

BUY:  
EA

Current Price:  
\$140.25

Target Price:  
\$168.21

Upside:  
19.94%

## Electronic Arts Inc. (NASDAQ: EA)

Adam Kawalek

Communication Services Sector

Junior Analyst

# Executive Summary

## Investment Thesis and Key Statistics

BUY: EA

Current Price:  
\$140.25

Target Price:  
\$168.21

Upside:  
19.94%

52 Wk Range: \$110.15 – 150.30

Market Cap: \$39.76 B

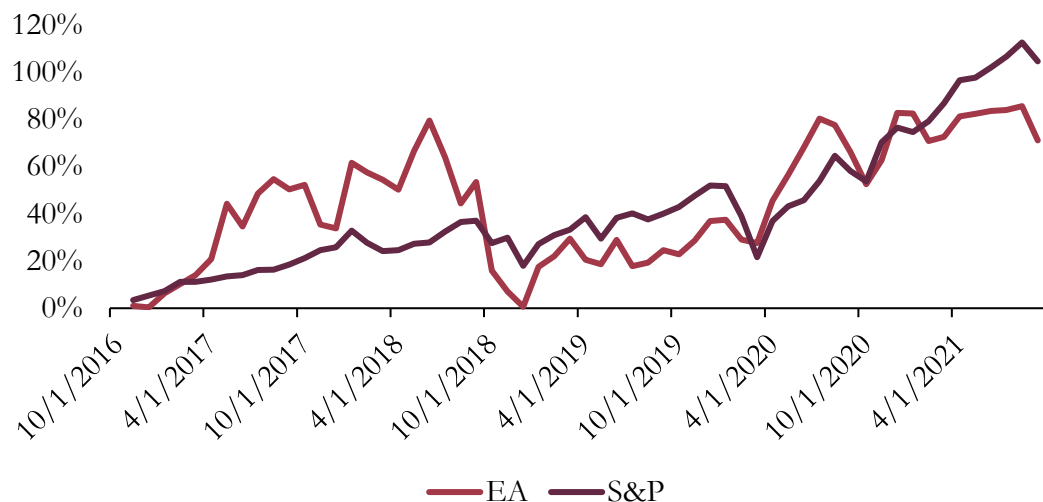
Revenue: \$5.63 B

EV: \$38.25 B

EBITDA: \$1.26 B

CEO: Andrew Wilson

## Historical Performance



## Overview

- Electronic Arts is a leader in interactive digital entertainment, developing games, content, and online services for consoles, mobile devices, and personal computers
- EA has more than 450 million registered players around the world

EA has a portfolio of brands such as FIFA, Battlefield, Apex Legends, The Sims, Madden NFL, Need for Speed, and Titanfall

## Basis for Growth

Post pandemic reopening has caused the market to devalue the gaming industry

EA has strong franchises and new iterations will continue to draw customers and grow market share

Acquisition growth will allow for increased exposure and stronger content

# Overview

## Revenue Segments

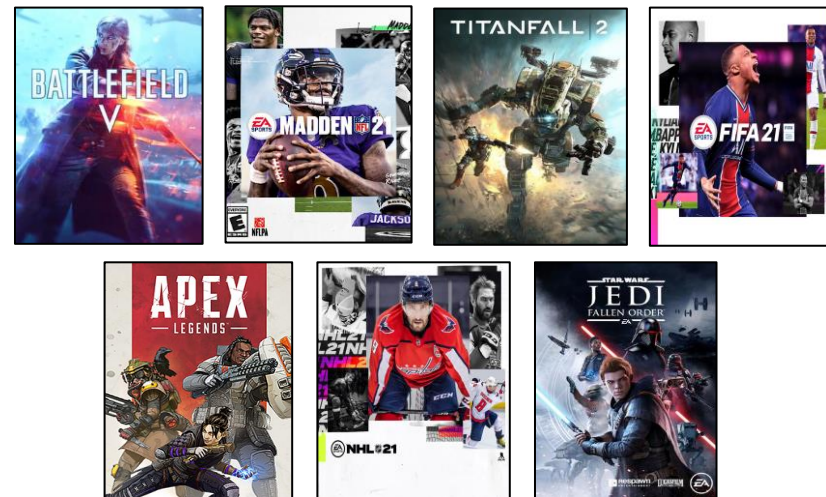
**Full Game-** the whole purchase of an EA gaming product; can be further divided into full game downloads and packaged goods

**Live Services-** any additional content, mobile offerings, subscriptions, and any other revenue outside base game sales

Full game revenue is **28.7%** of total revenue

Live services revenue is **71.3%** of total revenue

## Notable Games



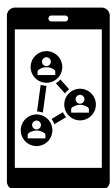
## Industry Trends



Declining  
Hardcopy Sales



Battle Royale  
Demand

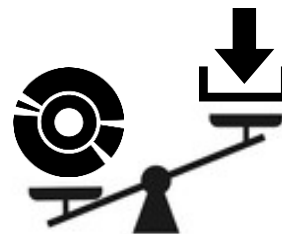


Growth of the  
Mobile Market



Graphics  
Improvements

## Digital Downloads vs. Packaged Goods



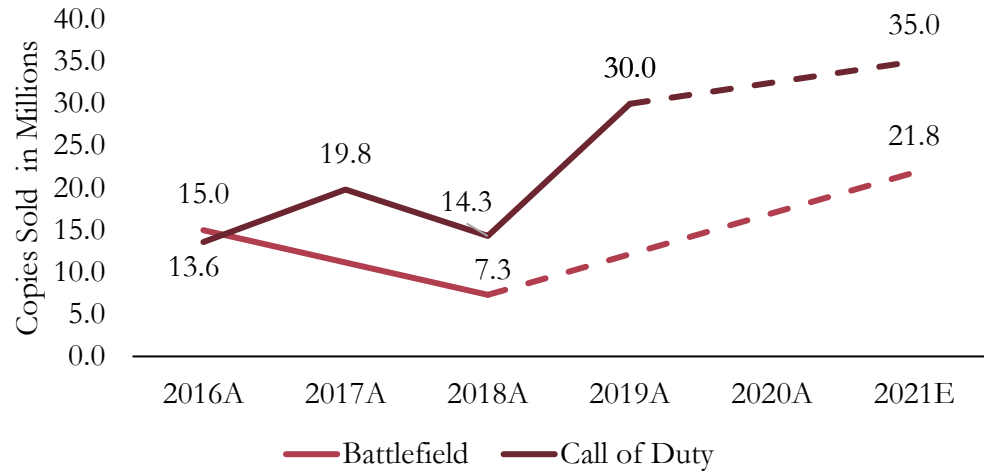
Digital full game downloads  
Have a **20% higher margin**  
than physical sales



