

Executive Snapshot: Unity Software Inc. (U)

The Executive Snapshot provides a concise, high-level overview of Unity Software Inc. (U), encapsulating our core investment thesis and key takeaways. It serves as a quick reference for investors to grasp the essence of our contrarian view and the compelling opportunity we see in this real-time 3D content platform leader during a pivotal turnaround.

Company Profile at a Glance:

- Name: Unity Software Inc. (U)
- Ticker: U (NYSE)
- Sector: Technology / Software
- Core Business: Operates a leading real-time 3D (RT3D) development platform. Its engine provides tools for creators to build, run, and monetize interactive, realtime content across gaming, automotive, film, and architecture.
- Key Segments: Create Solutions (engine software subscriptions), Grow Solutions (monetization advertising services).

Our Investment Stance: BUY

- Current Price (20-Jun-2024): \$16.21
- Price Target: \$27.00
- Implied Upside: -67%
- Recommendation Rationale: Our BUY rating is driven by a profound belief that the market severely misprices U by focusing exclusively on past missteps and cyclical ad market weakness, ignoring the deep value of its core Create engine and the significant progress of its strategic refocus. The stock's decline to multiyear lows presents a compelling entry point for a bet on a successful turnaround led by a new, operational-focused CEO.

Core Contrarian Arguments:

1. The Engine is the Moat, Not the Mistake: The market has tarred the entire company after the runtime fee debacle, but the intrinsic value of the Unity Engine—its massive developer install base in mobile gaming—remains a powerful asset. This

ecosystem creates high switching costs. The company's focus on "winning back trust" and stabilizing this core asset is the critical first step in the turnaround, the success of which is not priced in at current levels.

2. **Restructuring for Profitability:** The deep cost-cutting and portfolio review are not signs of decline but of a necessary and valuable strategic pivot towards a leaner, more profitable, and more focused company. This painful but essential process is creating a fundamentally stronger company that can monetize its core assets effectively, an outcome the market is not pricing in after the recent sell-off.
3. **Appointment of a New CEO:** The hiring of Matthew Bromberg, a former Zynga COO with deep operational and gaming experience, is a major positive catalyst that the market has overlooked. His expertise in mobile gaming and running large-scale operations is precisely what Unity needs to execute its restructuring and stabilize its business, de-risking the investment thesis significantly.
4. **Sum-of-the-Parts Optionality:** The market values U as a single, troubled entity, failing to recognize the distinct value of its high-margin, recurring Create Solutions business from its more volatile Grow business. The non-gaming business (digital twins, automotive, etc.) represents hidden, call-option-like value that is currently assigned virtually no value by the market at this depressed share price.

Key Growth Drivers:

- **Stabilizing the Core:** Rebuilding developer trust and stabilizing the engine business under new leadership.
- **Monetizing the Installed Base:** Increasing adoption of subscription plans within its massive existing user base.
- **Margin Expansion:** Realizing the full benefit of a \$1+ billion cost reduction plan on the bottom line.
- **Non-Gaming Vertical Expansion:** Strategic wins in high-value industries like automotive (HMI design) and manufacturing (digital twins).

Primary Risks to Monitor:

- **Irreparable Brand Damage:** The possibility that the 2023 runtime fee crisis permanently damaged its relationship with developers.
- **Leadership Transition:** The new CEO requires time to assess the business and implement his strategy.

- **Macroeconomic Sensitivity:** A prolonged downturn in mobile gaming or advertising spend.
- **Execution Risk:** Failure to successfully execute the turnaround and cost-cutting.

Financial Outlook (2026E Bull Case):

- **Revenue:** \$2.0B
- **Free Cash Flow:** Positive and growing
- **Non-GAAP Operating Profit:** >10% margin
- **Stock Price:** \$50 – \$60

Unity Software Inc. represents a high-risk, high-reward investment for contrarian investors. The current multi-year low valuation offers a compelling entry point for a bet on a successful turnaround under new leadership, leveraging a unique asset with optionality across multiple industries.

RESULT: HIT ROI 66%

Unity Software was a successful trade. The recommended BUY price was \$16.21 on June 20, 2024, with a target price of \$27.00. After this recommendation, Unity's stock recovered strongly. The price crossed the \$27.00 target in early July 2025, closing at \$27.86 on July 7, 2025. The price continued climbing well above \$27 in subsequent weeks, indicating a clear and timely achievement of the target and a highly successful outcome for the trade recommended in your snapshot.

Price Milestones Breakdown

- **Buy Recommendation Date:** June 20, 2024, at \$16.21.
- **\$27.00 Target Reached:** The stock closed at \$27.86 on July 7, 2025.
- **Highs After Target:** The price continued upward, closing above \$30 regularly through July and August 2025, with some days surpassing \$40 by late August 2025.

What Drove Unity's Surge

- The turnaround narrative played out as anticipated in the snapshot: new leadership, cost reductions, and the stabilization of its core engine business supported investor confidence.

- Renewed optimism about Unity's business transformation, especially in gaming and high-value verticals outside gaming (e.g., automotive and digital twins), contributed to sustained gains.
- Improved financials, including positive free cash flow and robust sequential growth in some business segments in Q2 2025, reinforced bullish sentiment.

Timeline Table

Unity's share price reaching and then substantially surpassing \$27 one year after the buy call validates the contrarian thesis and marks this as a distinctly successful trade.

Date	Price Milestone	Closing Price
20-Jun-2024	Snapshot Buy	\$16.21
7-Jul-2025	Target Clear	\$27.86
Early Aug-2025	New High (for period)	\$33-\$40