

## Majesco (COOL) – Zumba Sales Momentum Continues

Price: \$1.58

Market cap: \$62M

Enterprise value: \$57M

Basic & Diluted shares: 39.3M

Potential additional shares: 5.4M

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### Majesco update

In this update I am going to focus on four topics: Zumba sell-through, Majesco's social gaming initiative, product pipeline, and technical and valuation updates.

### Zumba sell-through

The best source for video game sales data is [The NPD Group's](#) monthly reports. NPD tracks point of sales at brick and mortar stores as well as online retailers and then extrapolates to a total sales figure. [VGChartz](#) attempts to estimate sales through historical NPD figures, online rankings, and analytical methods, but they can often be way off. Online rankings such as Amazon can often skew results for certain titles as well. For example, one thing I was worried about with Zumba Wii's high online rankings was that it was selling especially well online because brick and mortar stores were stocking only a few units at a time due to the box's increased depth (due to the included belt).

Thursday evening NPD reported their January data. Zumba was released on November 15<sup>th</sup>, 2010. It did not make NPD's top 10 list for either November or December as those are of course big months for highly anticipated new releases. Zumba Wii's online rankings really started climbing in January, and being a slower month for new releases January was the first month where Zumba could realistically be expected to break into the top 10. [Zumba was #5 across all platforms for the month of January](#). Some sales figures have leaked on some of the [gaming forums](#), and I have added those below:

Rank	Title	Platforms	Publisher	Units
1	Call of Duty Black Ops	360,PS3,Wii,NDS,PC	Activision Blizzard	750,000
2	Just Dance 2	Wii	Ubisoft	500,000
3	Dead Space 2	360,PS3,PC	Electronic Arts	452,000
4	Little Big Planet 2	PS3	Sony	353,000
5	Zumba Fitness	Wii,360,PS3	Majesco	300,000
6	NBA 2k11	360,PS3,PSP,Wii,PS2,PC	Take Two Interactive	261,000
7	Assasin's Creed Brotherhood	360, PS3	Ubisoft	
8	Dance Central	360	MTV Games	
9	Michael Jackson The Experience	Wii, DS,PSP	Ubisoft	
10	DC Universe Online	PS3,PC	Sony	195,000

Zumba sold through around 300,000 units in January. That is an excellent performance which goes a long way towards establishing Zumba as a hit franchise. Some of those 300,000 units sold through were already accounted for in Majesco's January 11<sup>th</sup> press release about 500,000 units having shipped, but I feel confident from my channel checking that additional reorders were generated subsequent to that, leaving Zumba sales for the quarter on track with my previous estimates.

Below is my updated online and brick and mortar channel check spreadsheet. I only have about a month of data since I began my tracking, but already I have been able to notice some interesting trends. There is probably a way for me to embed the actual spreadsheet, but for now you'll just have to zoom way in to read it. The first 5 columns are Amazon bestseller rankings for the Wii, 360, and PS3 SKUs, Amazon wish list ranking for the Wii SKU, and Gamestop ranking for the Wii SKU. The next three columns are the quantity available at Gamestop.com for all three SKUs. Usually the inventory available at Gamestop.com is greater than the purchase quantity limit, in which case I enter '999'. On certain days it appears that the purchase quantity limit is removed and I can see how many units are really in stock. The next four columns are quantity available from Zumba.com for the Wii SKU, 360 SKU, and belt accessory, and the number of belts sold/day. The three columns after that are the quantities available from Walmart.com for all three SKUs. Following that are three columns for the number of Wal-Mart stores (out of 20 in the Los Angeles area) which have the game in stock for each SKU. Next are columns for quantity available from Target.com and number of Target stores (out of 10 in LA) with stock available. The next three columns are number of Best Buy stores (out of 30 in LA) with the game in stock. The last three columns are quantity available from ToysRUs.com for each SKU. The rows shaded blue are weekends. I actually check each of these sites several times each day, but in the spreadsheet I record the readings I take at the around the same time everyday in the evening. I suspect that the inventory reported at some of these sites may be used to supply the brick and mortar stores inventory which would explain some of large jumps sometimes seen.

