

Glu Mobile, Inc.

GLUU: NasdaqGS

Analyst: Mark Papuzza
Sector: Information
Technology

BUY

Price Target: \$8.87

Key Statistics as of 3/24/15

Market Price: \$4.84
Industry: Software
Market Cap: \$517.44M
52-Week Range: \$3.27-7.60
Beta: 3.39

Thesis Points:

- Celebrity Partnerships
- Diversified Portfolio
- Long-term Growth Opportunities
- Financials – EBITDA growth and zero net debt

Company Description:

Glu Mobile Inc. develops, publishes, and markets a portfolio of games for the smartphones and tablet devices users. The company offers free-to-play action, casual, racing, and sports genre mobile games. It creates games based on its own brands, as well as based on third-party licensed brands. Glu Mobile Inc. markets, sells, and distributes its games primarily through direct-to-consumer digital storefronts worldwide. The company was formerly known as Sorrent, Inc. and changed its name to Glu Mobile Inc. in May 2005. Glu Mobile Inc. was incorporated in 2001 and is headquartered in San Francisco, California.



Thesis

Glu Mobile is a leading global developer and publisher of free-to-play games for smartphone and tablet devices. With their recent announcements of partnerships with Hollywood celebrities, combined with their diversified portfolio of games and long-term growth opportunities, Glu mobile will continue to grow their EBITDA margins, and continue to generate value for the company and increase the price of their stock.

Celebrity Partnerships

Glu Mobile CEO Niccolo de Masi is capitalizing on a trend that has been growing in Hollywood - celebrities have become very interested in the gaming market as a way to both connect better with their fans, and to expand their brand. In June 2014, Glu Mobile teamed up with celebrity Kim Kardashian and launched their highly successful “Kim Kardashian: Hollywood” game. In this game, players create their own “aspiring celebrity” and join Kim Kardashian on their rise to fame and fortune. Players virtually live the life of a superstar and experience the glamorous life of Kardashian.

Kardashian fans have received the game with open arms, and fortunately for Glu Mobile she has many of them. Kardashian has a social following of approximately 80 million people, and she actively advertises the game and encourages fans to download it. The game is free to download, but allows players to purchase additional items within the game, such as virtual clothes and virtual hairstyles, for real money. The majority of the revenue the game creates, however, is through advertisements. It reached the number one spot on the Apple App Store charts in 2014, and ended at number seven of top-grossing apps. The game has been downloaded over 28 million times since its release, and has brought in \$74.3 million in revenue for Glu Mobile, which equaled 31% of their overall revenue for the year. In order to keep the game popular and at the top of the charts the company has been steadily adding updates and new characters, and last week announced a sweepstakes competition for players. From March 20 through March 30, Glu Mobile is holding a “Meet Kim Sweepstakes.” Game players will work to earn “K-tickets” in the game by completing various projects, and the more “K-tickets” one has, the better chance they have to win the

sweepstakes and meet Kardashian. Glu Mobile will be flying out five winners to California, paying for their hotel accommodations, and setting up a meet and greet with the celebrity. This allows the virtual world to become a reality for the winners, and will encourage more fans of Kardashian to download and play the game. As a result of the immense success Kardashian has brought to the company, and the great working relationship between the two, Glu Mobile has announced a new deal this past week with two celebrities close to Kim.

Kardashian’s half-sisters Kendall and Kylie Jenner are set to join Glu Mobile in the gaming market. Kendall and Kylie have gathered a fan base through their reality TV show “Keeping Up With the Kardashians,” and from their growing fame in the fashion industry. On March 17, 2015, Glu Mobile made the announcement that they will be creating a game starring Kendall and Kylie that will differentiate itself from Kardashian’s game, yet compliment it. This will attract both users of Kardashian’s game, and new users from the fans of the two younger stars. Kendall and Kylie share a combined social media following of 72 million. Niccolo de Masi is excited to have signed five-year contracts with each of the Jenner’s, stating that they bring a “tremendous amount of brand power and social impact to an audience largely untapped by the gaming industry.” This game is set to launch late this year, and is expected to follow the massive success seen with the “Kim Kardashian: Hollywood” game.

