

Internet, Media & Enabling Technologies

Glu Mobile, Inc. | GLUU - \$6.21 - NASDAQ | Buy

Company Update

Target Price Changed

Stock Data

52-Week Low - High	\$4.11 - \$11.75
Shares Out. (mil)	145.79
Mkt. Cap.(mil)	\$905.33
3-Mo. Avg. Vol.	3,303,768
12-Mo.Price Target	\$6.50
Cash (mil)	\$102.4
Tot. Debt (mil)	\$0.0
Est. 3Yr. EPS Growth	15%

EPS \$

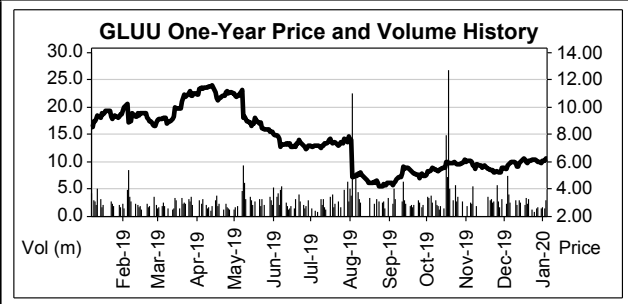
Yr Dec	—2018—	—2019E—	—2020E—
		Curr	Curr
1Q	0.05A	0.06A	0.05E
2Q	0.07A	0.06A	0.06E
3Q	0.09A	0.07A	0.06E
4Q	0.09A	0.07E	0.06E
YEAR	0.29A	0.26E	0.23E

Non-GAAP EPS

Revenue (\$ millions)

Yr Dec	—2018—	—2019E—	—2020E—
		Curr	Curr
1Q	86.3A	92.6A	101.9E
2Q	99.4A	101.9A	108.5E
3Q	100.7A	120.4A	109.0E
4Q	98.2A	102.5E	108.4E
YEAR	384.6A	417.4E	427.8E

Bookings



GLUU: 4Q Bookings Imply Upside to 4Q Guide/Est.; PT to \$6.50

Our proprietary model is tracking ~7.5% above the midpoint of guidance/estimates, albeit little changed from our mid-4Q19 update of ~\$110M. While implying a solid beat, y/y growth decelerates ~730bps on the margin, but we believe the focus remains on new game potential, more so than 4Q. With Disney launching in Canadian Beta just 10 days prior to EoY, we believe it's still too early to call. On slightly higher annualized revenue assumptions our PT moves to \$6.50.

4Q bookings tracking ~7.5% above mid-point of 4Q guidance/estimates. Exiting 4Q19 our analysis tracking GLUU's top-grossing games suggests 4Q19 bookings are tracking ~7.5% above the midpoint of management's 4Q guidance range (~\$102.5M), but holding steady relative to our prior estimate of ~\$110M. On the margin we have seen incremental 2H4Q19E rankings weakness in Design Home (DH) (down ~500bps in 2H vs 1H4Q19) which has been mostly offset by the continued strength from Kim Kardashian Hollywood, which has seen outsized q/q ranking gains driven by what was likely traction in customer acquisition/lower CPI which appear to have continued and accelerated throughout the quarter (KKH up ~47.9% q/q wt. avg. ranking). Overall, our implied bookings estimate of ~\$110.2M would suggest ~12.2% y/y growth (vs. ~19.6% y/y growth in 3Q19), albeit a ~8.5% q/q bookings decline. More detail of our GLUU games tracking analysis can be found in Exhibit 1 below.

The game performance breakout (Q/Q) of GLUU's top six grossing games in 4Q19 is as follows: (Key: average ranking change)

- **Improving sequentially:** Kim Kardashian Hollywood: +47.9%, Design Home: +2.0%
- **Unchanged:** N/A
- **Declining sequentially:** Covet Fashion: -4.6%, Cooking Dash: -6.3%, WWE Universe: -25.4%, Diner Dash Adventures: -34.0%, TSB: -41.6% (avg. iPhone ranking of ~50 is down ~5 slots y/y).