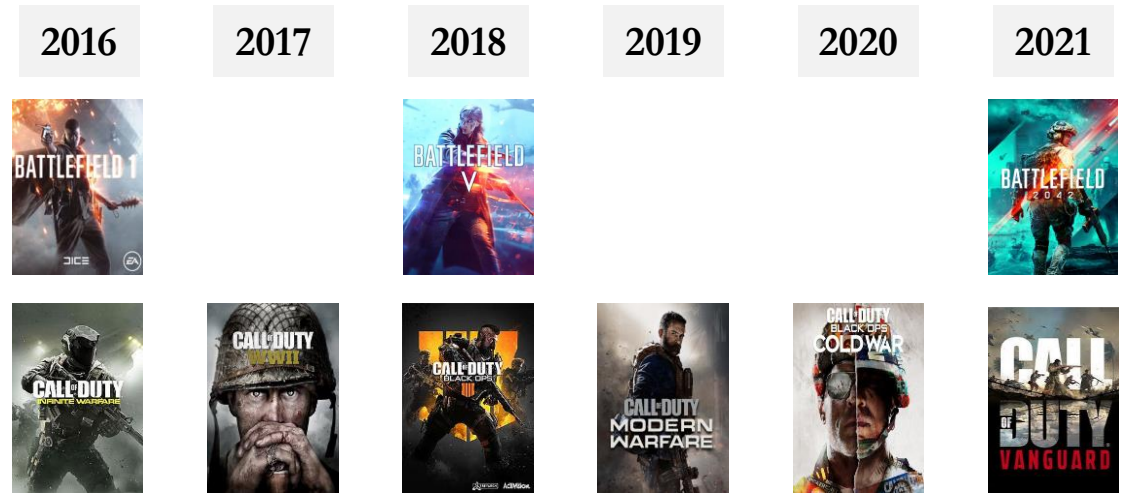
Physical game sales have  
**declined by 56%** since the  
start of the pandemic

# Battlefield 2042

## Battlefield vs. Call of Duty



## Release Schedules



## Battlefield 2042 vs. Battlefield V

### Mistakes of Battlefield V

- Lost sight of the content customers wanted to see
  - Focus on developing a single-player campaign
- Sold **less than 50%** as many copies as the previous version

### Improvements

- Unique gameplay features
- Variable weather effects affect gameplay
- Matches featuring **up to 128 players**
- Introduction of the specialist system
  - **Allows players to fully customize** their loadouts

### Opportunities

- Potential to **bring back customers** that switched over to Call of Duty
- Call of Duty: Modern Warfare made **\$1.91 billion**
- Potential to **regain market share**

# Acquisition Growth

## Acquisitions



- Acquired on April 29, 2021
- Bought for **\$2.1 billion** in cash
- **100 million** monthly mobile active players
- Further develops their **mobile portfolio**



Playdemic

- Acquired on September 20, 2021
- Bought for **\$1.4 billion** in cash
- Further expands their **sports portfolio**
  - Primary game is Golf Clash



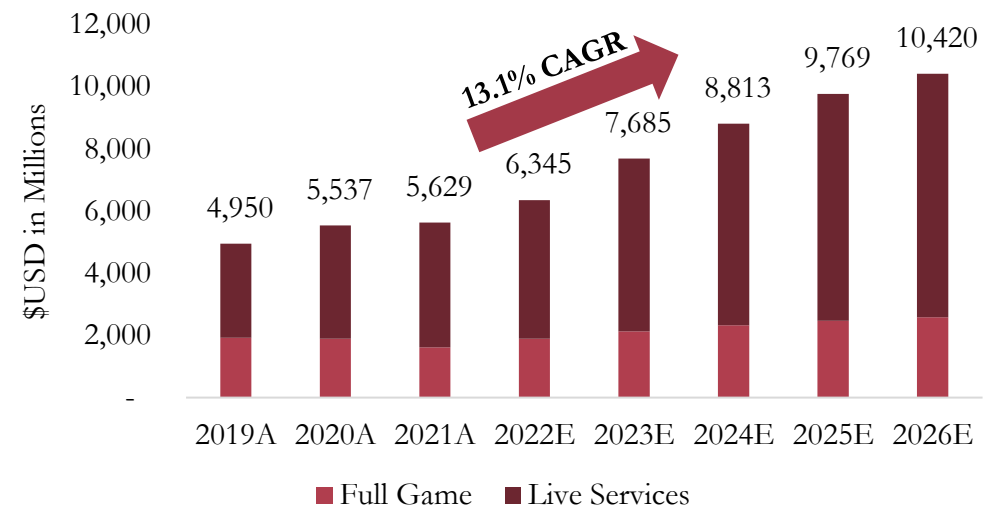
CODEMASTERS

- Acquired on February 18, 2021
- Bought for **\$1.2 billion** in cash
- Further growth in the **racing game space**
  - Various games including Formula 1