Glu Mobile has also recently announced a blockbuster partnership with one of the most popular musicians in the world today – Katy Perry. Following her half-time performance at the 2014 Super Bowl, the company broke the news that a five-year contract has been reached between the two. This is a huge partnership for two reasons. First, Glu Mobile is entering a new sphere in the gaming industry – music. This expands their brand in the gaming market, which will bring in new users they have not yet appealed to before. Second, Katy Perry has a social media following of approximately 170 million. With this vast amount of followers the company expects Perry’s game to break many Glu Mobile records, specifically new revenue records for an individual title. Perry is known for her unique style, and while the company will not say what the game will entail just yet, it is sure to incorporate her uniqueness and put

the game in a class of its own.

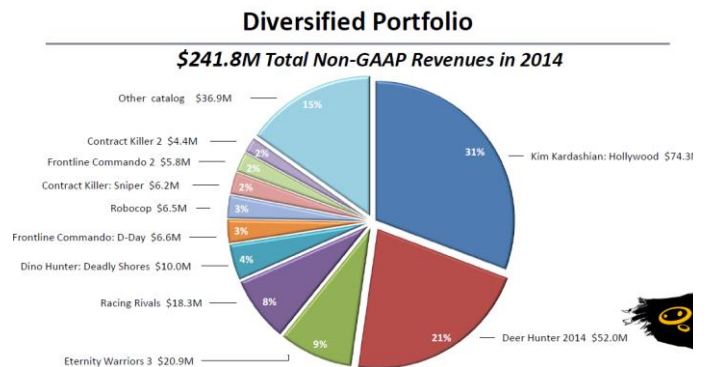
Glu Mobile is creating what they call a “celebrity gaming platform.” The partnerships with Kim Kardashian, Kendall Jenner, Kylie Jenner, and Katy Perry are key steps in the right direction for the company, but they do not plan to stop there. The next priority for Glu Mobile is to partner with an athletic celebrity for a sports game, and incorporate more sports fans users to their business. Also in the news recently is celebrity music artist Kanye West. West mentioned in an interview last week that he is interested in entering the gaming market, and is currently working on a video game. He did not mention who he was working with, but there is a high possibility that he could be teaming up with the same company that his wife, Kim Kardashian, is working with. When asked about a potential partnership with West, Niccolo de Masi did not confirm or deny anything was in the works. Adding Kanye West and Katy Perry would be monumental for the company, as these are two of the most influential stars in the music industry today.

Glu Mobile is pioneering a new genre in gaming with their celebrity gaming platform. By the end of 2015, Kim Kardashian, Kendall Jenner, Kylie Jenner, and Katy Perry will bring approximately 300 million combined social media followers to the company. Niccolo de Masi signed each of these celebrities to five-year exclusive contracts because he believes that they will continue to increase their popularity and their brand, therefore bringing more success to the company. In working directly and hands-on with these celebrities, the games will benefit both the celebrities brands and Glu Mobile’s brand.

Diversified Portfolio

A major concern when evaluating the value of gaming companies is if they can continue to produce successful games that will both sustain and grow their revenue. Some gaming companies have come out with “one-hit wonders,” and depend on that one game to sustain their revenue. Some gaming companies focus on one or two games for the year, and bank on those to be successful. Glu Mobile believes in the approach of creating approximately a dozen games per year. The company does not focus solely on each individual launch, but on a series of launches of different brand games. For this 2015 year, Glu Mobile plans to launch 14 new games,

with the majority coming in the second half of the year. They plan to invest in the four genres of celebrity, action, racing and sports. Even when you exclude the company’s highest revenue driving game “Kim Kardashian: Hollywood,” the company still grew in revenue by 24% from 2013 to 2014. This clearly illustrates the importance of diversifying their portfolio of games. Glu Mobile is no one-hit wonder, and does not exclusively depend on its top game, because they have created so many other successful ones to attract users in the gaming market. So even as Glu Mobile introduces their newly acquired celebrities in games, other key games such as “Deer Hunter” and “Eternity Warriors” will continue to help grow their revenue. Illustrated below is the broken down revenue numbers each Glu Mobile game earned for the company during the 2014 year.



