

Sector Alert

Interactive Home Entertainment: Shifting to neutral

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Summary

The Interactive Home Entertainment sub-sector is undergoing significant consolidation that will ultimately reduce the space to a single remaining public constituent. Further, structural challenges, including rising development costs, increasing regulation, competition from short-form video, artificial-intelligence- (AI-) driven disruptions, and hit-driven release cycles also pose risks to growth, margins, and valuations. These dynamics create a less compelling risk-reward profile for the sector moving forward. Consequently, we are shifting our view of the Interactive Home Entertainment sub-sector to neutral from favorable. We remain favorable on the Interactive Media & Services sub-sector.

Communication Services sub-sector guidance changes

Sector guidance	Favorable sub-sectors	Neutral sub-sectors	Unfavorable sub-sectors
Neutral	Interactive Media & Services	Interactive Home Entertainment ; Cable & Satellite; Telecommunication Services; Movies & Entertainment; Advertising; Broadcasting	Alternative Carriers; Publishing

Source: Wells Fargo Investment Institute; sub-sector guidance from Global Securities Research and sector guidance from Global Investment Strategy. As of February 9, 2026.

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Moving Interactive Home Entertainment sub-sector to neutral from favorable

The Interactive Home Entertainment sub-sector, historically driven by video game publishers, has shifted from traditional console and personal computer (PC) titles toward digitally delivered content, online interactive platforms, and mobile gaming, with social and subscription models now key revenue drivers. We were favorable on the Interactive Home Entertainment sub-sector, recommending Electronic Arts (EA), a company that we believed was the highest-quality gaming development company within the space. However, on September 29, 2025, Electronic Arts entered into an agreement to be acquired by an investment group comprised of Saudi Arabian Public Investment Fund (PIF), Silver Lake, and Affinity Partners. Per the terms of the deal, EA shareholders would receive \$210 in cash for each common share of EA owned. Just a few years ago, the sub-sector was comprised of three major constituents. However, merger and acquisition activity continues to shrink that pool of publicly traded constituents. Following the completion of the pending acquisition of Electronic Arts, the one remaining constituent within the Interactive Home Entertainment sub-sector will be Take Two Interactive (TTWO).

We are moving to neutral on the Interactive Home Entertainment sub-sector given the single-constituent structure following the pending acquisition of Electronic Arts. Additionally, there are structural headwinds that appear to be developing on the video gaming space that could weigh on revenue growth, margins, and overall valuations. Key structural headwinds such as rising developer costs, regulatory pressures, competition from short-form video platforms, hit-driven release cycles, launch delays, and emerging risks from artificial intelligence are likely to constrain growth, margin stability, and overall valuations across the gaming landscape.

Appendix table: Companies discussed

Company	Symbol	Price
Electronic Arts Inc.	EA	\$197.93
Take-Two Interactive Software, Inc.	TTWO	\$193.24

Sources: FactSet, Wells Fargo Investment Institute. Prices as of February 5, 2026.

Communication Services equity recommendations

Ticker	Company name	Market cap (billions)	Price	Dividend	Dividend yield	Estimated NTM EPS	Core	DSIP	Growth	Focus	High Yield	SMID	Value
DIS	Walt Disney Company	\$184.63	\$104.97	\$1.00	1.0%	\$6.85	X			X			X
GOOGL	Alphabet Inc. Class A	\$4,099.28	\$331.25	\$0.82	0.2%	\$11.44	X			X			
META	Meta Platforms Inc Class A	\$1,750.13	\$670.21	\$2.10	0.3%	\$30.31	X		X	X			
NFLX	Netflix, Inc.	\$337.52	\$80.87	\$0.00	0.0%	\$3.19	X						
OMC	Omnicom Group Inc	\$21.39	\$69.12	\$2.80	4.1%	\$10.18					X		
SPOT	Spotify Technology SA	\$97.59	\$412.75	\$0.00	0.0%	\$14.34			X				
TKO	TKO Group Holdings, Inc. Class A	\$16.03	\$208.16	\$1.52	0.7%	\$5.68						X	
TMUS	T-Mobile US, Inc.	\$221.11	\$201.86	\$3.52	1.7%	\$11.67	X						
VZ	Verizon Communications Inc.	\$195.01	\$47.10	\$2.74	5.8%	\$4.94					X		X

Sources: FactSet, Wells Fargo Investment Institute. Prices and data as of February 5, 2026. NTM = next-twelve-months. EPS = earnings per share. Estimated NTM EPS source is FactSet.

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