## Growth Strategy

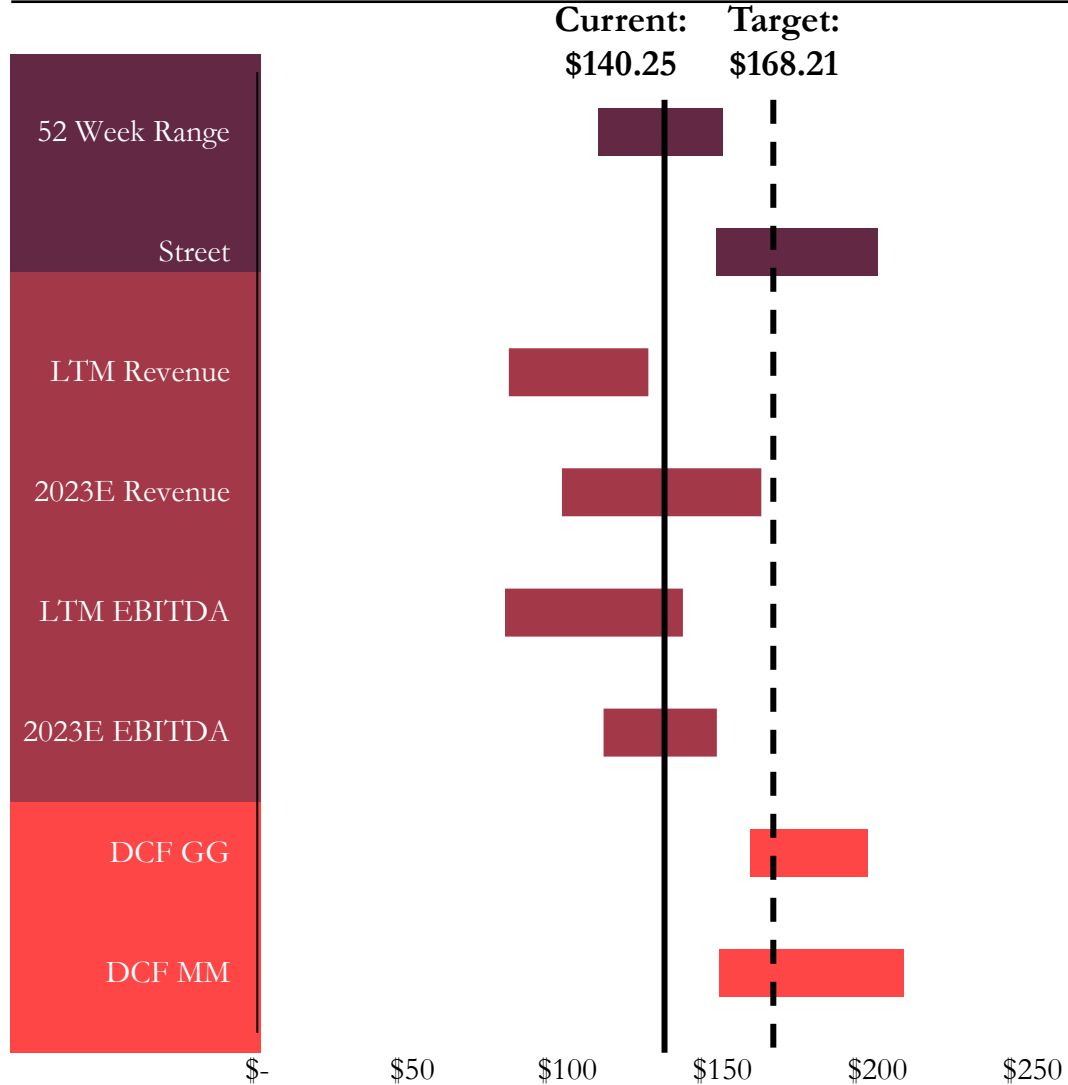
- EA is expanding their position in the **mobile space**
  - Mobile is an **\$73.8 billion market**
  - PC and Console markets combined are \$52.8 billion
  - Mobile has a nearly **80% margin**
- Brings together the **best mobile studios and developers** to better utilize their licenses and IP
- Allows for **new content, accelerated growth, as well as cost and revenue synergies**

