

Electronic Arts (NASDAQ: EA)



Current Price

\$122

Price Objective

\$160

Implied Upside

+31%

COMPANY OVERVIEW

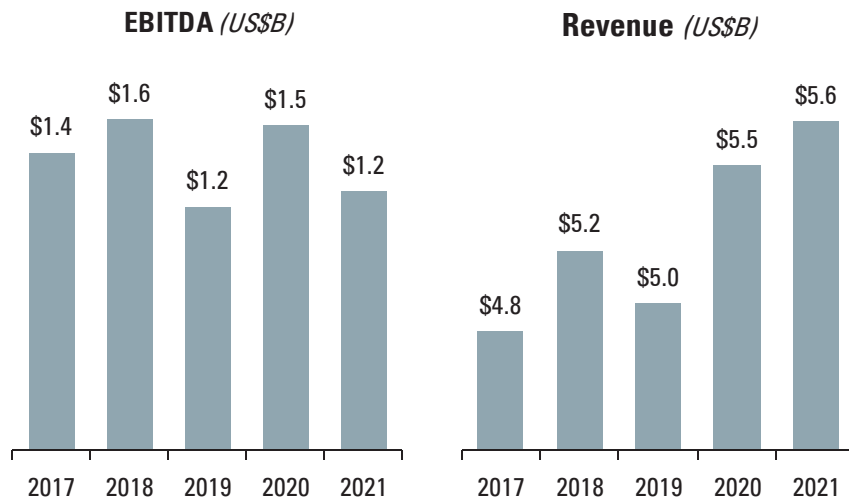


Company Background

- Electronic Arts is a video game developing and publishing firm best known for titles such as FIFA, NHL, Madden NFL, the Sims, and Battlefield
- They market and sell their games and live services through digital distribution channels as well as through retail channels
- EA's games and services are sold on mobile, PC, and console platforms
- EA was founded in 1983, went public in 1989, and is currently located in California

| | | | |
|---|-------------------------------|-----------------------------------|--------------------------------|
| Stock Price \$122.58 | Market Cap \$34.47B | Enterprise Val \$34.95B | Dividend Yield 0.55% |
| 52 Week Range \$117.58 – \$148.93 | LTM Revenue \$6.51B | EBITDA \$1.37B | Net Debt \$4.49B |

EA EBITDA & Revenue Historical Charts



EA is poised to take advantage of emerging opportunities like the fast growing mobile gaming landscape as well as the highly profitable live service business model

Product Segments

Video Games

Sports

Action

Other

Services

Live Services

Subscription Service

Core Investment Themes

Stable & recurring sources of revenue with growth potential

Strong positioning within the sports gaming industry

Diversification of EA's titles into high growth avenues

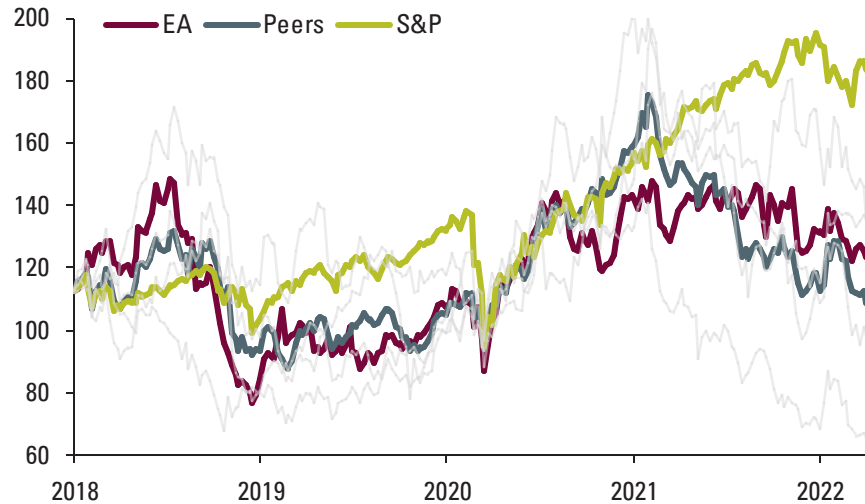
Attaining favourable margins through the shift to live services

Undervaluation of EA's mobile sector potential

FURTHER ANALYSIS



Stock Price Since 2018



EA M&A Pipeline



Playdemic Acquisition

Acquisition of Playdemic strengthened EA's mobile sports gaming lineup with addition of Playdemic's Golf Clash (80M downloads)



Codemasters Acquisition

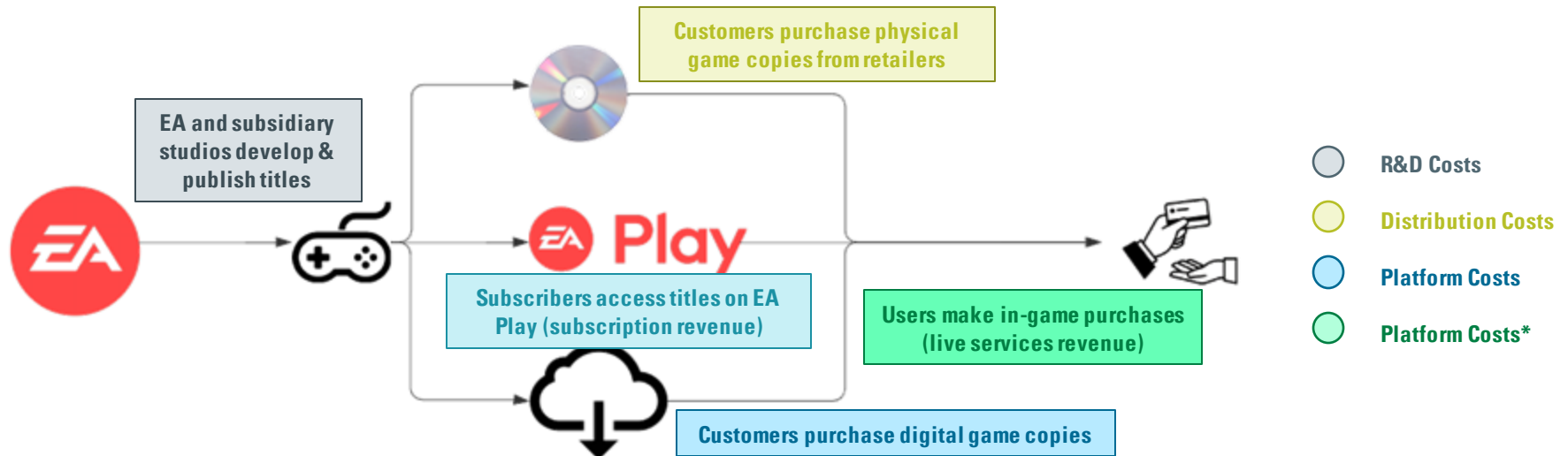
By acquiring Codemasters, their F1 racing title was added to EA's sports & racing game lineup, it is currently the leading F1 game on console



Glu Games Acquisition

The acquisition of Glu Games expanded the variety of EA's mobile games with titles pertaining to fashion, action, sports, etc.