PT to \$6.50. Utilizing the above estimate of ~\$110.2M, in place of our current 4Q19 estimate of ~\$102.5M our FY19 revenue would move to ~\$425M, which would be ~in-line with our current FY20 bookings estimate of ~\$428M. That said, we believe the any bookings from the potential launch of news games (~3 currently scheduled) would be incremental upside to our FY20 bookings estimate, although we anticipate new game guidance to be given on a lag (post launch).

(continued)

Given this slightly higher revenue assumption, we are raising our price target to \$6.50, up from \$6.00 prior, which implies ~2x FY20 bookings.

Disney Sorcerer's Arena Update. With the game having launched in Beta in Canada ~2 weeks prior to quarter-end, data thus far has been limited. However, from the data we do have avg. iPhone ranking has been ~473, and median of ~377 (although through 1/2/20 the games 3 day rolling avg. has improved to ~311), See Exhibit 2 for more detail.

We believe it is still a bit too early to make a call on the game due to a few factors: 1) limited data, 2) EoY seasonality, 3) the March scheduled launch leaves time for GLUU to further tweak the game mechanics which could impact Beta results. As such, we will continue to track the game closely through the start of 1Q20 as we believe EoY is a unique time to launch a game in Beta due to seasonal weakness (which we also notice in GLUU's core game portfolio). Again we believe lower than 75 is key for projecting solid U.S. performance when the game is likely launched in March 2020.

Prior to the Canadian Beta launch, we noticed many New Zealand users (where the game has been in Beta for quite some time), were complaining about the switch in gameplay to turn based, and turning many users off from the game. So far, the Canadian reviews seem mixed, citing "awesome" gameplay but also numerous bugs, so in our opinion, we believe the jury is still out on if Disney SA can become a growth game for GLUU.

Exhibit 1: Q/Q Grossing Rankings Comparison

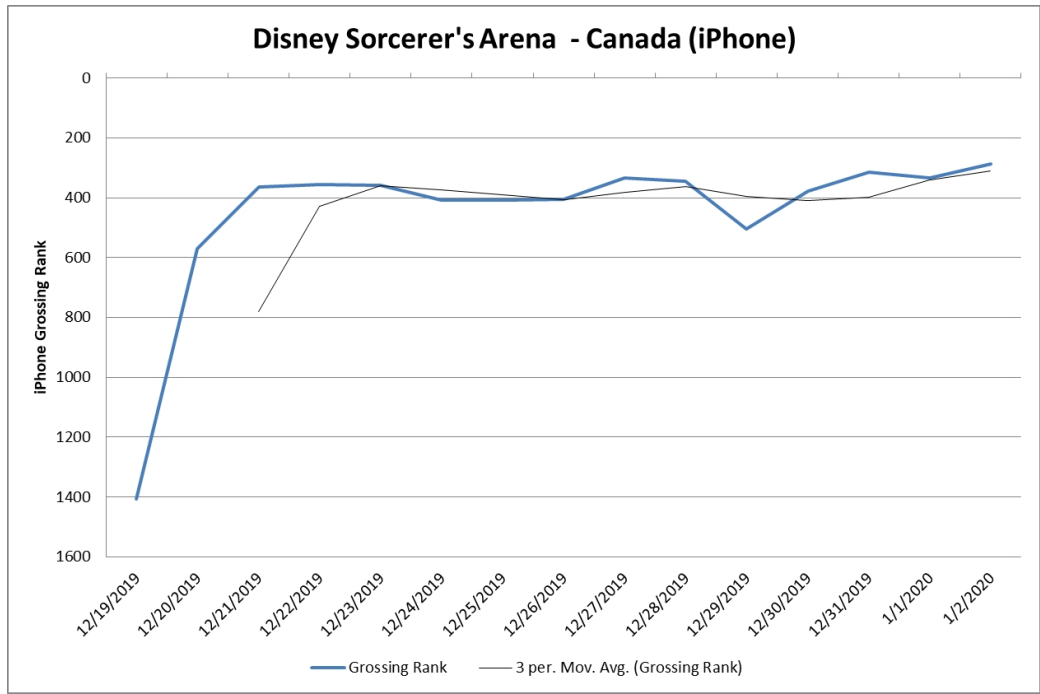
U.S. 4Q19 vs. 3Q19 Avg. Grossing Rankings Change (%)						
Title	iPhone	iPad	Android	Average*	3Q19	3Q19
					Bookings (\$mm)	Bookings % of Total
Cooking Dash	(9.3%)	(6.4%)	(2.4%)	(6.3%)	\$3.5	2.9%
Covet Fashion	(9.2%)	(5.3%)	1.9%	(4.6%)	\$17.2	14.3%
Diner Dash Adventures	(38.7%)	(31.8%)	(29.2%)	(34.0%)	\$14.7	12.2%
Design Home	3.1%	7.1%	(2.3%)	2.0%	\$45.2	37.5%
KKH	81.8%	45.9%	5.0%	47.9%	\$4.6	3.8%
TSB	(51.1%)	(40.0%)	(30.1%)	(41.6%)	\$30.1	25.0%
WWE Universe	(33.1%)	(39.4%)	(7.6%)	(25.4%)	\$1.5	1.2%