Date	Amazon rank (wii)	Amazon rank (360)	Amazon rank (ps3)	Amazon wish list rank (wii)	Gamestop online quantity (wii)	Gamestop online quantity (360)	Gamestop online quantity (ps3)	Zumba online quantity (wii)	Zumba online quantity (360)	Zumba online belt quantity	Zumba online belts sold	Walmart online quantity (wii)	Walmart online quantity (360)	Walmart online quantity (ps3)	Walmart store/20 available (wii)	Walmart store/20 available (360)	Walmart store/20 available (ps3)	Target online quantity (wii)	Target online quantity (360)	Target online quantity (ps3)	Target store/10 available (wii)	Target store/10 available (360)	Target store/10 available (ps3)	BestBuy store/30 available (wii)	BestBuy store/30 available (360)	BestBuy store/30 available (ps3)	ToysRUs online quantity (wii)	ToysRUs online quantity (360)	ToysRUs online quantity (ps3)				
01/21/11	7	55	100	3	4	999	83	70	100	100	0	0	2	0	16	14	0	0	0	0	7	0	10	10	13	5	0	0	0				
01/22/11	10	105	190	4	4	999	83	74	55	94	0	0	2	0	13	12	0	0	0	0	6	0	9	8	12	4	0	0	0				
01/23/11	12	90	208	3	4	999	77	69	0	87	0	0	2	0	5	10	0	0	0	0	4	0	9	6	10	4	0	0	0				
01/24/11	9	63	150	4	4	999	65	63	0	33	0	0	2	0	5	13	0	0	0	0	7	0	8	11	4	0	0	0	0				
01/25/11	2	72	182	4	5	999	52	55	0	30	0	0	2	114	5	17	0	0	0	0	9	0	9	4	17	4	0	0	0				
01/26/11	2	73	221	4	5	999	45	41	0	27	4900	480	2	106	4	17	0	0	0	0	5	0	9	4	14	3	0	0	0				
01/27/11	2	63	194	2	5	999	33	29	0	23	4808	92	2	106	4	16	0	0	0	0	74	18	10	0	4	15	3	0	0	0			
01/28/11	2	68	235	2	5	999	130	12	0	18	4762	46	850	2	95	4	15	16	0	62	62	18	9	9	9	11	15	3	0	0	0		
01/29/11	1	64	201	2	5	999	0	0	0	18	4717	45	0	2	87	3	13	15	0	46	19	9	0	9	9	12	3	0	0	0	0		
01/30/11	10	61	103	3	4	2672	0	0	0	54	4639	28	0	2	79	3	13	15	0	23	17	9	0	9	8	9	2	0	0	0	0		
01/31/11	1	52	102	3	4	999	0	0	0	47	4630	59	0	2	89	3	12	14	0	14	18	10	0	9	16	9	2	0	0	0	0		
02/01/11	1	63	95	3	4	999	999	0	0	43	4571	59	0	2	85	3	12	14	0	0	17	10	0	9	14	9	2	0	0	0	0		
02/02/11	3	61	97	2	4	1998	999	999	0	40	4452	119	0	2	57	2	11	13	0	19	33	9	0	10	14	24	2	0	0	0	0	0	
02/03/11	1	57	110	2	5	999	999	999	0	38	4412	40	0	2	49	19	19	13	0	1	34	5	0	10	13	22	2	0	0	0	0	0	
02/04/11	1	64	105	2	5	999	999	999	0	35	4354	56	0	2	34	18	19	12	0	0	30	10	0	10	19	25	2	0	0	0	0	0	
02/05/11	2	68	108	2	5	999	999	999	0	34	4297	59	0	2	23	16	19	11	0	0	31	9	0	10	22	25	2	0	0	0	0	0	
02/06/11	2	67	124	2	5	999	999	999	0	30	4263	34	0	2	18	14	18	11	0	0	31	8	0	10	19	23	2	0	0	0	0	0	
02/07/11	6	45	169	2	5	999	999	999	0	27	4210	53	0	2	21	10	17	11	0	0	32	7	0	10	15	22	2	0	0	0	0	0	
02/08/11	6	32	194	2	3	999	999	992	0	23	4140	70	0	2	13	9	16	10	0	0	37	8	0	10	13	21	2	0	0	0	0	0	
02/09/11	5	38	209	2	3	999	999	897	0	21	4092	48	0	2	12	14	18	14	0	0	70	30	9	10	13	20	4	0	0	0	0	0	
02/10/11	2	38	225	2	3	999	999	733	0	20	4045	43	0	2	9	17	18	17	0	0	96	28	9	0	10	17	18	6	0	0	0	0	
02/11/11	2	39	284	2	3	999	999	590	0	18	4033	46	0	2	0	17	18	17	0	0	99	28	9	0	10	16	13	5	0	0	0	3	
02/12/11	2	62	248	3	3	999	999	354	0	17	3964	37	0	2	0	14	18	14	0	0	95	26	9	0	10	15	13	3	0	0	0	3	
02/13/11	8	61	242	3	3	999	999	65	0	12	3908	64	0	2	0	11	16	13	0	0	65	24	8	0	10	15	11	2	0	0	0	2	
02/14/11	18	82	241	3	3	999	6801	82	0	10	3860	40	0	2	0	10	16	13	0	0	29	19	8	0	10	13	11	1	0	0	0	1	
02/15/11	25	82	213	3	3	999	999	999	0	8	3799	61	0	2	0	17	19	17	0	0	23	18	8	0	10	12	10	1	0	0	0	0	
02/16/11	10	90	238	3	3	999	999	999	0	0	3438	361	0	2	0	15	19	17	0	0	15	8	0	10	13	9	1	0	0	0	0	0	
02/17/11	22	91	235	3	3	999	999	999	0	0	3481	22	0	2	0	15	19	17	0	0	13	8	0	9	11	9	1	0	0	0	0	46	0
02/18/11	26	92	264	3	3	999	6276	999	0	0	3345	71	0	2	0	13	19	17	0	0	11	7	0	8	13	8	1	0	0	0	58	0	