## Revenue Breakdown

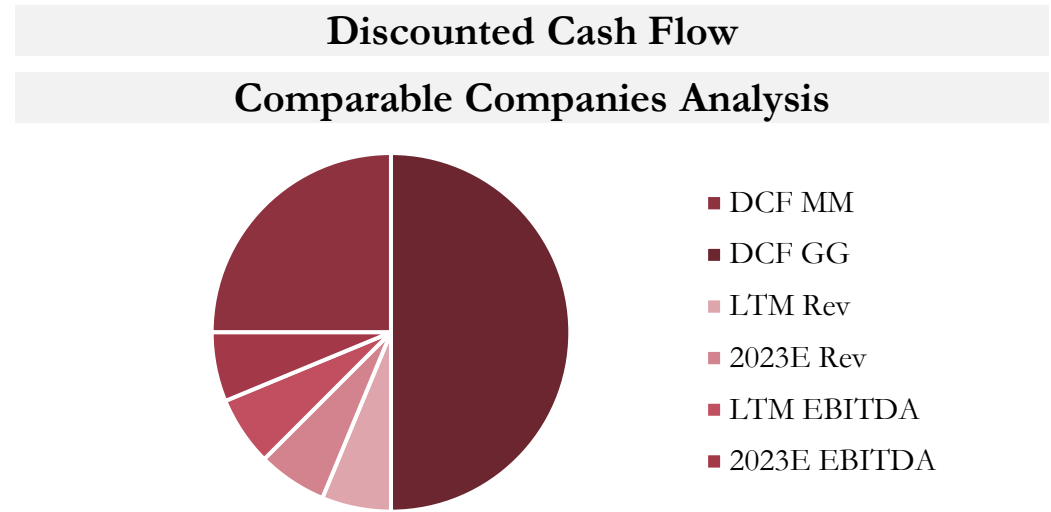


# Valuation

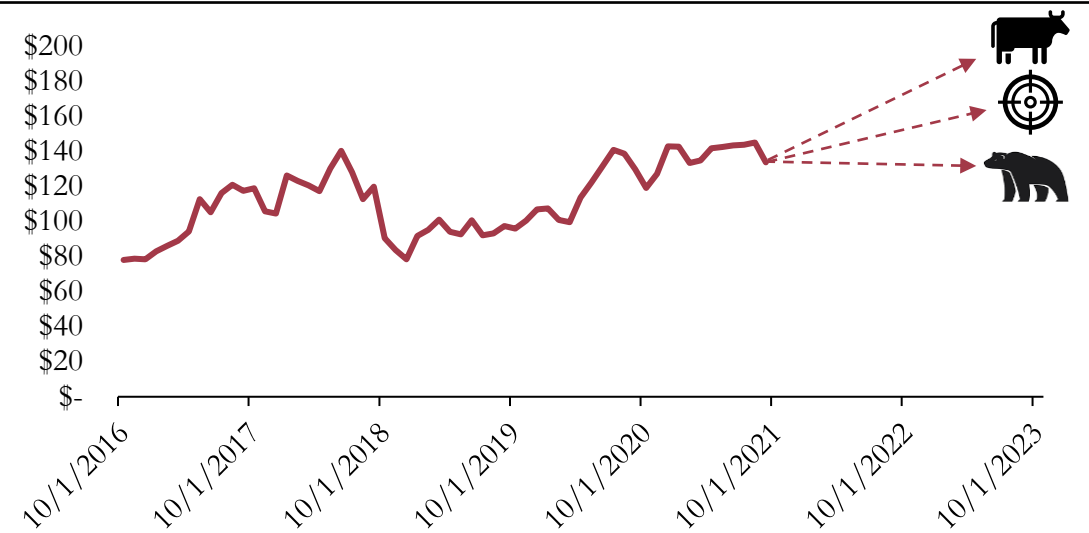
## Football Field Analysis



## Methodologies



## Bull vs. Bear



- Battlefield 2042 misses' expectations or fails to beat Call of Duty: Vanguard
- Inability to regain former users, take market share from Call of Duty, and maintain consumer spending
- Shifts in new game releases can lead to positive or negative changes to estimates
- Failure to properly integrate or realize pro forma synergies
- Future impacts from COVID-19 are still variable

## Bear Case

- EV/2023E Revenue: 3.84x (share price of \$122.35)
- Battlefield 2042 fails to regain market share and misses expectations
- 2022 release slate gets delayed
- Failure to effectively integrate acquisitions

## Base Case

- EV/2023E Revenue: 5.34x (share price of \$168.21)
- Battlefield 2042 allows EA to begin regaining market share
- Effective integration of recent acquisitions and further development of strong content

## Bull Case

- EV/2023E Revenue: 6.59x (share price of \$206.21)
- Battlefield 2042 surpasses sales of Call of Duty: Vanguard and regains dominance in the space
- Effective integration of acquisitions and accelerated mobile expansion

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EA

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Thank You

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Questions?



# Management Team



**Andrew Wilson, Chief Executive Officer**

- Appointed in 2013
- “Players first” philosophy
- 15 years with EA
- Previously, served as Executive Vice President of EA SPORTS



**Blake Jorgensen, CFO and COO**

- Appointed as CFO in 2012
- Appointed as COO in 2018
- 9 years with EA
- Former EVP and CFO of Levi Strauss & Co. and former CFO of Yahoo!



**Laura Miele, Chief Studios Officer**

- Appointed in 2018
- EA’s “creative heart”
- 22 years with EA
- Previously, EVP of Global Publishing

# Revenue Forecast

<b>Electronic Arts Inc.</b>								
Revenue Forecast								
Fiscal year ended	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
<i>(in millions, except per share data)</i>								
<b>Revenue:</b>								
<b>Full game revenue:</b>								
Full game downloads	680	811	918	1,254	1,568	1,838	2,054	2,219
Packaged goods	1,240	1,076	695	633	563	485	414	366
<b>Total full game revenue</b>	<b>1,920</b>	<b>1,887</b>	<b>1,613</b>	<b>1,887</b>	<b>2,132</b>	<b>2,323</b>	<b>2,468</b>	<b>2,585</b>
Live services	3,030	3,650	4,016	4,457	5,553	6,490	7,301	7,836
<b>Total revenue</b>	<b>4,950</b>	<b>5,537</b>	<b>5,629</b>	<b>6,345</b>	<b>7,685</b>	<b>8,813</b>	<b>9,769</b>	<b>10,420</b>
<b>Revenue drivers:</b>								
<b>Full game revenue:</b>								
Full game downloads growth rate		19.3%	13.2%	36.6%	25.1%	17.2%	11.8%	8.1%
Full game downloads as a % of total full game revenue	35.4%	43.0%	56.9%	66.4%	73.6%	79.1%	83.2%	85.9%
Packaged goods growth rate		-13.2%	-35.4%	-8.9%	-11.1%	-13.8%	-14.7%	-11.7%
Packaged goods as a % of total full game revenue	64.6%	57.0%	43.1%	33.6%	26.4%	20.9%	16.8%	14.1%
Total full game revenue growth rate		-1.7%	-14.5%	17.0%	12.9%	9.0%	6.2%	4.7%
Total full game revenue as a % of total revenue	38.8%	34.1%	28.7%	29.8%	27.7%	26.4%	25.3%	24.8%
<b>Live services revenue:</b>								
Live services growth rate		20.5%	10.0%	11.0%	24.6%	16.9%	12.5%	7.3%
Live services as a % of full game revenue	157.8%	193.4%	249.0%	236.1%	260.5%	279.4%	295.9%	303.2%
Live services as a % of total revenue	61.2%	65.9%	71.3%	70.2%	72.3%	73.6%	74.7%	75.2%