Source: ROTH Capital Partners, App Annie, GLUU Investor Presentation

U.S. Gross Rankings as of 12/31/19

* Wt. Avg. of three platforms per game(65% Apple, 35% Android, assuming ~70% of Apple comes from iPhone)

Exhibit 2: Disney Sorcerer's Arena - Canada iPhone Grossing Rankings



Source: Appannie.com

VALUATION

Our \$6.50 price target is based on ~2x EV/20E Bookings multiple based off our ~\$428M FY20 Non-GAAP bookings estimate.

Factors that may impede shares of GLUU from reaching our \$6.50 PT include increased competition in the mobile gaming sector, new updates and features that could drive increased user engagement, faster than anticipated launch of new launch, poor performance of its celebrity-based games, a lack of game developer human capital in the sector, and a lack of traction with its Tencent partnership.

RISKS

The vast majority of mobile games are on the iOS and Android platforms.

Any decision by Apple or Google to change its revenue share structure, or refusal to allow GLUU games into their marketplaces could significantly hinder GLUU's operating ability.

Highly competitive gaming industry.

The mobile gaming industry is highly competitive, including frequent product introductions, new games climbing to the top rankings, and new emerging platforms. Inability to develop new and desirable games could result in lower rankings and lower revenue.

Relatively young and fragmented market with high turnover.

The mobile gaming market is constantly undergoing changes due to its high growth. A single "hit" title can put a game developer into an industry leading position, thus the mobile gaming market is constantly fluctuating. GLUU may see constantly changing competition from competitors in the future.

Dependence on small number of games as key revenue contributors. While GLUU has a large game portfolio, it is reliant on a small number of titles which product the majority of its revenue in a given quarter, and these games may shift over time as new games are introduced or phased out. Therefore reliance on such titles could have a material impact on financial results if the success of a key title starts to deteriorate.

Dependence on celebrities.

GLUU has struck exclusive, multi-year deals with celebrities for games including Kim Kardashian, Katy Perry, Kendall and Kylie Jenner, Britney Spears, Nicki Manaj, and Taylor Swift, among others. If GLUU is unable to continue to secure additional exclusive celebrity gaming deals, it could adversely affect its business going forward.

Readers should recognize that the risks outlined above do not represent a comprehensive list of all risk factors that may impact price target achievement.

