



The Goldman Guide

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INSIDE THIS ISSUE:

Buy ZNGA
March Madness

KEY TAKEAWAYS

- ⇒ All these IPOs mean one thing- a market top is near
- ⇒ There is a way to play one of the most high profile IPOs in years by buying a peer ahead of the IPO
- ⇒ The IPO will drive all the per stocks higher ahead of its first day of trading
- ⇒ The stock is attractive on a fundamental basis as well so long term gains are in the offing
- ⇒ March Madness picks will be out on Thursday

KEY STATISTICS

Index	Close	2014
DJIA	16066	-3.1%
S&P 500	1841	-0.4%
NASDAQ	4245	1.6%
Russell 2000	1181	1.5%

(figures are rounded)

ARE YOU GAME FOR BIG RETURNS?

I talked ad nasuem about the flurry of IPO filings that have occurred recently and how that oftentimes is a “tell” for a top in the market. Sure enough, there have been a series of even more high profile IPO filings just in the past few days.

Truth be told, the recent IPOs that have been executed have largely done very well, but good luck trying to get in on those. Nonetheless, there is a way to play at least one of these high profile IPOs to make some quick money.

Ever hunger to get involved in a hot IPO but knew you had no real chance? Do not let it bother you because there are ways to generate outsized returns with lower risk by buying stocks in the IPO’s industry ahead of the IPO itself. In this scenario, we believe that in the trading days prior to and immediately following the scheduled March 26th IPO of King Entertainment, the wildly popular Candy Crush Saga game publishing parent, publishing peer Zynga Corp. (NASDAQ – ZNGA - \$5.46) will set new highs.

Zynga last made a series of big moves ahead of the Facebook (NASDAQ - FB) cycle with titles geared for the right markets and rose sharply ahead ahead of the Facebook (NASDAQ – FB) IPO. Recently, the stock has been under accumulation of late in a favorable response to a recently announced acquisition. Considering that King Entertainment is being valued at \$7.6 billion in this IPO, it is likely that a rising tide will lift all boats in this segment, including Zynga, ahead of King trading. Therefore, short term traders likely have an opportunity to take advantage of the pending transaction by buying Zynga, which itself looks great from the technical perspective. Moreover, for investors with a longer term horizon, the fundamentals have dramatically improved for the company, making a potential upswing a long-lasting one.

Buy ZNGA Ahead of King IPO (cont'd)

According to Gartner, mobile games are the fastest-growing segment of the video game market, with revenue set to nearly double between 2013 and 2015 from \$13.2 billion to \$22 billion, and Zynga is a major player in the space. The company is a leading provider of social game services, which include popular web and mobile franchises such as FarmVille, Words With Friends and Zynga Poker that are played by millions of consumers around the world. For the quarter ended December 31, 2013, Zynga had approximately 112 million monthly active users playing its games. Zynga's games are available on a number of global platforms, including Facebook, Apple's (NASDAQ – AAPL) iOS, Google (NASDAQ – GOOG) Android, and Zynga.com.

For the fourth quarter of 2013, Zynga announced better than expected financials, including \$147 million in revenue and adjusted EBITDA of \$3 million, as the company enjoyed growth in its leading games. In addition, Zynga announced that it plans to acquire leading mobile game and technology developer, NaturalMotion, thus expanding Zynga's creative pipeline, accelerating planned mobile growth, and bringing in next-generation technology and tools. This deal is a clever strategic move for a number of reasons. First, it is widely believed that the NaturalMotion team is one of the best in the business, bringing in a track record of success and strong talent. Second, this expands Zynga's creative pipeline into two new consumer categories -- Racing and People simulation. Third, the transaction is expected to be accretive to non-GAAP earnings and generate bookings in the range of \$70 to \$80 million and Adjusted EBITDA of \$15 to \$25 million in 2014.

The bottom line is that the pending King IPO is set to drive Zynga to new heights in the near term and the company's underlying fundamentals could carry it to the \$8 level in the coming months.

March Madness

The seedings for this year's NCAA Tournament have more questionable pairings than ever. That makes the start of the basketball tournament even crazier this week. We will have our picks which are guaranteed to lose, on Thursday morning, prior to your submission of the all-important bracket for your pools.



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