Business Model



EA has diversified their operations with the integration of live & subscription services, and multiple recent mobile game developer acquisitions

INDUSTRY OVERVIEW



Video Gaming Industry



The video gaming industry includes the development, manufacturing and distribution of software and hardware



There are many different platforms that can be used to display video games; PC, console, mobile, and more recently cloud gaming systems

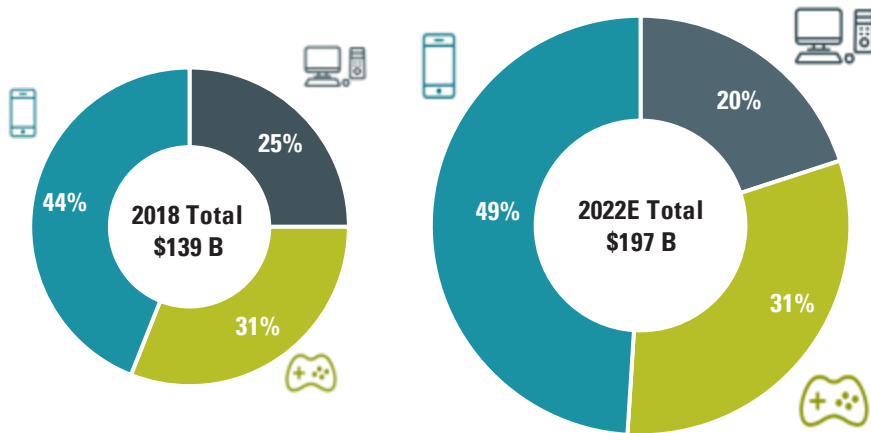


Virtual reality and augmented reality pose an exciting future for the video gaming world

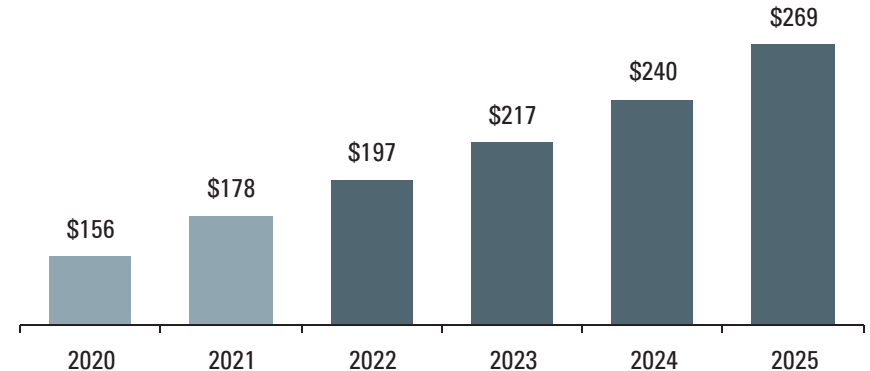
Industry Peers



Global Games Market by Platform (US\$B)



Global Industry Revenue (US\$B)



11%

Industry CAGR
2022-2025

3.2 B

Gamers worldwide
across all platforms

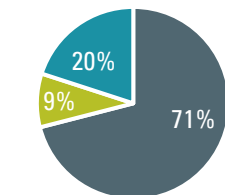
45%

Of total market share
is mobile gaming

Subscription Services

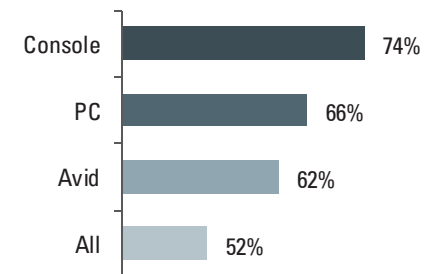
- Some online gaming services use a monthly subscription model providing users with access to a variety of different games for a flat fee
- Only 53% of gamers are currently on a gaming subscription

Time Spent Gaming While on Subscription



- Play more
- Remains the same
- Play less

Share of Gamers with Subscription Services



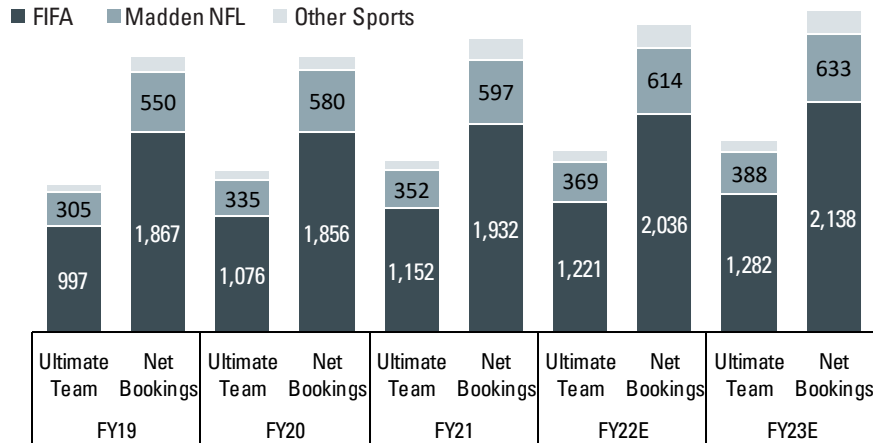
The video gaming industry is expected to see growth in recent years through technology advancements, adoption of AR/VR and many other factors

SPORTS CASHCOW & DIVERSIFICATION UPSIDE

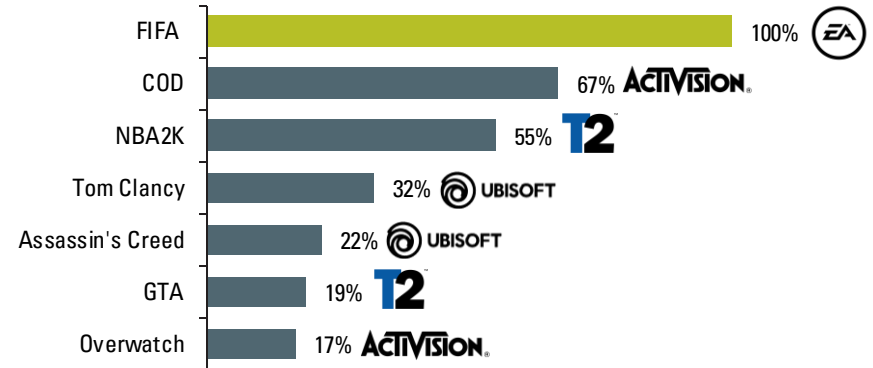


Core Driver – Sports Franchises

Sports Ultimate Team Net Bookings vs Total Net Bookings (US\$M)