COMPANY DESCRIPTION

Glu Mobile Inc. develops, publishes, and markets a portfolio of games for the smartphones and tablet users. The company offers free-to-play (freemium) action, casual, racing and sports genre mobile games. It creates games based on its own brands, including Contract Killer, Deer Hunter, Diner Dash, Eternity Warriors, Racing Rivals and Tap Sports, as well as based on third-party licensed brands, such as Kim Kardashian: Hollywood. GLUU markets, sells, and distributes its games primarily through direct-to-consumer digital storefronts such as the Google Play Store, and Apple App Store. The company, formerly known as Sorrent, Inc., changed its name to Glu Mobile Inc. in May 2005. Glu Mobile Inc. was incorporated in 2001 and is headquartered in San Francisco, California, with major U.S. offices outside of Seattle, Washington, Long Beach, California and international locations in Canada, China, India, Japan, Korea and Russia.

Glu Mobile, Inc. (NASDAQ: GLUU)
 Fiscal year end - December
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 (\$ in millions, except per share data)

	2016A	2017A	1Q'18A	2Q'18A	3Q'18A	4Q'18A	2018A	1Q'19A	2Q'19A	3Q'19A	4Q'19E	2019E	1Q'20E	2Q'20E	3Q'20E	4Q'20E	2020E
Income Statement																	
Bookings	\$214.0	\$320.5	\$86.3	\$99.4	\$100.7	\$98.2	\$384.6	92.6	101.9	120.4	\$102.5	\$417.4	\$101.9	\$108.5	\$109.0	\$108.4	\$427.8
<i>Guidance</i>	<i>202-204</i>	<i>312.2-314.2</i>	<i>72-74</i>	<i>90-92</i>	<i>94-96</i>	<i>94.3-96.3</i>	<i>380.7-382.7</i>	<i>88-90</i>	<i>100-102</i>	<i>110-112</i>	<i>101.5-103.5</i>	<i>416.4-418.4</i>					
GAAP Revenues	200.6	286.8	81.4	90.2	99.3	95.6	366.6	95.9	95.5	107.1	101.5	400.0	100.9	107.4	107.9	107.3	423.5
Non-GAAP Cost of Revenues	117.0	140.1	35.4	35.1	36.1	36.5	143.2	28.3	42.1	54.6	34.0	159.0	32.6	35.2	35.3	34.8	137.9
GAAP Cost of Revenues	120.1	141.2	30.7	32.4	38.6	35.1	136.8	34.5	33.9	37.8	39.6	145.7	33.7	36.3	36.4	35.9	142.3
GAAP Gross Profit	80.4	145.7	50.7	56.3	60.7	60.5	228.3	61.4	61.7	69.3	61.9	254.2	67.2	71.1	71.5	71.4	281.2
Non-GAAP Gross Profit	104.1	180.4	55.8	64.3	65.9	64.2	250.2	61.0	66.2	79.1	68.6	274.8	69.3	73.3	73.7	73.6	289.9
Research and development*	77.3	86.0	19.5	20.1	20.8	21.7	82.1	22.6	18.6	20.5	23.3	85.0	21.6	23.0	23.1	24.3	92.0
Sales and marketing*	47.0	103.1	26.2	29.1	28.2	27.6	111.1	27.3	35.0	45.8	28.7	136.8	35.0	36.9	37.1	34.5	143.4
General and admin*	22.6	27.1	5.4	5.6	5.9	5.7	22.7	4.6	4.1	4.6	4.9	18.2	4.7	4.7	4.8	4.9	19.1