“Top grossing apps” are the apps that have generated the most revenue. As of December 2014, among the top 30 grossing games on the U.S. Apple app store, Glu Mobile was responsible for three. “Kim Kardashian: Hollywood” rested at #7 in the rankings, “Racing Rivals” at #23, and “Deer Hunter 2014” at #28. The games have spent 7 months, 8 months and 8 months, respectively, in the top 30 grossing games ranking. This demonstrates that the games Glu Mobile produces keeps players playing, and keeps revenue growing.

Staying Power of Top Grossing Games

Game*	Total months in US top 30 grossing games*	Game*	Total months in US top 30 grossing games*
1. Clash of Clans	27 months	16. SimCity BuildIt	0 months
2. Game of War - Fire Age	17 months	17. Boom Beach	9 months
3. Candy Crush Saga	25 months	18. Pat Rescue Saga	19 months
4. Candy Crush Soda Saga	2 months	19. The Simpsons: Tapped Out	27 months
5. Big Fish Casino	27 months	20. Trivia Crack	0 months
6. Madden NFL Mobile	3 months	21. Bubble Witch 2 Saga	6 months
7. Kim Kardashian: Hollywood	7 months	22. Cookie Jam	6 months
8. Microsoft Pocket Edition	25 months	23. Racing Rivals	8 months
9. Farm Heroes Saga	12 months	24. The Sims: FreePlay	20 months
10. Play Day	27 months	25. myVEGAS Slots	12 months
11. MARVEL Contest of Champions	1 month	26. Jackpot Party Casino - Slots	16 months
12. DoubleDown Casino	22 months	27. G2H Casino	16 months
13. Modern War	25 months	28. Deer Hunter 2014	8 months
14. Slotomania	27 months	29. Trivia Crack (Ad Free)	0 months
15. Family Guy: The Quest for Stuff	8 months	30. Castle Clash by IGG	0 months

Long-term Growth Opportunities

The mobile gaming industry has grown immensely as of recent, and is projected to continue doing so. According to Newzoo's Quarterly Global Games Market Update, mobile gaming is a \$25 billion industry. This is a 42% increase over the prior year's value. Advances in technology and the increases in smartphone users are responsible for this jump, and both will continue to grow. Four out of every five smartphone users have currently played game apps on their phone, which is a huge opportunity for advertisements to be viewed. As a result, the amount of mobile ad spending will continue to increase greatly. The mobile gaming industry is estimated to be valued as a \$40 billion industry by 2017.

The mobile gaming industry is currently one of the fastest growing industries, and Glu Mobile is setting themselves up to be the leader of the industry. They continue to expand their celebrity platform, and have yet to sign a celebrity to a deal under five-years, ensuring that they will continue to work together as the industry surpasses the \$40 billion mark. They plan to expand their games in each genre, expand globally, and stay on top of the trends in the gaming industry.

The company had great financial success in 2014, and has a strong lineup of games to be released in 2015. In a time when the industry is peaking, Glu Mobile is taking all appropriate measures to take full advantage.

Financials

Two categories that stand out on Glu Mobile's balance sheet are the EBITDA margins, and their zero net debt. Glu Mobile has reached a positive EBITDA margin this past year, and it is projected to double during the 2015 year. Estimates show that it will continue to grow from there in the upcoming years. In 2016, the EBITDA margin is expected to outgrow the revenue margin. This demonstrates that the company is creating value, and eliminating operating expenses that are eating into their bottom line. Also noteworthy is the company's net debt. Glu Mobile possesses more cash than debt. The fact that they have enough liquidity to cover their liabilities should be very encouraging to investors.