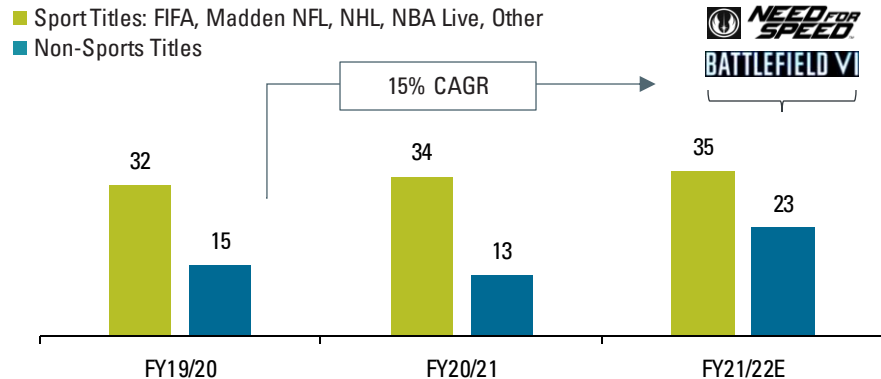
Major Title Spending Per Player (Indexed to 100)



FIFA players spend on average 3x more on in-game content compared to top titles

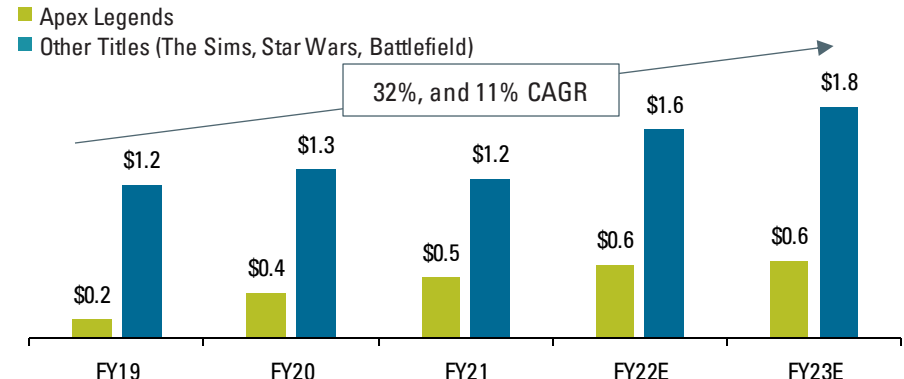
Diversification Upside

Number of Units Sold (M)



EA sports continues to draw in recurring customers annually, and with the help of non-sporting titles set to release, it offsets the slowdown in growth

Apex Legends and Other Prominent Titles Net Bookings (US\$B)



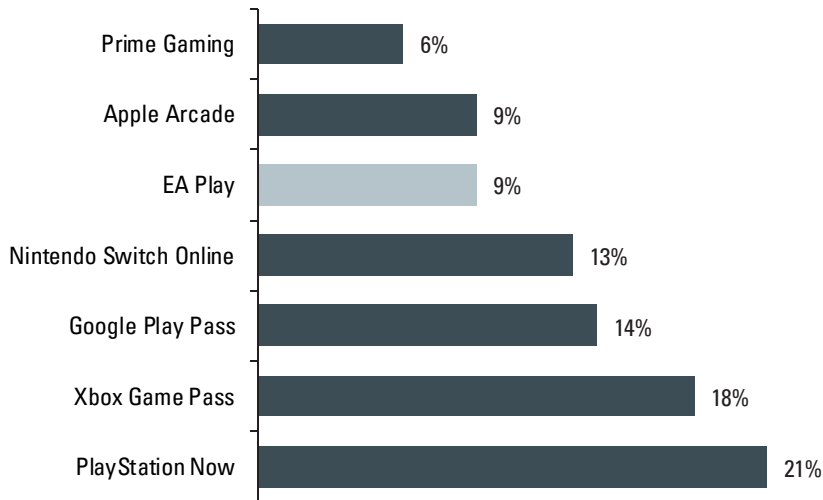
Apex Legends is projected to grow into a \$1B franchise, while other titles have realized substantial improvements with the help of Respawn

With strong annual sports title releases and improved penetration from non-sport franchises, EA can power sustainable sales growth for years to come

MARGIN EXPANSION



% of Gamers Who Use Gaming Subscription Services



Shift From Full Game Sales to Live Services

“Looking ahead, we are doubling down on live services combined with our core franchises.”

- Special Projects Executive, Blake Jorgensen

Shifts to Live Service add 9-10% to Gross Margin

BATTLEFIELD



FIFA



NBA LIVE



NHL



Fully Digital Channel

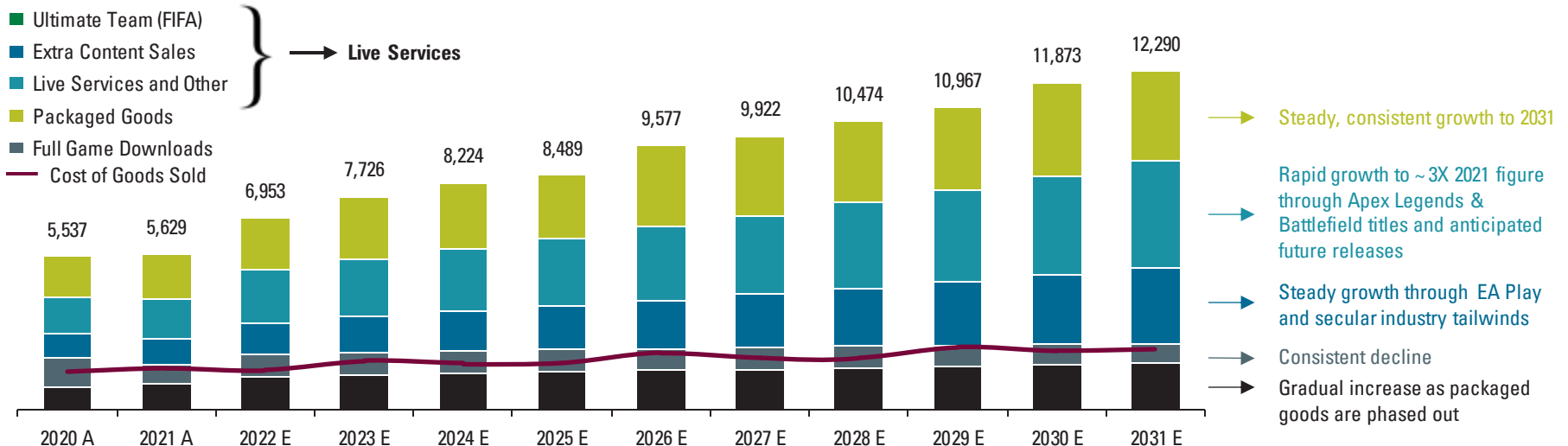


Reduced Launch Risk



Reduced Costs

Gross Margin Impact (US\$M)