# COGS Forecast

## Electronic Arts Inc.

### Cost of Revenue Forecast

Fiscal year ended	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022E</u>	<u>FY 2023E</u>	<u>FY 2024E</u>	<u>FY 2025E</u>	<u>FY 2026E</u>
<i>(in millions, except per share data)</i>								
<b>Cost of revenue:</b>								
Digital			1,188	1,306	1,547	1,719	1,834	1,873
Packaged goods			306	279	248	214	183	161
<b>Total cost of revenues</b>	<b>1,322</b>	<b>1,369</b>	<b>1,494</b>	<b>1,585</b>	<b>1,795</b>	<b>1,933</b>	<b>2,017</b>	<b>2,034</b>
<b>Cost of revenues drivers:</b>								
<b>Digital:</b>								
Digital revenue	3,710	4,461	4,934	5,711	7,121	8,327	9,355	10,055
Digital revenue growth rate		20.2%	10.6%	15.7%	24.7%	16.9%	12.3%	7.5%
Cost of digital as a % of digital revenue			24.1%	22.9%	21.7%	20.6%	19.6%	18.6%
<b>Packaged:</b>								
Packaged goods revenue	1,240	1,076	695	633	563	485	414	366
Packaged goods revenue growth rate		-13.2%	-35.4%	-8.9%	-11.1%	-13.8%	-14.7%	-11.7%
Cost of packaged goods as a % of packaged goods revenue			44.1%	44.1%	44.1%	44.1%	44.1%	44.1%

# Income Statement

Electronic Arts Inc.								
Income Statement								
Fiscal year ended	FY 2019	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022
<i>(in millions, except per share data)</i>								
Net revenue	\$ 4,950	\$ 5,537	\$ 1,459	\$ 1,151	\$ 1,673	\$ 1,346	\$ 5,629	\$ 1,551
Cost of revenue	1,322	1,369	288	286	601	319	1,494	315
Gross profit	3,628	4,168	1,171	865	1,072	1,027	4,135	1,236
<b>Operating expenses</b>						0		
Research and development	1,433	1,559	438	421	451	468	1,778	515
Marketing and sales	702	631	121	156	216	196	689	190
General and administrative	460	506	136	133	149	174	592	169
Acquisition-related contingent consideration	14	5	0	0	0	0	0	0
Amortization of intangibles	23	22	5	6	5	14	30	40
Total operating expenses	2,632	2,723	700	716	821	852	3,089	914
Operating income	996	1,445	471	149	251	175	1,046	322
Interest and other income (expense), net	83	63	(3)	(10)	(6)	(10)	(29)	(14)
Income before provision for (benefit from) income taxes	1,079	1,508	468	139	245	165	1,017	308
Provision for (benefit from) income taxes	60	(1,531)	103	(46)	34	89	180	104
Net income	\$ 1,019	\$ 3,039	\$ 365	\$ 185	\$ 211	\$ 76	\$ 837	\$ 204
<b>Earnings per share</b>								
Basic	\$ 3.36	\$ 10.37	\$ 1.27	\$ 0.64	\$ 0.73	\$ 0.26	\$ 2.90	\$ 0.71
Diluted	\$ 3.33	\$ 10.30	\$ 1.25	\$ 0.63	\$ 0.72	\$ 0.26	\$ 2.87	\$ 0.71
<b>Weighted average number of shares outstanding, diluted</b>								
Basic	303	293	288	289	290	289	289	286
Diluted	306	295	292	293	292	292	292	289

# Income Statement Projection

Electronic Arts Inc.													
Income Statement													
Fiscal year ended	FY 2019	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
<i>(in millions, except per share data)</i>													
<b>Revenue:</b>													
Revenue	4,950	5,537	1,459	1,151	1,673	1,346	5,629	1,551	6,345	7,685	8,813	9,769	10,420
Cost of revenue	1,322	1,369	288	286	601	319	1,494	315	1,585	1,795	1,933	2,017	2,034
<b>Gross profit</b>	<b>3,628</b>	<b>4,168</b>	<b>1,171</b>	<b>865</b>	<b>1,072</b>	<b>1,027</b>	<b>4,135</b>	<b>1,236</b>	<b>4,759</b>	<b>5,889</b>	<b>6,880</b>	<b>7,752</b>	<b>8,386</b>
<b>Expenses:</b>													
SG&A	1,162	1,137	257	289	365	370	1,281	359	1,412	1,631	1,783	1,885	1,917
Research and development	1,433	1,559	438	421	451	468	1,778	515	1,895	2,171	2,354	2,468	2,490
Non-recurring expenses	(14)	(5)	0	0	0	0	0	0					
<b>Total expenses</b>	<b>2,581</b>	<b>2,691</b>	<b>695</b>	<b>710</b>	<b>816</b>	<b>838</b>	<b>3,059</b>	<b>874</b>	<b>3,307</b>	<b>3,802</b>	<b>4,138</b>	<b>4,353</b>	<b>4,407</b>
<b>EBIT</b>	<b>1,047</b>	<b>1,477</b>	<b>476</b>	<b>155</b>	<b>256</b>	<b>189</b>	<b>1,076</b>	<b>362</b>	<b>1,452</b>	<b>2,088</b>	<b>2,743</b>	<b>3,399</b>	<b>3,980</b>
Taxes	60	(1,531)	103	(46)	34	89	180	104	243	349	459	569	666
<b>Net income</b>	<b>987</b>	<b>3,008</b>	<b>373</b>	<b>201</b>	<b>222</b>	<b>100</b>	<b>896</b>	<b>258</b>	<b>1,209</b>	<b>1,738</b>	<b>2,284</b>	<b>2,831</b>	<b>3,314</b>
<b>Drivers:</b>													
Revenue growth		11.9%					1.7%	6.3%	12.7%	21.1%	14.7%	10.9%	6.7%
COGS as a % of revenue	26.7%	24.7%	19.7%	24.8%	35.9%	23.7%	26.5%	20.3%	25.0%	23.4%	21.9%	20.6%	19.5%
SG&A as a % of revenue	23.5%	20.5%	17.6%	25.1%	21.8%	27.5%	22.8%	23.1%	22.3%	21.2%	20.2%	19.3%	18.4%
Research and development as a % of revenue	28.9%	28.2%	30.0%	36.6%	27.0%	34.8%	31.6%	33.2%	29.9%	28.2%	26.7%	25.3%	23.9%
Operating expense margin	52.1%	48.6%	47.6%	61.7%	48.8%	62.3%	54.3%	56.4%	52.1%	49.5%	46.9%	44.6%	42.3%
EBIT margin	21.2%	26.7%	32.6%	13.5%	15.3%	14.0%	19.1%	23.3%	22.9%	27.2%	31.1%	34.8%	38.2%
Tax rate	5.7%	-103.7%	21.6%	-29.7%	13.3%	47.1%	16.7%	28.7%	16.7%	16.7%	16.7%	16.7%	16.7%