The first thing which is apparent is that online inventory is very lean. Gamestop.com has been the only site with ample supply of the Wii SKU. Amazon has been selling out of the Wii SKU about once a week. When you see the Amazon ranking for the Wii SKU dropped from #1 or #2 to #10 or #20, that is when Amazon was sold out and it was only available from a third party charging above retail price, as is the case currently. I feel that Amazon's wish list is a better indicator of demand as it isn't affected as much by shortages or sales which affect the bestseller rankings. Zumba Wii has remained in the top 5 on

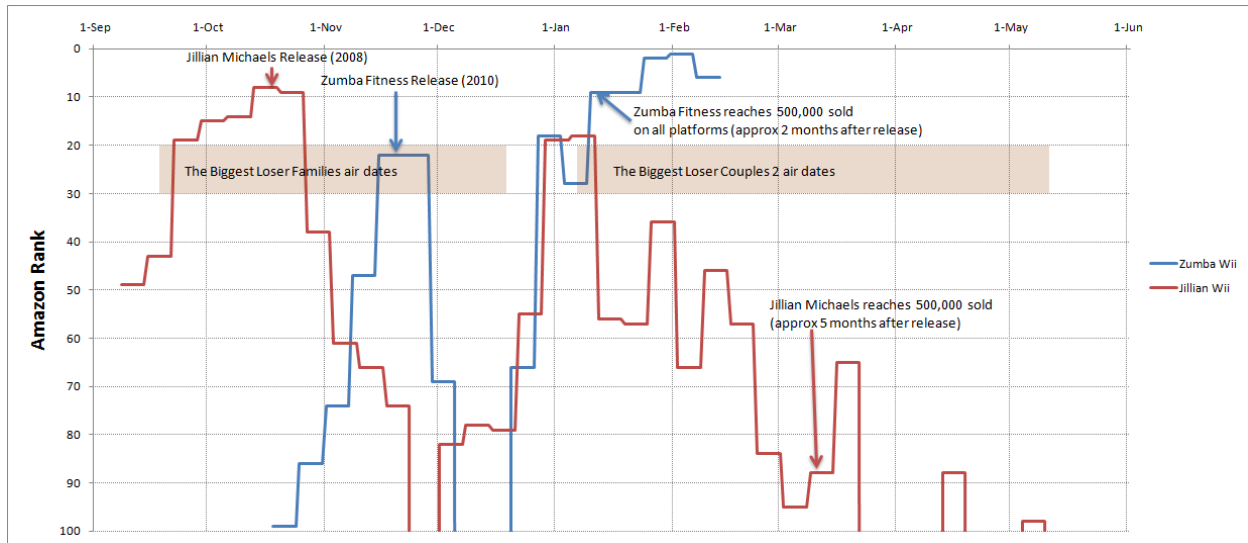
Amazon's wish list and Gamestop.com's bestseller list. Zumba.com had 100 units of the Wii SKU available on 1/23 which sold within two days and Zumba.com hasn't restocked the Wii SKU since. Walmart.com had at least 480 units of the Wii SKU on 1/26, sold out by the next day, got at least another 650 units in on 1/28, again sold out in a day, and hasn't restocked since. Target.com and ToysRUs.com haven't had the Wii SKU in stock the entire time I have been tracking. I didn't include BestBuy.com in my spreadsheet since their site does not appear to allow me to determine quantities available, but BestBuy.com has been out of stock on the Wii SKU on a couple occasions. BestBuy.com also has a quantity limit of 1 per order for the Wii SKU, indicating the strong demand relative to supply.