Conclusion

I am recommending a buy on Glu Mobile, Inc. because they will grow financially as a result of their recent announcements of new celebrity partnerships, their diversified game portfolio that has continually brought in high revenues, and the long-term growth opportunities in the mobile gaming industry. In an expanding industry, Glu Mobile is making moves to become the industry leader. With the addition of three celebrities this year that will bring in a combined 240+ social media followers, Glu Mobile will increase the value of both their company and their share price.

CENTER FOR GLOBAL FINANCIAL STUDIES															
GLU Mobile, Inc.	GLUU	Analyst Mark Papuzza	Current Price \$4.83	Intrinsic Value \$8.07	Target Value \$8.87	Divident Yield 0%	Target Return 83.66%	BULLISH							
General Info		Peers		Market Cap.		Management									
Sector	Information Technology	Zynga, Inc.	\$2,561.74	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014							
Industry	Software	Electronic Arts Inc.	\$18,021.87	de Masi, Niccolo	Chairman, Chief Executive C	\$ 1,277,860.00	\$ 1,676,889.00	\$ -							
Last Guidance	Feb-04-2015	Forgame Holdings Limited	\$1,974.81	Ludwig, Eric	Chief Financial Officer, Chie	\$ 829,256.00	\$ 964,716.00	\$ -							
Next earnings date	NM	Take-Two Interactive Software Inc.	\$2,158.16	Leichtner, Scott	Vice President, General Co	\$ 545,477.00	\$ 505,798.00	\$ -							
Market Data		Activision Blizzard, Inc.	\$16,757.24	Akhavan, Christopher	President of Publishing	\$ -	\$ 1,364,590.00	\$ -							
Enterprise value	\$449.77	Capcom Co. Ltd.	\$128,993.73	Cannon, Gregory	Principal Accounting Office	\$ -	\$ -	\$ -							
Market Capitalization	\$520.68	Soul and Vibe Interactive Inc.	\$1.03	Chiang, Lisa	Director of Quality Assuran	\$ -	\$ -	\$ -							
Daily volume	1.07	NHN Entertainment Corp.	\$1,123,728.35	Historical Performance											
Shares outstanding	107.80	Ubisoft Entertainment SA	\$1,827.31	GLUU		Peers		Industry							
Diluted shares outstanding	96.92	Current Capital Structure		Growth	6.7%			6.3%	6.0%						
% shares held by institutions	48.00%	Total debt/market cap	0.00%	Retention Ratio	0.0%			42.7%	61.6%						
% shares held by insiders	0.61%	Cost of Borrowing	0.00%	ROIC				20.0%	11.8%						
Short interest	16.27%	Interest Coverage		EBITA Margin	-6.1%	█ #VALUE!		14.0%	13.7%						
Days to cover short interest	6.45	Altman Z	2.92	Revenues/Invested capital	51.5%			135.2%	202.3%						
52 week high	\$7.60	Debt Rating	AAA	Excess Cash/Revenue	█ #DIV/0!	█ #VALUE!		38.4%	18.5%						
52-week low	\$3.27	Levered Beta	1.08	Unlevered Beta	1.95	2.27			0.95						
5y Beta	2.91	WACC (based on market value weig	8.22%	TEV/REV	1.2x		2.8x		2.4x						
6-month volatility	64.00%			TEV/EBITDA	12.5x	18.9x			11.3x						