# Balance Sheet A

Electronic Arts Inc.								
Balance Sheet								
Fiscal year ended	FY 2019	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022
<i>(in millions, except per share data)</i>								
<b>Current assets</b>								
Cash and cash equivalents	\$ 4,708	\$ 3,768	\$ 4,013	\$ 4,059	\$ 4,772	\$ 5,260	\$ 5,260	\$ 2,838
Short-term investments	737	1,967	1,947	1,972	1,938	1,106	1,106	881
Receivables, net	623	461	507	423	778	521	521	557
Other current assets	313	321	223	376	233	326	326	401
Total current assets	6,381	6,517	6,690	6,830	7,721	7,213	7,213	4,677
Property and equipment, net	448	449	450	458	467	491	491	510
Goodwill	1,892	1,885	1,889	1,891	1,896	2,868	2,868	4,256
Acquisition-related intangibles, net	87	53	48	42	37	309	309	909
Deferred income taxes, net	35	1,903	1,894	1,937	1,924	2,045	2,045	1,960
Other assets	114	305	313	312	375	362	362	422
Total assets	8,957	11,112	11,284	11,470	12,420	13,288	13,288	12,734

# Balance Sheet B

<b>Current liabilities</b>									
Accounts payable	113	68	51	164	89	96	96	73	
Accrued and other current liabilities	1,052	1,052	1,040	1,083	1,423	1,341	1,341	1,093	
Deferred net revenue (online-enabled games)	1,100	945	878	639	1,380	1,527	1,527	1,305	
Senior notes, current	0	599	599	599	600	0	0	0	
<b>Total current liabilities</b>	<b>2,265</b>	<b>2,664</b>	<b>2,568</b>	<b>2,485</b>	<b>3,492</b>	<b>2,964</b>	<b>2,964</b>	<b>2,471</b>	
Senior notes, net	994	397	397	397	397	1,876	1,876	1,877	
Income tax obligations	233	373	312	301	296	315	315	321	
Deferred income taxes, net	2	1	1	1	1	43	43	24	
Other liabilities	132	216	224	211	271	250	250	313	
<b>Total liabilities</b>	<b>3,626</b>	<b>3,651</b>	<b>3,502</b>	<b>3,395</b>	<b>4,457</b>	<b>5,448</b>	<b>5,448</b>	<b>5,006</b>	
Commitments and contingencies (See Note 14)									
<b>Stockholders' equity:</b>									
Preferred stock, \$0.01 par value. 10 shares authorized	0	0	0	0	0	0	0	0	
Common stock, \$0.01 par value. 1,000 shares authorized; 288 and 288 shares issued and outstanding, respectively	3	3	3	3	3	3	3	3	
Additional paid-in capital	0	0	0	145	0	0	0	0	
Retained earnings	5,358	7,508	7,831	8,016	8,054	7,887	7,887	7,760	
Accumulated other comprehensive loss	(30)	(50)	(52)	(89)	(94)	(50)	(50)	(35)	
<b>Total stockholders' equity</b>	<b>5,331</b>	<b>7,461</b>	<b>7,782</b>	<b>8,075</b>	<b>7,963</b>	<b>7,840</b>	<b>7,840</b>	<b>7,728</b>	
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,957</b>	<b>\$ 11,112</b>	<b>\$ 11,284</b>	<b>\$ 11,470</b>	<b>\$ 12,420</b>	<b>\$ 13,288</b>	<b>\$ 13,288</b>	<b>\$ 12,734</b>	



# Statement of Cash Flow A

Electronic Arts Inc.								
Statement of Cash Flows								
Fiscal year ended	FY 2019	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022
<i>(in millions, except per share data)</i>								
<b>Net cash provided by operating activities</b>								
Net income	\$ 1,019	\$ 3,039	\$ 365	\$ 550	\$ 761	\$ 837	\$ 837	\$ 204
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>								
Depreciation, amortization and accretion	145	150	37	77	123	181	181	105
Acquisition-related contingent consideration	14	5	0	0	0	0	0	0
Stock-based compensation	284	347	102	215	326	435	435	125
<b>Increase (decrease) in operating capital</b>								
Receivables, net	(88)	164	(44)	39	(309)	(41)	(41)	12
Other assets	(24)	35	44	(113)	(28)	(70)	(70)	(74)
Accounts payable	59	(36)	(3)	106	29	18	18	(19)
Accrued and other liabilities	3	119	(66)	(96)	245	136	136	(302)
Deferred income taxes, net	(16)	(1,871)	10	(32)	(18)	(143)	(143)	28
Deferred net revenue (online-enabled games)	151	(155)	(67)	(307)	434	581	581	(222)
Net cash provided by operating activities	1,547	1,797	378	439	1,563	1,934	1,934	(143)
<b>Net Cash Provided by (Used in) Investing Activities</b>								
Capital expenditures	(119)	(140)	(38)	(63)	(93)	(124)	(124)	(44)
Proceeds from maturities and sales of short-term investments	1,688	2,142	694	1,418	2,088	3,686	3,686	507
Purchase of short-term investments	(1,342)	(3,359)	(664)	(1,416)	(2,056)	(2,828)	(2,828)	(285)
Acquisition, net of cash acquired	(58)	0	0	0	0	(1,239)	(1,239)	(1,989)
Net cash provided by (used in) investing activities	169	(1,357)	(8)	(61)	(61)	(505)	(505)	(1,811)