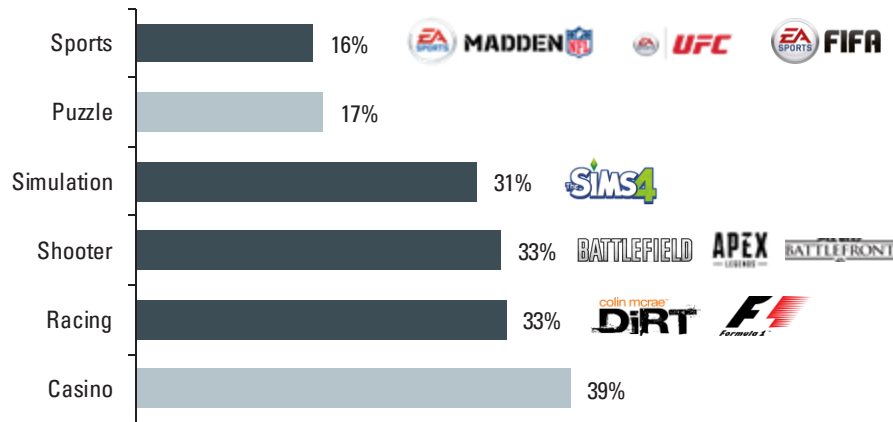


EA Play's untapped potential and changing product mix are going to drive revenue growth and margin expansion in the future

UNTAPPED MOBILE GAMING POTENTIAL

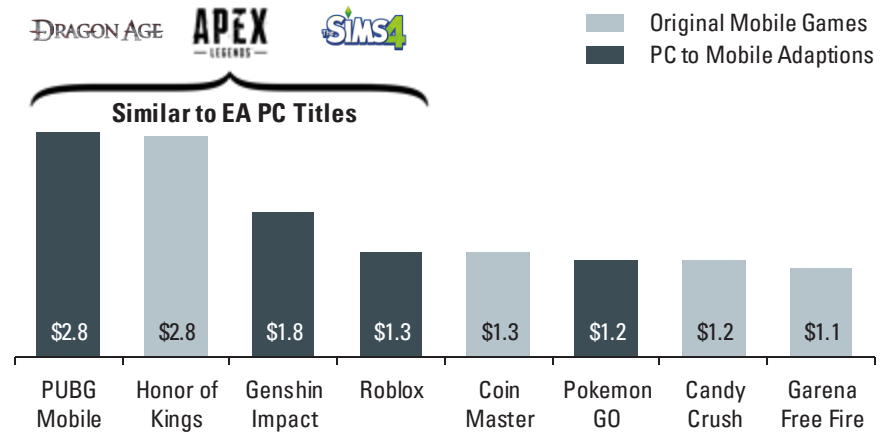


% Growth in Top 6 Fastest Growing Mobile Gaming Genres



EA's roster of titles are perfectly suited for the modern mobile gaming industry

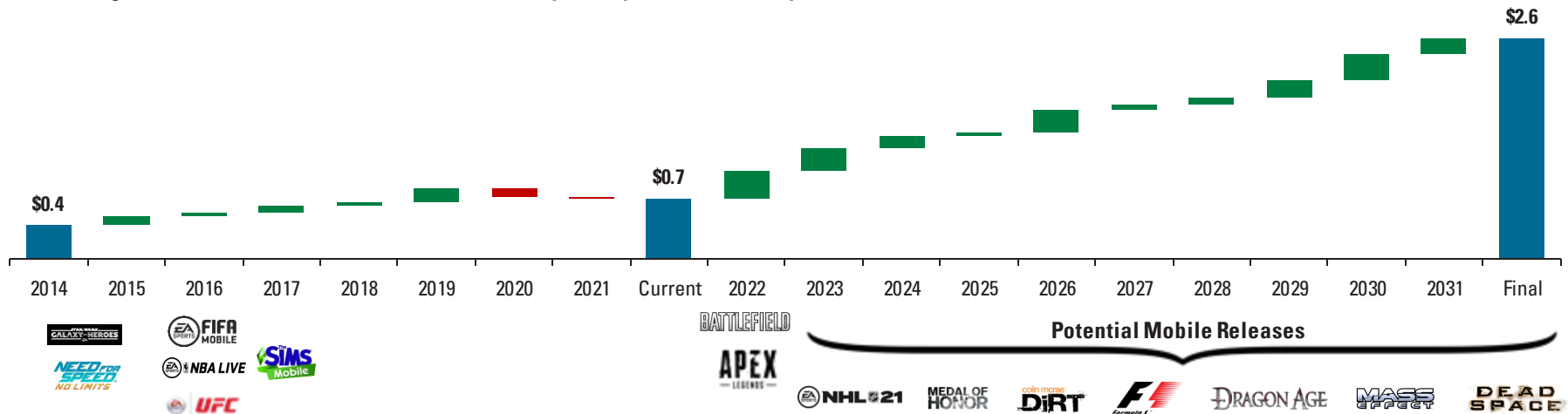
Highest Earning Mobile Gaming Titles (US\$B)



4 of the top 8 grossing games of all time are PC to mobile adaptions

Mobile Gaming: Potential Pipeline and Revenue Impact (US\$B)

Mobile Gaming is set to account for around 25% of EA's revenue by 2031, up from 13% currently



The market is underappreciating EA's mobile potential. Secular industry trends and recent acquisitions should drive mobile platforms growth

DCF VALUATION



| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | WACC |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------------------|
| EBITDA | 1,710 | 1,740 | 2,076 | 2,178 | 2,346 | 2,780 | 3,068 | 2,918 | 3,601 | 3,783 | Capital Structure |
| Less: D&A | (209) | (224) | (230) | (229) | (249) | (248) | (251) | (252) | (261) | (258) | |
| EBIT | 1,502 | 1,516 | 1,845 | 1,949 | 2,097 | 2,532 | 2,816 | 2,666 | 3,340 | 3,525 | Liabilities / Assets 32% |
| Less: Tax | (300) | (303) | (369) | (390) | (419) | (506) | (563) | (533) | (668) | (705) | Equity / Assets 68% |
| NOPAT | 1,201 | 1,213 | 1,476 | 1,559 | 1,678 | 2,025 | 2,253 | 2,133 | 2,672 | 2,820 | Cost of Debt |
| Add: D&A | (209) | (224) | (230) | (229) | (249) | (248) | (251) | (252) | (261) | (258) | |
| Less: CAPEX | (174) | (193) | (206) | (212) | (239) | (248) | (262) | (274) | (297) | (307) | Borrowing Rate 3.5% |
| Less: NWC Change | 20 | 405 | 21 | 91 | 510 | (139) | 108 | 451 | (13) | 131 | Tax Rate 20% |
| UFCF | 839 | 1,200 | 1,062 | 1,209 | 1,699 | 1,390 | 1,848 | 2,058 | 2,100 | 2,386 | Cost of Equity |
| Discount Factor | 0.97 | 0.91 | 0.85 | 0.80 | 0.75 | 0.71 | 0.66 | 0.62 | 0.59 | 0.55 | |
| PV of UFCF | 813 | 1,092 | 907 | 970 | 1,280 | 983 | 1,227 | 1,283 | 1,230 | 1,312 | |
| | | | | | | | | | | | Risk Free Rate 2.5% |
| | | | | | | | | | | | Beta 0.9 |
| | | | | | | | | | | | ERP 6.5% |
| | | | | | | | | | | | WACC 6.5% |