Past Earning Surprises				TEV/EBITA	13.9x	28.6x			15.4x						
				TEV/UFCF	0.1x		22.4x		26.8x						
				Non GAAP Adjustments											
				Operating Leases Capitalizati	100%	Straightline		10 years							
				R&D Exp. Capitalization	100%	Straightline		10 years							
				Expl/Drilling Exp. Capitalizati	0%	N/A		N/A							
				SG&A Capitalization	0%	N/A		N/A							
				Forecasted Profitability											
				NOPLAT		Invested capital		UFCF							
				Operating. Cash/Cash	0.0%	LTM	11%	69%	\$223.15	\$6.47	\$363.56	\$6.47			
				Unlevered Beta	1.04	LTM+1Y	33%	67%	\$296.16	\$24.66	\$418.65	-\$30.43			
				Rev/Invested Capital	140.0%	LTM+2Y	19%	66%	\$351.48	\$40.91	\$450.23	\$9.33			
				Continuing Period Revenue Gro	5.0%	LTM+3Y	18%	66%	\$416.25	\$56.27	\$477.96	\$28.54			
				Long Term ROIC	11.7%	LTM+4Y	-4%	65%	\$399.68	\$55.25	\$514.88	\$18.33			
				Invested Capital Growth	Equals to Maintenance	LTM+5Y	5%	65%	\$417.87	\$58.93	\$548.27	\$25.54			
				Justified TEV/REV	3.9x	LTM+6Y	9%	65%	\$454.03	\$64.90	\$589.67	\$23.51			
				Justified TEV/EBITDA	15.6x	LTM+7Y	7%	65%	\$487.60	\$70.80	\$618.42	\$42.04			
				Justified TEV/EBITA	19.5x	LTM+8Y	7%	65%	\$519.41	\$76.42	\$645.74	\$49.10			
				Justified TEV/UFCF	30.8x	LTM+9Y	6%	65%	\$549.99	\$81.92	\$672.69	\$54.97			
Valuation															
				Enterprise Value		Total Debt		Other claims		Equity		Adjusted Price			
				ROIC	1.8%	WACC	8.2%	EYA	-\$23.40	\$863.41	\$0.00	-\$12.78	\$876.19	\$8.40	
				LTM	6.8%	LTM+1Y	8.3%	LTM+1Y	-\$6.43	\$982.53	\$0.00	-\$20.41	\$1,002.95	\$9.62	
				LTM+1Y	9.8%	LTM+2Y	8.4%	LTM+2Y	\$6.07	\$1,069.23	\$0.00	-\$70.35	\$1,139.57	\$10.88	
				LTM+2Y	12.5%	LTM+3Y	8.5%	LTM+3Y	\$18.98	\$1,142.96	\$0.00	-\$142.43	\$1,285.40	\$12.20	
				LTM+3Y	11.6%	LTM+4Y	8.6%	LTM+4Y	\$15.09	\$1,216.08	\$0.00	-\$201.47	\$1,417.56	\$13.46	
				LTM+4Y	11.4%	LTM+5Y	8.7%	LTM+5Y	\$14.96	\$1,293.61	\$0.00	-\$269.49	\$1,563.10	\$14.83	
				LTM+5Y	11.8%	LTM+6Y	8.8%	LTM+6Y	\$17.80	\$1,384.10	\$0.00	-\$316.01	\$1,700.12	\$16.05	
				LTM+6Y	12.0%	LTM+7Y	8.9%	LTM+7Y	\$19.09	\$1,463.16	\$0.00	-\$372.38	\$1,835.53	\$17.33	
				LTM+7Y	12.4%	LTM+8Y	9.0%	LTM+8Y	\$21.52	\$1,544.38	\$0.00	-\$435.55	\$1,979.93	\$18.69	
				LTM+8Y	12.7%	LTM+9Y	9.1%	LTM+9Y	\$24.00	\$1,627.34	\$0.00	-\$505.90	\$2,133.23	\$19.79	
				LTM+9Y	Monte Carlo Simulation Assumptions										
				Base		Stdev		Min		Max		Distribution		Monte Carlo Simulation Results	
				Revenue Variation	0	10%	N/A	N/A	N/A	Normal	Mean est.	\$8.40	\$9.62		
				Op. Costs Variation	0	10%	N/A	N/A	N/A	Normal	σ(ε)	\$0.11	\$0.25		
				Market Risk Premium	6%	N/A	5%	7%	Triangular	σ(ε) adjusted pric	\$8.07	\$8.87			
				Long term Growth	5%	N/A	3%	11%	Triangular	Current Price	\$4.83				
				Terminal Value	0	0.1	N/A	N/A	Normal	Analysts' median est.		\$6.77			