are excluded from the contribution values above

Source and locator: P1, "Summary of the Synergy Projections," pp. 107-109. **[I]** Bookings opportunities are not revenue, profit, or cash flow. Operating contribution is an adjusted metric; see case definition above and the full adjustment list on p. 109. The series ends in FY2027 and has no terminal value. **[G]** There is no public title-level bridge, acquisition-cost forecast, cohort retention data or conversion evidence.

Exhibit 4. Funding at the cutoff

Item	Amount / treatment
Cash at Dec. 31, 2021	[F] \$986.7m
Short-term investments at Dec. 31, 2021	[F] \$1,479.0m
Credit-agreement borrowings at Dec. 31, 2021	[F] None
Intended financing	[F] \$1.0bn Term Loan A plus \$1.7bn bonds, allocation subject to change
Separate backstop	[F] \$2.7bn unsecured bridge facility, drawable if planned financing could not be secured
Pro forma net debt adjustment	[F] \$1.333bn after assumed convertible-note treatment and other accounting items

Source and locator: P3, balance sheet p. 5 and liquidity/credit note pp. 16, 33; P1, “Description of the Financing,” p. 149 and pro forma debt note pp. 164-165. The intended \$2.7bn loan/bond mix is separate from the \$2.7bn backstop. The net debt adjustment is not gross borrowing or total post-close debt. Cash and investments are pre-transaction balances; some cash was restricted, and transaction costs also required funding.

Student deliverable and questions

Submit a one-page memo (about 500 words) stating how you would vote on each proposal. Use at least two exhibits, distinguish disclosed measures from your own assumptions, and give the strongest argument against your recommendation.

1. What value could the companies create together, and which parts of the forecast have the clearest evidence behind them?
2. How do the premium, share issuance, financing plan and expected ownership affect the case for approval? Which measures can and cannot be compared directly?
3. What is the strongest case for voting the other way? Which missing information would matter most, and what observable evidence would change your position?