Target Price Derivation

| Exit Multiple Method | | Gordon Growth Method | |
|----------------------|--------|----------------------|--------|
| EBITDA | 3,783 | Final Year UFCF | 2,386 |
| EBITDA Multiple | 15.0x | LT Growth Rate | 2.0% |
| Terminal Value | 56,747 | Terminal Value | 54,081 |
| Discount Rate | 0.55 | Discount Rate | 0.55 |
| PV Terminal Value | 31,198 | PV Terminal Value | 29,732 |
| PV Cash Flow | 11,097 | PV Cash Flow | 11,097 |
| Add: Cash | 5,260 | Add: Cash | 5,260 |
| Less: Debt | 2,484 | Less: Debt | 2,484 |
| Equity Value | 45,070 | Equity Value | 43,605 |
| Shares Outstanding | 283 | Shares Outstanding | 283 |
| Price Per Share | \$159 | Price Per Share | \$154 |

Sensitivity Analysis

| | | Exit EBITDA | | | | | | | | |
|---------------|-----|-------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | \$3,000 | \$3,200 | \$3,400 | \$3,600 | \$3,800 | \$4,000 | \$4,200 | \$4,400 | \$4,600 |
| Exit Multiple | 7x | -27% | -25% | -23% | -20% | -18% | -16% | -14% | -11% | -9% |
| | 9x | -17% | -15% | -12% | -9% | -6% | -3% | 0% | 2% | 5% |
| | 11x | -8% | -4% | -1% | 2% | 6% | 9% | 13% | 16% | 20% |
| | 13x | 2% | 6% | 10% | 14% | 18% | 22% | 26% | 30% | 34% |
| | 15x | 11% | 16% | 20% | 25% | 30% | 35% | 39% | 44% | 49% |
| | 17x | 20% | 26% | 31% | 37% | 42% | 47% | 53% | 58% | 63% |
| | 19x | 30% | 36% | 42% | 48% | 54% | 60% | 66% | 72% | 78% |
| | 21x | 39% | 46% | 53% | 59% | 66% | 73% | 79% | 86% | 93% |
| | 23x | 49% | 56% | 63% | 71% | 78% | 85% | 93% | 100% | 107% |

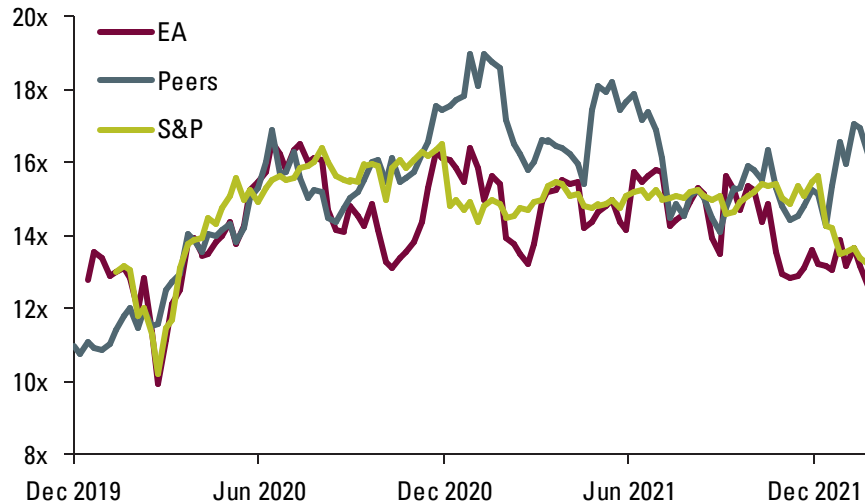
We have derived a base-case target price of \$160, implying a ~30% upside case as of April-2022 closing price

COMPARABLES ANALYSIS

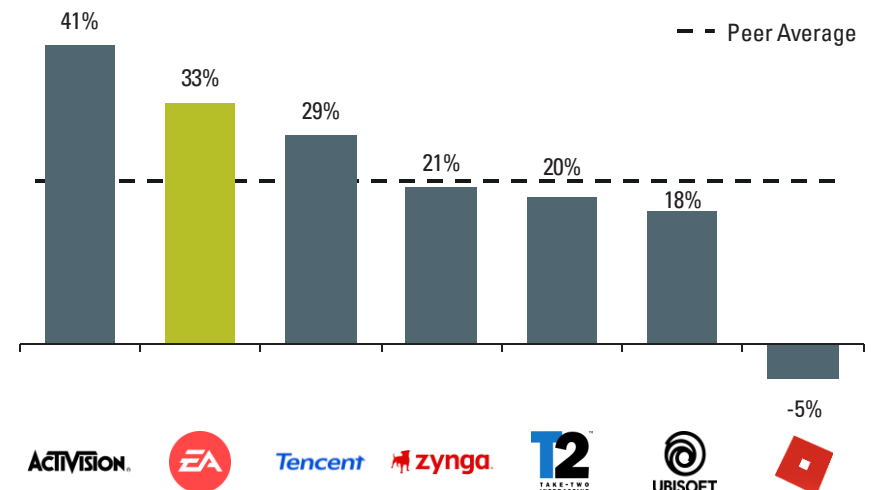


| Company | Mkt Cap | Ent Val | Rev CAGR | EBITDA Margin | | EV / EBITDA | P / CF | ND / EBITDA | FCF Yield | Div. Yield |
|---------------------|-----------|------------|------------|---------------|------------|-------------|------------|--------------|-----------|-------------|
| | \$B | \$B | 2022-2026 | 2022 | 2025 | 3Y Avg | 2022 | 2022 | 3Y Avg | 2021 |
| Activision Blizzard | 63 | 57 | 8% | 42% | 59% | 11x | 20x | -1.5x | 7% | 0.6% |
| Take Two | 18 | 15 | 13% | 22% | 29% | 10x | 33x | -2.8x | 8% | NA |
| Tencent | 465 | 485 | 15% | 32% | 26% | 12x | 14x | 0.3x | 9% | 0.5% |
| Roblox | 27 | 25 | 20% | 17% | 20% | 30x | 45x | -2.7x | 3% | NA |
| Zynga | 10 | 11 | 6% | 23% | 31% | 11x | 16x | 0.4x | 8% | NA |
| Ubisoft | 6 | 6 | 10% | 38% | 58% | 3x | 5x | 0.2x | 4% | NA |
| Peer Average | 98 | 100 | 12% | 29% | 37% | 13x | 22x | -1.0x | 7% | 0.6% |
| Peer Median | 22 | 20 | 12% | 28% | 30% | 11x | 18x | -0.6x | 7% | NA |
| EA | 35 | 34 | 8% | 27% | 38% | 10x | 16x | -1.5x | 8% | 0.3% |