# Statement of Cash Flow B

<b>Net cash used in financing activities</b>								
Proceeds from debt, net of issuance costs	0	0	0	0	0	1,478	1,478	0
Repayments of senior debt	0	0	0	0	0	(600)	(600)	0
Proceeds from issuance of common stock	61	62	3	43	56	86	86	0
Payments of dividends	0	0			(49)	(98)	(98)	(49)
Cash paid to taxing authorities for shares withheld from employees	(122)	(91)	(69)	(77)	(144)	(152)	(152)	(105)
Repurchase and retirement of common stock	(1,192)	(1,207)	(78)	(78)	(404)	(729)	(729)	(325)
Payment for contingent consideration liability, financing activities	0	(122)	0	0	0	0	0	0
Net cash used in financing activities, total	(1,253)	(1,358)	(144)	(112)	(541)	(15)	(15)	(479)
Effect of foreign exchange on cash and cash equivalents	(13)	(22)	19	25	43	78	78	11
Increase (decrease) in cash and cash equivalents	450	(940)	245	291	1,004	1,492	1,492	(2,422)
Beginning cash and cash equivalents	4,258	4,708	3,768	3,768	3,768	3,768	3,768	5,260
Ending cash and cash equivalents	4,708	3,768	4,013	4,059	4,772	5,260	5,260	2,838
<b>Supplemental cash flow information</b>								
Cash paid during the year for income taxes, net	100	170	33	173	184	340	340	134
Cash paid during the year for interest	42	42	0	21	21	40	40	0
<b>Non-cash investing activities:</b>								
Capital Expenditures Incurred but Not yet Paid	\$ 8	\$ (8)	\$ (14)	\$ (4)	\$ 1	\$ 17	\$ 17	\$ 0

# Working Capital

Electronic Arts Inc.													
Working Capital													
Fiscal year ended	FY 2019	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
<i>(in millions, except per share data)</i>													
<b>Current assets:</b>													
Accounts receivable	623	461	507	423	778	521	521	557	587	711	816	904	964
Other current assets	313	321	223	376	233	326	326	401	379	438	479	506	515
<b>Total current assets</b>	<b>936</b>	<b>782</b>	<b>730</b>	<b>799</b>	<b>1,011</b>	<b>847</b>	<b>847</b>	<b>958</b>	<b>967</b>	<b>1,149</b>	<b>1,295</b>	<b>1,411</b>	<b>1,480</b>
<b>Current liabilities:</b>													
Accounts payable	113	68	51	164	89	96	96	73	102	115	124	130	131
Deferred net revenue	1,100	945	878	639	1,380	1,527	1,527	1,305	1,405	1,701	1,951	2,163	2,307
Other current liabilities	1,052	1,052	1,040	1,083	1,423	1,341	1,341	1,093	1,301	1,473	1,586	1,655	1,669
<b>Total current liabilities</b>	<b>2,265</b>	<b>2,065</b>	<b>1,969</b>	<b>1,886</b>	<b>2,892</b>	<b>2,964</b>	<b>2,964</b>	<b>2,471</b>	<b>2,807</b>	<b>3,290</b>	<b>3,661</b>	<b>3,947</b>	<b>4,107</b>
<b>NWC</b>	<b>(1,329)</b>	<b>(1,283)</b>	<b>(1,239)</b>	<b>(1,087)</b>	<b>(1,881)</b>	<b>(2,117)</b>	<b>(2,117)</b>	<b>(1,513)</b>	<b>(1,841)</b>	<b>(2,140)</b>	<b>(2,366)</b>	<b>(2,537)</b>	<b>(2,627)</b>
<b>Change in NWC</b>	<b>-</b>	<b>46</b>					<b>(834)</b>	<b>(274)</b>	<b>276</b>	<b>(300)</b>	<b>(226)</b>	<b>(170)</b>	<b>(90)</b>
<b>Net working capital drivers:</b>													
<b>Current assets:</b>													
AR turnover	12.6%	8.3%					9.3%		9.3%	9.3%	9.3%	9.3%	9.3%
D50	45.9	30.4					33.8		33.8	33.8	33.8	33.8	33.8
Other current assets as a % of SG&A	26.9%	28.2%					25.4%		26.9%	26.9%	26.9%	26.9%	26.9%
<b>Current liabilities:</b>													
AP turnover	8.5%	5.0%					6.4%		6.4%	6.4%	6.4%	6.4%	6.4%
DPO	31.2	18.1					23.5		23.5	23.5	23.5	23.5	23.5
Deferred net revenue as a % of revenue	22.2%	17.1%					27.1%		22.1%	22.1%	22.1%	22.1%	22.1%
Other current liabilities as a % of COGS	79.6%	76.8%					89.8%		82.1%	82.1%	82.1%	82.1%	82.1%

# WACC

<b>WACC Calculation</b>	
<i>(in millions, except per share data)</i>	
Market return	9.20%
Risk free rate	1.48%
Equity risk premium	7.72%
Beta	0.91
<b>Cost of Equity</b>	<b>8.47%</b>
Credit Spread	1.33%
Cost of debt	2.81%
Tax rate	27.00%
<b>Cost of debt after taxes</b>	<b>2.05%</b>
Stock price	140.25
Shares outstanding	289
MV of equity	40,532
MV of debt	2,200
Weight of equity	94.85%
Weight of debt	5.15%
<b>WACC</b>	<b>8.14%</b>

# Discounted Cash Flow Model

Electronic Arts Inc.								
Discounted Cash Flow Model								
Fiscal year ended	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
<i>(in millions, except per share data)</i>								
<b>Free cash flow:</b>								
Revenue	4,950	5,537	5,629	6,345	7,685	8,813	9,769	10,420
EBIT	1,047	1,477	1,076	1,452	2,088	2,743	3,399	3,980
Taxes	60	(1,531)	180	243	349	459	569	666
<b>NOPAT</b>	<b>987</b>	<b>3,008</b>	<b>896</b>	<b>1,209</b>	<b>1,738</b>	<b>2,284</b>	<b>2,831</b>	<b>3,314</b>
D&A	145	150	181	164	166	158	146	130
CapEx	(119)	(140)	(124)	(122)	(133)	(137)	(137)	(131)
Change in NWC		(46)	834	(276)	300	226	170	90
<b>FCFF</b>	<b>1,013</b>	<b>2,972</b>	<b>1,787</b>	<b>975</b>	<b>2,071</b>	<b>2,531</b>	<b>3,011</b>	<b>3,403</b>
Discount				0.5	1.5	2.5	3.5	4.5
<b>PV of cash flows</b>				<b>938</b>	<b>1,842</b>	<b>2,081</b>	<b>2,289</b>	<b>2,393</b>
<b>Drivers:</b>								
Revenue growth		11.9%	1.7%	12.7%	21.1%	14.7%	10.9%	6.7%
EBIT margin	21.2%	26.7%	19.1%	22.9%	27.2%	31.1%	34.8%	38.2%
Tax rate	5.7%	-103.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
D&A as a % of CapEx	121.8%	107.1%	146.0%	135.0%	124.9%	115.5%	106.9%	98.8%
CapEx as a % of revenue	2.4%	2.5%	2.2%	1.9%	1.7%	1.6%	1.4%	1.3%