Stock-Based Comp	13.3	15.1	6.3	5.3	5.9	7.1	24.6	6.8	2.0	4.1	4.2	17.1	5.2	5.2	5.3	5.4	21.1
Restructuring charge	2.3	6.0	0.1	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	162.4	237.2	57.5	60.2	61.0	62.1	240.7	61.3	59.7	75.0	61.1	257.1	66.5	69.8	70.3	69.1	275.6
Total Non-GAAP Operating Expenses	108.8	211.8	49.2	54.8	53.3	52.2	209.5	52.4	57.1	69.8	56.9	236.2	61.3	64.6	65.0	63.7	254.5
GAAP Operating Income	(82.0)	(91.5)	(6.8)	(3.8)	(0.2)	(1.6)	(12.4)	0.1	2.0	(5.7)	0.8	(2.9)	0.7	1.3	1.3	2.3	5.6
Non-GAAP Operating Income	38.6	(31.4)	6.6	10.4	13.7	12.0	42.7	8.6	9.1	9.2	11.7	38.6	8.0	8.7	8.7	9.9	35.4
Non-GAAP Adj EBITDA	(39.0)	(2.2)	6.6	10.5	12.7	11.9	41.7	8.6	9.1	9.2	12.7	39.6	9.1	9.8	9.9	11.1	40.0
<i>Guidance</i>	<i>(16.5)-(19)</i>			<i>7.5-8.5</i>	<i>9.5-10.5</i>	<i>9.5-10.5</i>	<i>39.2-40.2</i>	<i>7.0-8.0</i>	<i>7.0-8.0</i>	<i>4.0-5.0</i>	<i>12.2-13.2</i>	<i>39.1-40.1</i>					
Interest income	0.1	0.0	(0.3)	(0.4)	0.1	0.3	(0.2)	0.8	0.6	0.3	0.0	1.6	0.0	0.0	0.0	0.0	0.0
Interest (expense)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (expense)/income, net	(5.7)	(6.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.6	0.7	0.8	2.6
Income before taxes	(87.7)	(98.4)	(7.0)	(4.2)	(0.1)	(1.3)	(12.7)	0.8	2.5	(5.4)	1.3	(0.8)	1.2	1.9	2.0	3.1	8.2
Income tax provision	0.3	(0.4)	(0.2)	(0.2)	0.1	0.0	(0.2)	(0.2)	(0.3)	0.3	0.9	0.8	0.5	0.5	0.4	0.4	1.8
GAAP Net Income	(88.0)	(97.9)	(7.2)	(4.4)	(0.3)	(1.3)	(13.2)	0.7	2.5	(5.1)	0.4	(1.5)	0.7	1.4	1.6	2.7	6.4
Non-GAAP Net Income	(41.6)	(29.5)	6.4	10.2	12.7	12.3	41.6	9.0	9.6	10.1	11.3	39.9	8.0	8.8	9.0	10.3	36.2
<i>Guidance</i>	<i>(19.3)-(21.8)</i>																
GAAP EPS	(\$0.66)	(\$0.31)	(\$0.05)	(\$0.03)	(\$0.00)	(\$0.01)	(\$0.09)	\$0.00	\$0.02	(\$0.03)	\$0.00	(\$0.01)	\$0.00	\$0.01	\$0.01	\$0.02	\$0.04
Non-GAAP EPS - fully diluted	(\$0.31)	(\$0.03)	\$0.05	\$0.07	\$0.09	\$0.09	\$0.29	\$0.06	\$0.06	\$0.07	\$0.07	\$0.26	\$0.05	\$0.06	\$0.06	\$0.06	\$0.23
Weighted avg shares out - diluted	131.8	135.7	139.1	140.5	142.4	143.5	141.4	159.4	159.7	146.2	155.5	155.2	157.5	159.5	161.5	163.5	160.5
<i>Guidance</i>	<i>132.2-134.7</i>	<i>135.5</i>			<i>151.9</i>	<i>156.9</i>	<i>151.2</i>	<i>159.0</i>	<i>161.9</i>	<i>156.3</i>	<i>155.5</i>						
* Excludes stock-based comp																	
Margin Analysis																	
Non-GAAP Gross Profit	48.6%	56.3%	64.7%	64.7%	65.5%	65.4%	65.1%	65.9%	64.9%	65.7%	66.9%	65.8%	68.0%	67.6%	67.6%	67.9%	67.8%