Moving on to brick and mortar, on Friday 1/21 16 out of 20 Wal-Mart stores in the LA area had the Wii SKU in stock and after the weekend was over only 5 stores still had the game in stock. You will note it appears that those Wal-Mart stores were not restocked until nearly two weeks later, on Thursday 2/3 when 19 stores again had the Wii SKU in stock. After the weekend the number of stores with stock was reduced to 10 but this time the stores were restocked before the next weekend. 17 stores had stock on Friday 2/11, and after the weekend the number of stores with stock was again reduced to 10. The stores were quickly restocked again prior to this weekend. The Best Buy Wii store column shows the same pattern of depletion and restocking. The Target store checks unfortunately do not tell much. Perhaps Target is really good at restocking often, or maybe their store inventory status isn't updating on their website that frequently. At any rate it appears that supply at the brick and mortar stores has been getting better of late.

Checking sales of the Zumba belt accessory on Zumba.com is also kind of interesting. It's not the same thing as tracking sales of the game itself, but one would think that a large percentage of people who buy additional belts do so soon after purchasing the game, so continued belt sales should reflect sales of the game. The belt accessory appears to be selling a steady 40 units/day on average over the past month.

The 360 and PS3 SKUs have been selling online and at brick and mortar, although at a slower pace than the Wii SKU. Combining some physical channel checks with my online checks yielded some interesting information. I noticed from my physical channel checks that for Wal-Mart, BestBuy, Target, and ToysRUs, a full stock of Zumba for Wii or PS3 was only 3 or 4 units (due to the depth of the box because of the included belt). The 360 SKU does not have this issue. There are around 4,300 Walmarts, 1,700 Targets, 1,200 BestBuys, and 800 ToysRUs stores in the US (8000 total). So if, according to my spreadsheet, those stores were restocked 3 times in a month for the Wii SKU, once in a month for the PS3 SKU, and once in a month for the 360 SKU (say with 5 units for the 360), then the number of units sold in that month equals  $8000*4*3 + 8000*4*1 + 8000*5*1 = 168,000$ . Add in 4,500 Gamestop stores which sold say 10 units of the Wii SKU, 5 units of the 360 SKU, and 3 units of the PS3 SKU per store in the month, and that is an additional  $4,500*10 + 4,500*5 + 4,500*3 = 81,000$  units. That brings total brick and mortar sales to around 249,000 units. If brick and mortar accounts for 80% of sales and online 20% then  $249,000/.8 = 311,250$  total units, pretty close to NPD results. Now obviously that was a very rough calculation but it is my hope that for example when my checks indicate that Walmart has gone from restocking the Wii version three times in a month to once a month or less, I will be able to get a sense for the magnitude of the sales slowdown before NPD results are released.