EV / EBITDA (NTM)

























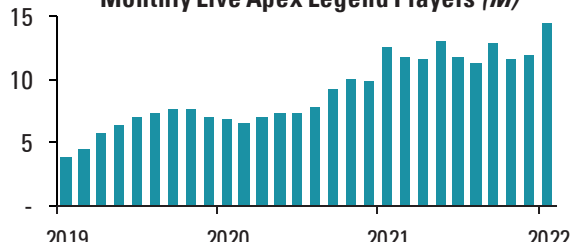
EBIT Margin (2022)



EA boasts an above average EBIT margin, and trades at a discount compared to peers

CATALYSTS & RISKS



| Catalysts | Likelihood | Description |
|-----------------------------------|---|---|
| Acquisition Potential |   | <ul style="list-style-type: none"> MSFT's \$68B acquisition of ATVI signals shift towards gaming streaming services as future of the industry EA is a similarly attractive option for a rival company or even for MSFT (existing partnership with EA Play) |
| Global Soccer Traction |    | <ul style="list-style-type: none"> World Cup appearances for the U.S. and Canada will grow the game of soccer in the region 1994 World Cup in the U.S. led to the creation of the MLS, capturing the growing sport at the time |
| Electronics Price Declines |   | <ul style="list-style-type: none"> Graphics card shortage has been limiting the development of games, animation, and video Will lead to an increase in spending on related items such as video games and game-related subscriptions |
| Risks | Likelihood | Description |
| Loss of Licensing Agreements |    | <ul style="list-style-type: none"> "FIFA" Title Agreement is coming to an end at the end of 2022 World Cup (November) Several deals with leagues such as NHL, NFL, and UFC give EA strong brand recognition through its titles |
| Third-Party Platform Reliance |   | <ul style="list-style-type: none"> EA relies heavily on the success and development of hardware platforms from Sony, Nintendo, and Microsoft These companies hold the right to approve users of their platforms, and change the fees that EA is charged |
| Concentrated Revenue |   | <ul style="list-style-type: none"> Ultimate Team alone comprises over ¼ of net revenues for EA FIFA game (on all platforms) represents approximately 22% of all EA players in 2021 |
| Players, Teams, League Contracts | | <div>      </div> |
| Potential for EA Play Platform | | <div>   <div>Global PC vs Console Spending</div> <div> + 25% YoY </div>  <div> + 20% YoY </div> </div> |
| Diversification Into Other Titles | | <p>Monthly Live Apex Legend Players (M)</p>  |

EA will capitalize on the changing sports and electronics industries and stands as a strong target for acquisition

CONCLUSION



Investment Summary

Live Service Growth

EA has established a strong stream of recurring revenues from live services offerings and subscriptions

Dominance in Sports Gaming

The firm is attractive given their strong and dominant positioning within the sports gaming market

Investment in Mobile Gaming

EA has diversified their library of games into high-growth areas which include the mobile sector

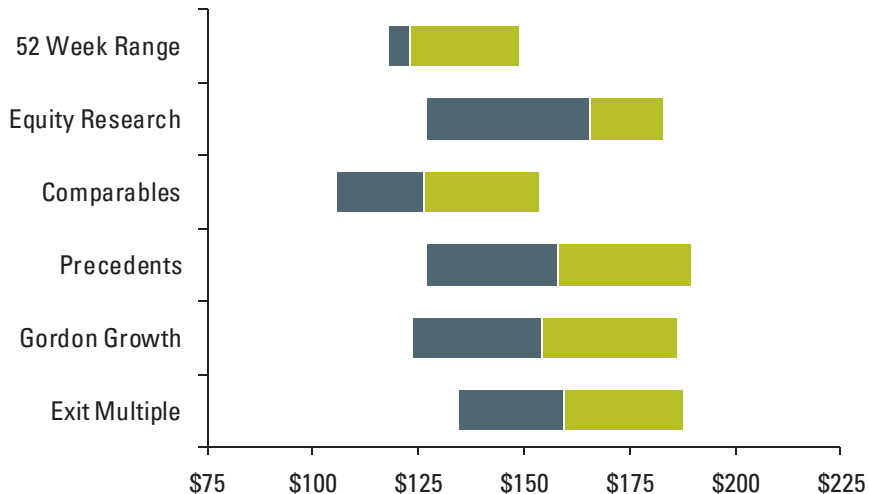
Gross Margin Expansion

As a company, EA will continue to attain favourable margins with the shift to a live services business model

Strong M&A Activity Driving Growth

EA's mobile sector is undervalued and has strong potential given the acquisitions that have been made

Financial Valuation

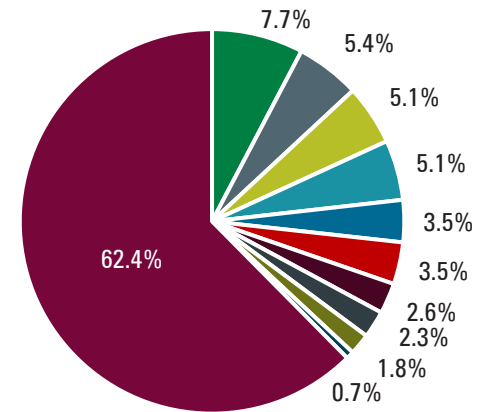


EA's dominant position in sports gaming and its consistent stream of recurring revenue make it a solid buy with a price target of \$160 (30% upside)

Source: Bloomberg, Equity Research, Noun Project
Note: All monetary figures listed in USD

EA Company Holdings

- The Vanguard Group, Inc.
- BlackRock Institutional Trust Company, N.A.
- State Street Global Advisors (US)
- Public Investment Fund
- MFS Investment Management
- Wellington Management Company, LLP
- AllianceBernstein L.P.
- Capital International Investors
- Geode Capital Management, L.L.C.
- Invesco Advisers, Inc.