# Terminal Value Calculations

Terminal Value Calculation			
<b>Growth rate</b>		<b>Multiple method</b>	
Terminal Cash Flow	3,403	Terminal Revenue	10,420
WACC	8.14%	WACC	8.14%
Terminal growth rate	2.00%	EV/Revenue	5.50x
Terminal value	56,519	Terminal value	57,312
PV of terminal value	39,740	PV of terminal value	40,298
<b>Enterprise value</b>	<b>49,283</b>	<b>Enterprise value</b>	<b>49,841</b>
Debt		Debt	
	2,200		2,200
Cash		Cash	
	3,719		3,719
<b>Equity value</b>	<b>50,802</b>	<b>Equity value</b>	<b>51,360</b>
Diluted shares outstanding		Diluted shares outstanding	
	289		289
<b>Price/share</b>	<b>175.79</b>	<b>Price/share</b>	<b>177.72</b>

Sensitivity Analysis						
		Gordon Growth				
		1.50%	1.75%	2.00%	2.25%	2.50%
<b>WACC</b>	7.14%	194.49	202.09	210.43	219.63	229.82
	7.64%	178.44	184.72	191.57	199.05	207.26
	8.14%	164.81	170.08	175.79	181.97	188.71
	8.64%	153.10	157.58	162.39	167.58	173.19
	9.14%	142.94	146.77	150.88	155.28	160.02
		Multiple				
		3.50x	4.50x	5.50x	6.50x	7.50x
<b>WACC</b>	7.14%	130.80	157.23	183.67	210.10	236.54
	7.64%	128.88	154.77	180.65	206.54	232.43
	8.14%	127.01	152.36	177.72	203.07	228.42
	8.64%	125.19	150.02	174.85	199.68	224.51
	9.14%	123.41	147.73	172.06	196.38	220.71

# Comparable Companies Analysis A

## Electronic Arts Inc.

### Comparable Company Analysis

(in millions, except per share data)

Company	Ticker	Price	Market Cap	Cash	Debt	EV	LTM Rev	2023E Rev	LTM EBIT	2023E EBIT	LTM EBITDA	2023E EBITDA	LTM EPS	2023E EPS
Electronic Arts	EA	140.25	40,532	3,719	2,200	39,013	5,721	8,813	962	2,743	1,237	2,901	2.70	7.90
NetEase	NTES	95.43	64,032	15,623	4,211	52,620	12,005	17,605	2,088	3,738	2,607	4,451	2.55	5.50
Activision	ATVI	77.36	60,164	9,209	3,606	54,561	8,938	10,575	3,233	4,705	3,716	4,744	3.46	4.71
Nintendo	NTDOY	56.65	58,615	15,753	52	42,914	16,188	13,787	5,803	4,929	5,885	4,938	36.71	30.05
Take Two	TTWO	170.77	19,898	2,536	188	17,550	3,137	4,995	412	1,178	622	1,232	3.24	8.36
Zynga	ZNGA	7.49	8,295	1,503	1,475	8,267	2,520	3,308	51	785	268	852	(0.07)	0.48
Ubisoft	UBSFY	11.15	7,043	2,194	2,462	7,311	2,564	3,324	467	714	1,235	1,569	2.01	3.75
Minimum														
Quartile 1														
Median														
Quartile 3														
Maximum														
Minimum														
Quartile 1														
Median														
Quartile 3														
Maximum														

# Comparable Companies Analysis B

EV/ LTM Rev	EV/ 2023E Rev	EV/ LTM EBIT	EV/ 2023E EBIT	EV/ LTM EBITDA	EV/ 2023E EBITDA	LTM P/E	2023 P/E
6.82x	4.43x	40.55x	14.22x	31.54x	13.45x	51.90x	17.75x
4.38x	2.99x	25.20x	14.08x	20.18x	11.82x	37.42x	17.35x
6.10x	5.16x	16.88x	11.60x	14.68x	11.50x	22.36x	16.42x
2.65x	3.11x	7.40x	8.71x	7.29x	8.69x	1.54x	1.89x
5.59x	3.51x	42.60x	14.90x	28.22x	14.25x	52.71x	20.43x
3.28x	2.50x	162.10x	10.53x	30.85x	9.70x		15.60x
2.85x	2.20x	15.66x	10.24x	5.92x	4.66x	5.55x	2.97x
2.65x	2.20x	7.40x	8.71x	5.92x	4.66x	1.54x	1.89x
2.80x	2.42x	13.59x	9.86x	6.95x	7.68x	3.55x	2.70x
3.83x	3.05x	21.04x	11.06x	17.43x	10.60x	22.36x	16.01x
5.72x	3.92x	33.90x	14.28x	28.87x	12.43x	45.07x	18.12x
6.10x	5.16x	42.60x	14.90x	30.85x	14.25x	52.71x	20.43x
57.73	72.33	29.87	87.88	30.59	52.03	4.17	14.90
60.71	79.18	50.49	98.79	35.00	82.38	9.58	21.35
81.11	98.29	75.29	110.25	79.88	111.68	60.42	126.56
118.53	124.95	118.10	140.80	128.84	130.01	121.79	143.20
126.10	162.59	147.05	146.64	137.29	148.25	142.44	161.43