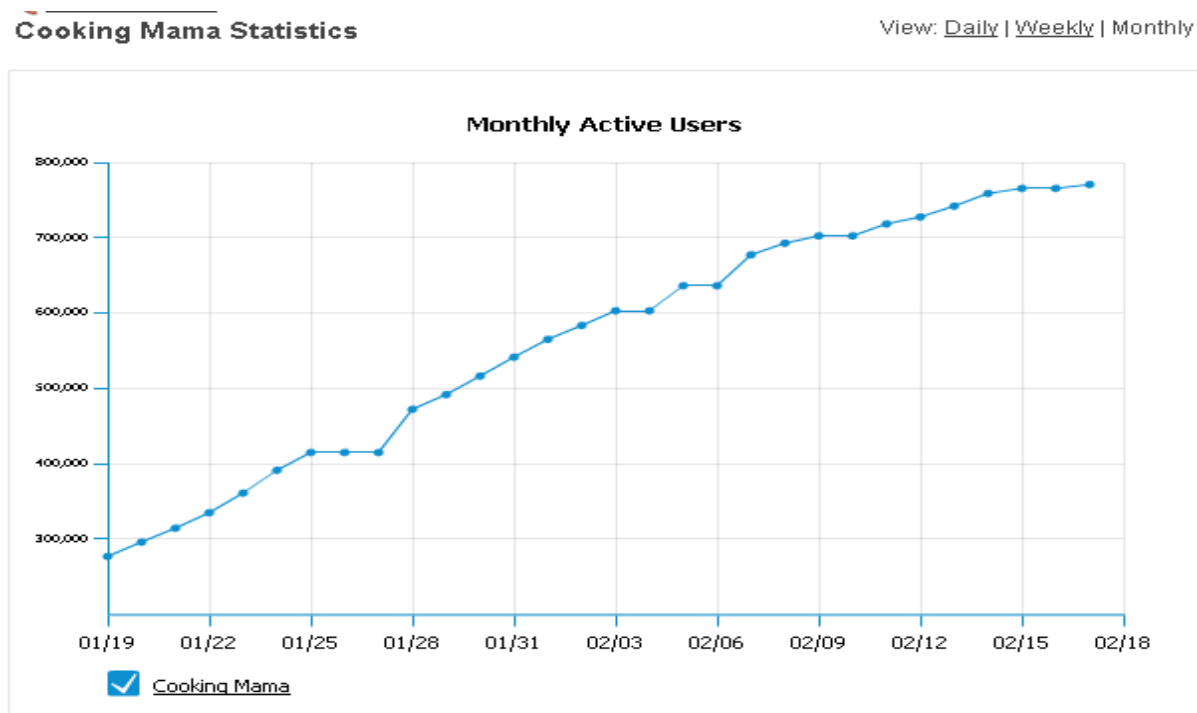
Below is an update to my chart comparing Zumba’s and Jillian Michael’s Amazon rankings:



Jillian Michael’s Amazon rankings are clearly in decline starting in mid January whereas Zumba’s rankings have actually been climbing. I would also like to add that unlike Zumba, Jillian Michaels never made NPD’s top ten list for any month. Both are indications of Zumba’s stronger franchise potential.

**Update on Cooking Mama Friends Café and social gaming**

Cooking Mama Friend’s Café has continued to increase its monthly active users (MAU) since my original write-up. It is now up to around 770,000 MAU:

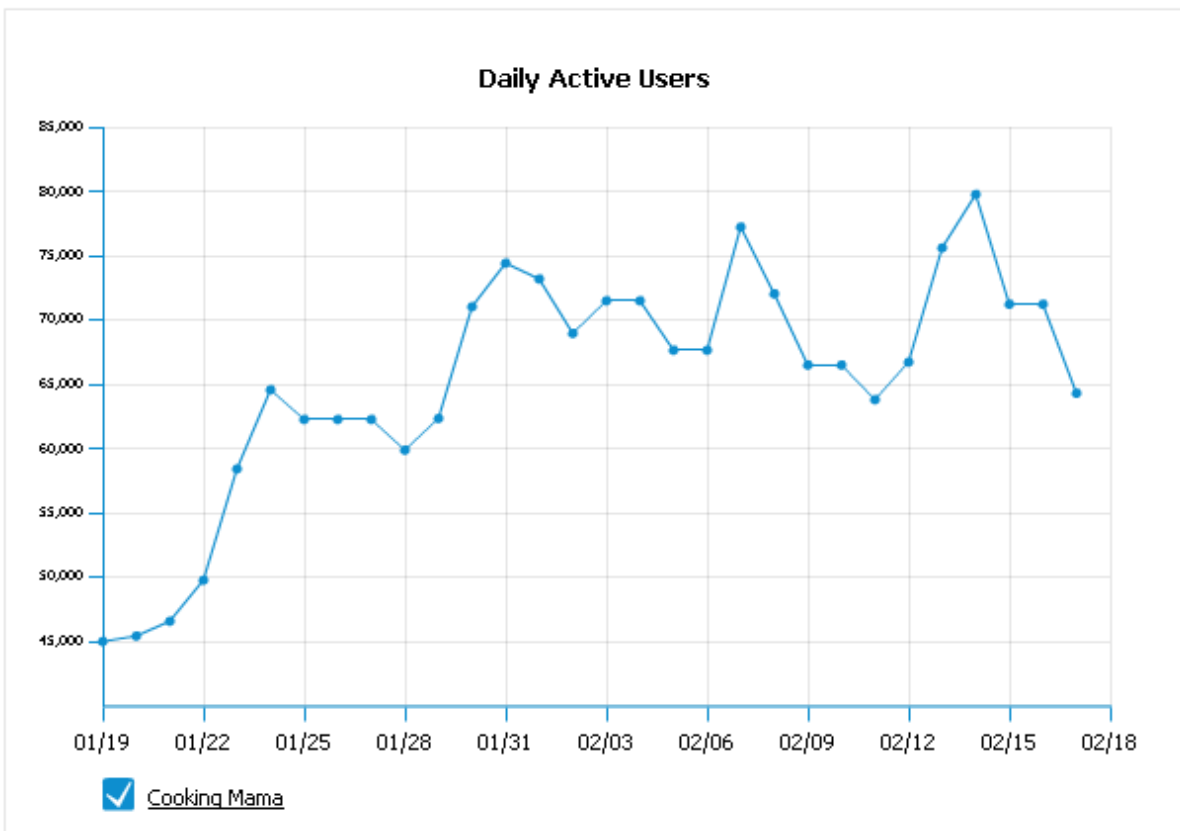


Source: [All Facebook statistics](#)

However, daily active users (DAU) have leveled off, indicating that MAU growth could soon stall as well. Arkadium (the game's developer) added additional recipes the other day, so perhaps that will attract back some players who might have quit because they reached the maximum level. With the Mama franchise having sold 8 million units (so say perhaps 2-4 million unique users), and other restaurant/café type social games on Facebook having multi-million MAU, I was hoping that Friend's Café would reach at least those levels. So hopefully the additional content added to the game helps to reignite growth in DAU.

### Cooking Mama Statistics

View: [Daily](#) | [Weekly](#) | [Monthly](#)



Source: [All Facebook statistics](#)

I have rounded up some monetization statistics for social games [here](#), [here](#), [here](#) and [here](#). Some average monetization rates mentioned were \$.03/DAU per day, \$.25/MAU per month, and \$1/MAU per year. Using those estimates, Friend's Café could be bringing in between \$700,000 and \$2 million per year (if it maintained its 700,000 MAU over the course of a year). Where things get interesting is if Friend's Café could reach the multi-million MAU that other café games on Facebook have, and then if Majesco could leverage that user base funneling them into other social games (Crafting Mama, Gardening Mama?) bringing Majesco's total MAU to 10+ million. Do the math on that number of MAU and the revenue gets very interesting relative to Majesco's market cap.

## Product pipeline

Investors always want to have visibility on what is going to continue to drive growth for the quarters and years ahead. The greater confidence they have in that growth, the higher they are willing to bid up valuations. Without that confidence, they often abandon stocks despite good earnings results. Looking at indicators for the upcoming quarters and doing a little guesswork for what Majesco may have in their lineup for holiday 2011 gave me increased confidence that they will be able to deliver continued growth for at least the next year.

For the January quarter revenues will be strong based on Zumba. Going over the [transcript of the last earnings call](#), management said they expected margins to be improved over the prior year based on the fact that Zumba was selling well with very little discounting.

For the April quarter I expect sales of Zumba in the US to continue strong. Zumba Wii has been near the top of [Amazon UK's bestselling video games list](#) for a couple of weeks already even though the game will not be released there until March 4<sup>th</sup>. That bodes well for European sales which management said on the last conference call they had modeled very little for but which had the potential to scale.