Trajectory to Target Price and Beyond

2022

Mobile Gaming Expansion

Release PC adapted titles like Apex Mobile & Battlefield Mobile

2023

Growth of Subscription Models in Gaming

Popularity of gaming subscriptions to spur EA Play growth

2025

Conversion of Games to Live Service

Popular titles expected to convert to fully live service models

2030

Higher Spending on Gaming

Consumers will start spending more as industry evolves

LT

Market Expansion

The gaming market is set to expand in the coming decades

Appendix



MANAGEMENT OVERVIEW



| Andrew Wilson | Blake Jorgensen | Laura Miele | Kenneth Moss | Chris Bruzzo |
|--|--|---|--|---|
|  |  |  |  |  |
| Chief Executive Officer & Chairman | EVP & Chief Financial Officer | EVP & Chief Operating Officer | Chief Technology Officer | Chief Experience Officer |
| <ul style="list-style-type: none"> Wilson joined EA in 2000 Has been CEO since 2013, and took the position of Chairman in 2021 Has held previous positions while at EA, mainly as a senior executive within EA Sports. Pay: Salary \$1,249,615, Stock Awards \$32,870,225, Non-Equity Incentive Plan Compensation \$5,000,000, Other Compensation \$45,980 Total \$39,165,820 | <ul style="list-style-type: none"> Jorgenson joined EA in 2012 Has been CFO since he joined in 2012 Prior to EA, Jorgenson was EVP & CFO for Levi & Strauss Co. as well as the CFO for Yahoo! Pay: Salary \$891,346, Stock Awards \$8,637,819, Non-Equity Incentive Plan Compensation \$2,211,333, Other Compensation \$18,226 Total \$11,758,724 *Jorgenson is leaving EA in the summer of 2022, and is to be replaced by Chris Suh | <ul style="list-style-type: none"> Miele joined EA in 1996 Was promoted to COO in 2021 Has previously served as Chief Studios Officer at EA, where she oversaw over 25 game studios Founded EA Women's Ultimate Team ERG to promote gender equality and diversity Pay: Salary \$752,928, Stock Awards \$8,637,819, Non-Equity Incentive Plan Compensation \$1,773,162, Other Compensation \$19,248 Total \$11,183,157 | <ul style="list-style-type: none"> Joined EA in 2014 Prior to EA, Moss spent time with eBay and worked for over 20 years at Microsoft where he founded and headed the engineering and product teams for Excel and MSN Pay: Salary \$715,716, Stock Awards \$7,558,024, Non-Equity Incentive Plan Compensation \$1,420,296, Other Compensation \$18,905 Total \$9,712,941 | <ul style="list-style-type: none"> Joined EA in 2014 Previously was EVP of Marketing, Commercial & Positive Play, while he also previously led EA's Publishing, Marketing and Analytics. Prior to joining EA, Bruzzo held senior roles at both Starbucks and Amazon Pay: Salary \$715,716, Stock Awards \$7,558,024, Non-Equity Incentive Plan Compensation \$1,420,296, Other Compensation \$18,457 Total \$9,712,493 |

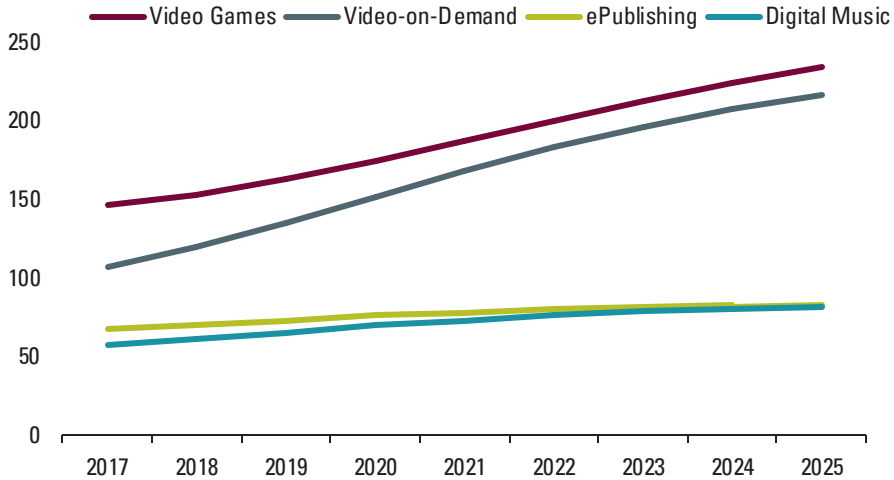
Source: Company Website, Company Filings, Bloomberg

Note: All monetary figures listed in USD

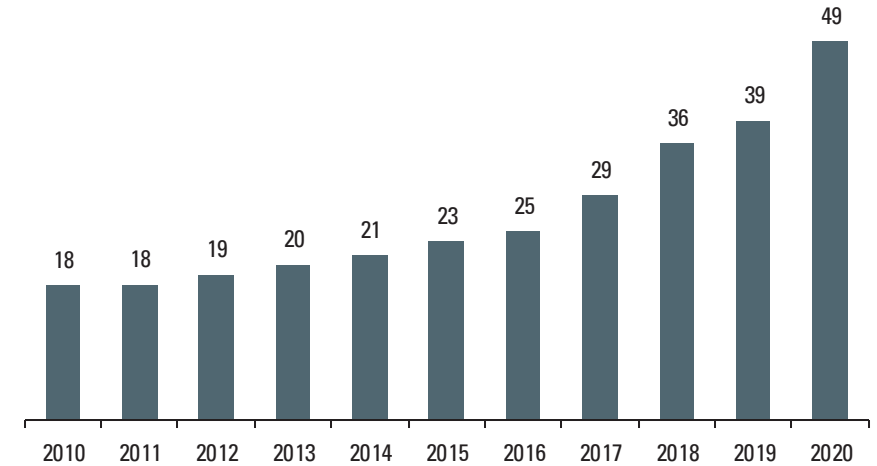
FURTHER INDUSTRY ANALYSIS



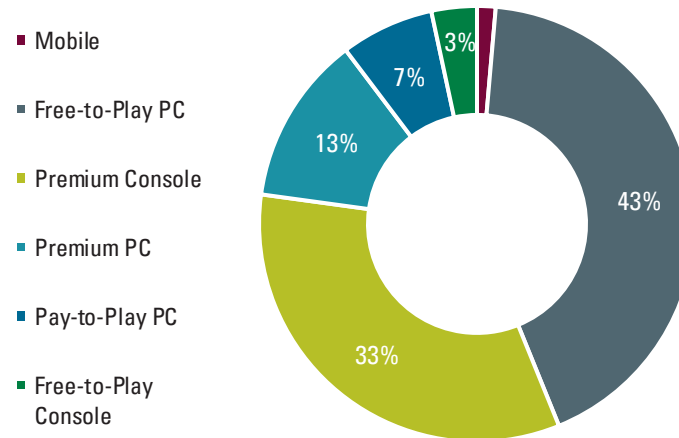
Growth in Different Media Sectors (US\$M)



Consumer Spending on Video Gaming Content (US\$ B)