Total Operating Expenses	75.9%	74.0%	66.6%	60.5%	60.6%	63.2%	62.6%	66.2%	58.6%	62.3%	59.6%	61.6%	65.2%	64.3%	64.5%	63.7%	64.4%
GAAP Operating Income	(38.3%)	(28.6%)	(7.9%)	(3.9%)	(0.2%)	(1.6%)	(3.2%)	0.1%	1.9%	(4.7%)	0.8%	(0.7%)	0.7%	1.2%	1.2%	2.2%	1.3%
Non-GAAP Adj EBITDA	(18.2%)	(0.7%)	7.7%	10.5%	12.6%	12.1%	10.8%	9.3%	8.9%	7.7%	12.3%	9.5%	9.0%	9.0%	9.1%	10.3%	9.3%
Income before taxes	(41.0%)	(30.7%)	(8.1%)	(4.2%)	(0.1%)	(1.3%)	(3.3%)	0.9%	2.5%	(4.5%)	1.3%	(0.2%)	1.2%	1.8%	1.8%	2.9%	1.9%
Non-GAAP Net Income	(19.4%)	(9.2%)	7.5%	10.3%	12.6%	12.5%	10.8%	9.7%	9.4%	8.4%	11.0%	9.6%	7.9%	8.1%	8.3%	9.5%	8.5%
Percentage Change Y/Y																	
Bookings	(11.7%)	49.8%	25.1%	20.4%	17.5%	18.0%	20.0%	7.2%	2.5%	19.6%	4.4%	8.5%	10.1%	6.5%	(9.4%)	5.8%	2.5%
Non-GAAP Gross Profit	(30.3%)	73.3%	26.5%	20.9%	19.1%	131.7%	38.7%	9.3%	3.0%	19.9%	6.8%	9.8%	13.5%	10.8%	(6.8%)	7.4%	5.5%
Research and development*	11.6%	11.2%	(17.3%)	(10.4%)	1.4%	11.7%	(4.5%)	15.8%	(7.4%)	(1.5%)	7.2%	3.5%	(4.4%)	23.6%	12.8%	4.3%	8.3%
Sales and marketing*	(0.4%)	119.5%	54.5%	(5.3%)	(4.3%)	6.5%	7.8%	4.3%	20.1%	62.5%	4.1%	23.2%	28.1%	5.5%	(19.2%)	20.1%	4.8%
General and admin*	19.2%	19.9%	(19.6%)	(18.7%)	(14.3%)	(12.7%)	(16.4%)	(15.3%)	(26.8%)	(22.8%)	(14.1%)	(19.8%)	2.2%	15.2%	4.7%	0.0%	5.1%
Total Operating Expenses	9.5%	46.0%	NM	(6.8%)	(1.5%)	10.3%	1.5%	6.6%	(0.8%)	23.0%	(1.6%)	6.8%	8.4%	16.9%	(6.3%)	13.0%	7.2%
GAAP Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	825.3%	(32.7%)	NM	187.9%	NM
Non-GAAP Adj EBITDA	NM	NM	NM	NM	NM	299.4%	NM	30.2%	(13.0%)	(27.3%)	6.1%	(5.0%)	5.8%	7.6%	8.0%	(12.1%)	1.0%
Income before taxes	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	44.2%	(23.7%)	NM	139.1%	NM
Non-GAAP Net Income	NM	NM	NM	NM	NM	389.8%	NM	39.5%	(5.8%)	(20.7%)	(8.5%)	(4.1%)	(10.8%)	(8.4%)	(10.0%)	(8.3%)	(9.3%)
Non-GAAP EPS - fully diluted	NM	NM	NM	NM	NM	369.9%	NM	21.7%	(17.1%)	(22.8%)	(15.5%)	(12.2%)	(9.7%)	(8.3%)	(18.5%)	(12.8%)	(12.6%)

Source: SEC Filings, ROTH Capital Partners Estimates

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Disclosures:

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Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 01/06/20	
			Count	Percent
Buy [B]	291	76.98	167	57.39
Neutral [N]	52	13.76	20	38.46
Sell [S]	4	1.06	2	50.00
Under Review [UR]	29	7.67	12	41.38

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Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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