Although the July quarter is light on releases, I expect Zumba sales to still be strong in May and June following seasonal trends for fitness products.

The October quarter may be slower with Zumba sales slowing following seasonal weakness for fitness products in fall and winter, and Majesco's 3DS releases not selling well in a crowded holiday lineup.

The real question will be how Majesco does in the January 2012 quarter, comping against the strong January 2011 quarter in which Zumba launched. I think Majesco will be up to the task. First, I expect the original Zumba to still be selling in the January 2012 quarter, albeit at a slower pace and possibly a lower price. However, I expect there will be some sort of new Zumba release – either Zumba 2 or some sort of extension such as Zumbatomic (for kids), Zumba Gold (for older participants) or Zumba Toning. This is what Ubisoft has done with Just Dance. They released the original Just Dance in Q4 of 2009 and in Q4 of last year they released Just Dance Kids and Just Dance 2, and all three sold very well over the holiday. Ubisoft [announced](#) that they shipped over 10 million units of dance games (Just Dance 1, 2, and Kids, and Michael Jackson The Experience) in the last quarter alone. So clearly there is a lot of potential ahead for Zumba. A search [of Google News for Zumba](#) will turn up dozens of new articles daily about its popularity. Here are just a few which mention Zumba classes popping up not only in gyms and dance studios but church basements, senior centers, city buildings, and school gyms ([link1](#), [link2](#), [link3](#)).

As for the Mama franchise, we may see Cooking Mama for Kinect, Playstation Move or 3DS. The developer of Cooking Mama has also [trademarked "Camping Mama"](#), so that could be the next brand extension. We may also see the Martha Stewart and Harley Pasternak games for holiday 2012, and although I hold out little hope for either of them translating well to the video game world, perhaps name recognition alone will be enough to generate substantial sell-in, if not necessarily sell-through.

### Update on technical analysis, valuation and trading strategies

I am not a super detailed technical analysis guy, but I do like to use simple technical analysis to support my fundamental analysis and help me time entry and exit points. Since COOL disappointed with their guidance about a month ago the stock has had several strong up days, following which the stock found support at a higher level, forming a sort of stair-step pattern.



The most recent support line has an upward trend to it, indicating to me that momentum is increasing as the stock's story has been getting out. Looking at the 1 year chart, the 20 day moving average appears to be support and may provide a good entry point if you are waiting for a pullback. I think the 20 day moving average should hold given the strong fundamentals of the stock.



Looking at a 5 year chart, Majesco is still below levels it reached in 2009 when it ran up on sales of its Jillian Michaels game. As I have detailed here and in my previous write-up I believe that Zumba is an even more meaningful development and will lead to higher revenues and earnings than Majesco reported in 2009. So my short term price target of \$2 remains intact.



News flow wise, I think there could be several catalysts over the coming months to excite the event-driven, momentum type traders. Zumba Wii/PS3 release in UK/Europe in March. Zumba Wii has been on Amazon UK's best seller list for a couple weeks even though the game's release is not until March 4<sup>th</sup>. In mid March Majesco reports Q1 earnings. There may be a bit of a "sell on the news" effect when Majesco reports due to the stock's run-up. However over the next few months we may get press releases about Zumba shipping 1 million units and about Cooking Mama Friends Café reaching 1 million MAU. That may bring COOL to the attention of the crowd which has been bidding up shares of social media/mobile app related stocks such as GLUU, STVI, etc. I expect Zumba to remain a strong seller through spring and summer and drive strong year over year comps in Fiscal Q2 (April quarter) and Fiscal Q3 (June quarter). So I think COOL is a good long over at least the next six months whether it is to buy and hold or to swing trade.

An interesting comparison to make for COOL is to [Mad Catz \(MCZ\)](#). Mad Catz is another small cap stock in the video game sector. Mad Catz makes video game accessories such as gaming mice, headphones, controllers, etc. MCZ has gone from a market cap of around \$25 million to around \$100 million in the past several months. MCZ stock increased from around \$.50 to \$1.00 over three months on already improving year over year results in Q3, anticipation of good Q4 results, and the announcement of an exclusive agreement with Microsoft to produce wireless headphones for Xbox 360. The stock doubled again to over \$2 after reporting blowout December quarter earnings in which sales nearly doubled over the year ago period and EPS increased from \$.11 to \$.16.