Distribution of Gamers by Category

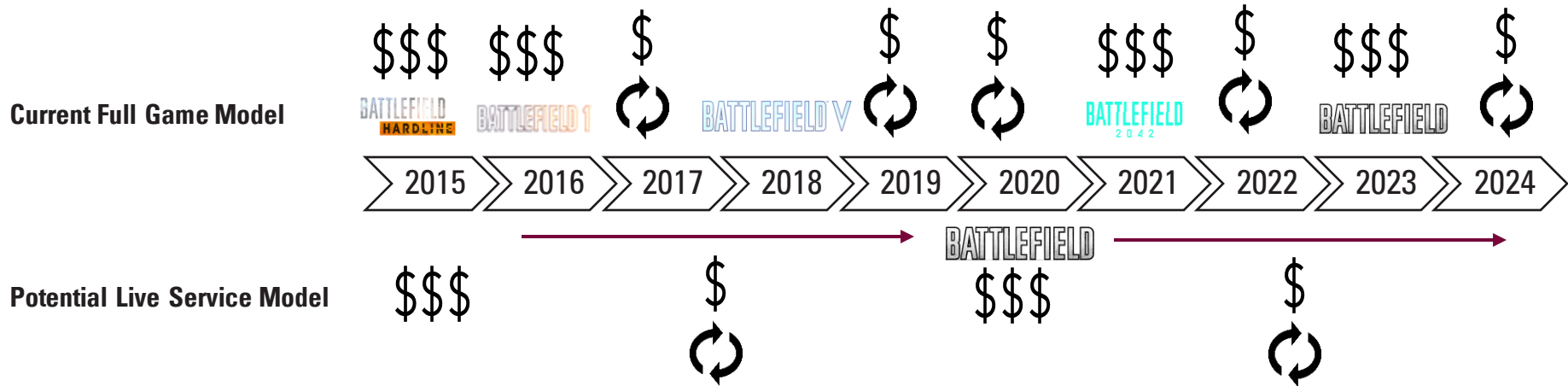


LIVE SERVICE MODEL



\$ - Represents development costs associated with title/ servicing the title

↻ - Represents costs associated with servicing game through DLC's/maintenance



SELECT TITLES IN KEY CATEGORIES



ACTION



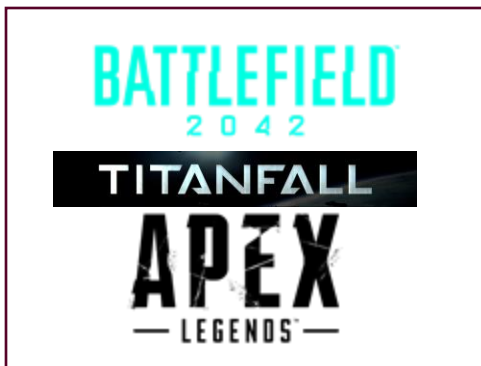
ADVENTURE



HORROR



SHOOTER



RACING



SPORTS



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ACQUISITION HISTORY



\$860 M

BiOWARE



\$455 M

Respawn
ENTERTAINMENT



\$2.4B

glu

2017

2019

2017

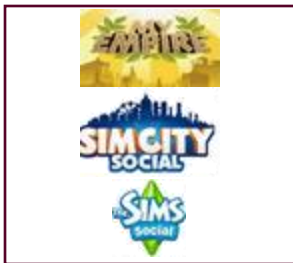
2021

2021

2021



\$400 M



\$1.2B



\$1.4B



RECENT ACQUISITIONS WITHIN INDUSTRY



Microsoft Acquisition of Activision



Deal Value

\$69 B

Implied Price

\$95

Implied EV/EBTIDA

17.5x

Offer

100% Cash

Rationale



Portfolio of Games to be added to Xbox Game Pass

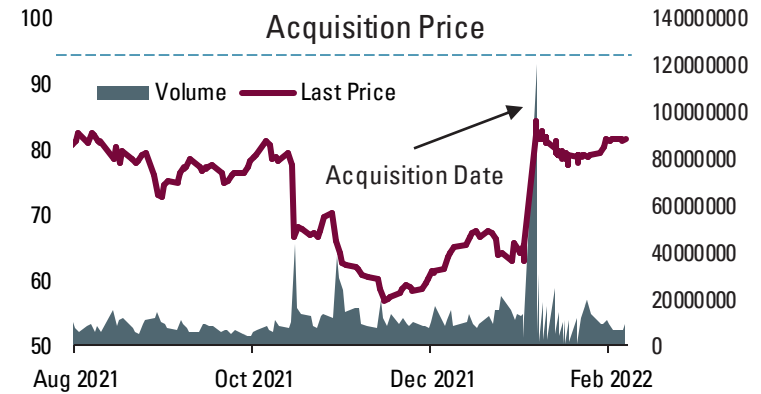


Fully Developed Mobile Gaming Platform



Low valuation in the market due to management allegations

Elements that set
Activision apart
from EA as
acquisition target



Activision is trading 15% below its acquisition price, signalling antitrust intervention fears in the market

Take Two Acquisition of Zynga



Deal Value

\$12.7B

Implied Price

\$9.86

Implied EV/EBTIDA

19.7x

Offer

35.5% Cash

Rationale



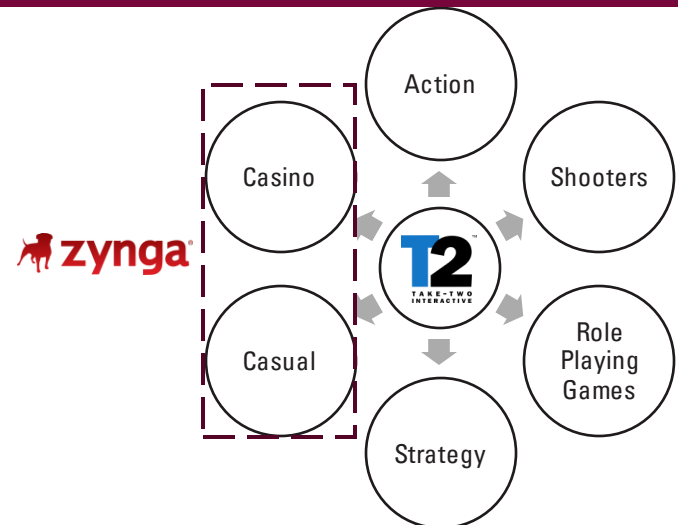
Target on Mobile and Social Media Platforms



Mature in developing massive free-to-play games



Versatility in its Gaming IP, innovative Blockchain divisions



MATERIAL IMPACT OF 2026 FIFA WORLD CUP



Popularity of Soccer in North America



Soccer is the most participatory sport in Canada with over 1,000,000 players



In a 2018 study done by Gallup, 7% of Americans surveyed chose soccer as their favourite sport to watch



Soccer is amongst the most popular sports in Mexico, they have hosted the World Cup in 1970 and 1986

Rising talents & popularity of North American national teams



Canadian Men's National Team

- Highest FIFA world ranking in team history
- Qualified for their first World Cup since 1986
- Led by young stars Alphonso Davies & Jonathan David



USA Men's National Team

- Have won 2 of last 3 CONCACAF Gold Cups
- Ranked the 13th best team in the world
- Notable players include Christian Pulisic & Gio Reyna

Recent World Cup's in non-traditional Soccer markets.



1994 World Cup

- Increased the game's popularity in the USA
- Led to the creation of a professional league (MLS)



2002 World Cup

- First tournament to be held in Asia
- Developed the popularity of both the sport and Korean & Japanese national teams

Most Popular Sports in USA