MCZ six month chart



MCZ revenue and EPS

MCZ **MCZ Mad Catz Interactive Inc** Amex [Learn More About XBRL](#)

**Revenue / EPS Summary \***

Fiscal Quarter	2011 (Fiscal Year)	2010 (Fiscal Year)	2009 (Fiscal Year)
<b>June</b>			
Revenue	\$19,911(t)	\$22,378(t)	\$23,226(t)
EPS	-0.02 (6/30/2010)	-0.02 (6/30/2009)	-0.01 (6/30/2008)
Dividends	N/A	N/A	N/A
<b>September</b>			
Revenue	\$37,409(t)	\$21,603(t)	\$25,750(t)
EPS	0.02 (9/30/2010)	-0.02 (9/30/2009)	-0.03 (9/30/2008)
Dividends	N/A	N/A	N/A
<b>December</b>			
Revenue	\$92,956(t)	\$48,764(t)	\$40,896(t)
EPS	0.16 (12/31/2010)	0.11 (12/31/2009)	-0.49 (12/31/2008)
Dividends	N/A	N/A	N/A
<b>March (FYE)</b>			
Revenue		\$26,267(t)	\$22,891(t)
EPS		0.01 (3/31/2010)	-0.06 (3/31/2009)
Dividends		N/A	N/A
<b>Totals</b>			
Revenue	\$150,276(t)	\$119,012(t)	\$112,563(t)
EPS	0.16	0.08	-0.59
Dividends	N/A	N/A	N/A

[Previous 3 Years](#)

Source: [Nasdaq.com](http://Nasdaq.com)

COOL is in a very similar situation to MCZ – similar sector, similar market cap, similar stock price. COOL appears poised to report sales for their January quarter which could nearly double over the year ago period, just like MCZ. COOL reported EPS of \$.10 in their year ago period, MCZ reported EPS of \$.11 in their year ago period. MCZ reported EPS of \$.16 for their current quarter, and I feel that is definitely within reason for COOL. Both MCZ and COOL have the same seasonality with most of their earnings occurring in the holiday quarter. So if COOL ends up reporting EPS of around \$.15, I see no reason why it couldn't run to \$2 just as MCZ did.

#### COOL revenue and EPS

COOL Majesco Entertainment Company NASDAQCM <a href="#">Learn More About XBRL</a>			
Revenue / EPS Summary *			
Fiscal Quarter	2010 (Fiscal Year)	2009 (Fiscal Year)	2008 (Fiscal Year)
<b>January</b>			
Revenue	\$29,206(t)	\$32,820(t)	\$18,664(t)
EPS	0.1 (1/31/2010)	0.15 (1/31/2009)	0.1 (1/31/2008)
Dividends	N/A	N/A	N/A
<b>April</b>			
Revenue	\$10,906(t)	\$20,548(t)	\$12,775(t)
EPS	-0.04 (4/30/2010)	-0.06 (4/30/2009)	-0.01 (4/30/2008)
Dividends	N/A	N/A	N/A
<b>July</b>			
Revenue	\$12,153(t)	\$17,183(t)	\$14,456(t)
EPS	-0.05 (7/31/2010)	-0.19 (7/31/2009)	0.02 (7/31/2008)
Dividends	N/A	N/A	N/A
<b>October (FYE)</b>			
Revenue	\$23,383(t)	\$23,901(t)	\$17,992(t)
EPS	-0.04 (10/31/2010)	-0.14 (10/31/2009)	0.01 (10/31/2008)
Dividends	N/A	N/A	N/A
<b>Totals</b>			
Revenue	\$75,648(t)	\$94,452(t)	\$63,887(t)
EPS	-0.03	-0.24	0.12
Dividends	N/A	N/A	N/A

[Previous 3 Years](#)

Source: [Nasdaq.com](http://Nasdaq.com)

I believe it is still early in COOL's run so my exit strategy remains to hold until the next earnings release and re-evaluate based on continuing Zumba sales, impact on margins, visibility on future release schedule, traction of Cooking Mama on Facebook, and how much the stock has run-up.