



# Electronic Arts, Inc. (NASDAQ: EA)

Sector: IT

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$124.37	\$101.80	\$151.25	\$99.63	35.86	\$31.027B	---	0.74

## Business Description

Electronic Arts is an American video game developer and publisher founded in 1982. The business is a global leader in interactive entertainment, in charge of widely known brands including Madden NFL, EA SPORTS™ FIFA, Battlefield™, and Dragon Age™. The company develops, markets, publishes, and delivers these games itself. In addition, the business commits itself to three core strategic pillars: Players First, Commitment to Digital, and One EA. Players First entails creating and maintaining deep relationships with players through continuity of product quality and engagement with key brands. As video game sales are increasingly digital, Commitment to Digital highlights the company's intent to widen the array of live services available to customers. The One EA model involves leveraging EA's scale to strengthen its player network and create a more efficient development pipeline.

## Industry Trends

The Video Game industry is in its growth stage and is expected to continue on that path. Monthly subscription models for any one game, as with Activision Blizzard's World Of Warcraft, have been less prevalent as revenue from downloadable content (DLC) has increased rapidly. DLC is online, digitally distributed add-on software for existing games. Additionally, mobile gaming is expected to rapidly grow over the next few years. Since mobile games tend to be either free or at low prices, top line revenue growth potential from this segment is limited. Lastly, the average age of a video game player is increasing as many players who started as children continue to purchase these products as they age. As such, market growth is further facilitated.

## Investment Thesis

Electronic Arts has experienced a sharp drop in stock price over the past few months mainly due to the delayed release of Battlefield V, a key the holiday season product. While some investors have doubted the company's execution, the company's platform development strategy, digital growth opportunities, and improving margins indicate fundamental business strength. Moreover, a recently instituted share buyback plan worth \$2.4 billion indicates confidence by the company's management. EA also has a return on invested capital of roughly twice that of Activision Blizzard. The strength of this company's long-term prospects and current term performance, coupled with recent market underpricing, make an investment in EA an attractive prospect.

## Valuation Assumptions

WACC: 9.0%

Terminal FCF Growth Rate: 3.5%

Upside: 22.2%

Sources: Bloomberg, Value Line, Annual Reports

## Key Financials

Current stock price: \$116.24

Intrinsic Value: \$139.02

ROIC: 19.7%

## Corporate Social Responsibility

EA has many initiatives in place to improve environmental sustainability, community outreach, and diversity and inclusion.

- Digital transformation has saved 20 million pounds of plastic in packaging materials
- Partnership with SpecialEffect to include features to enable disabled players better capabilities
- 5 ERG's in 23 global offices with 47% women involvement

## 5-Year Stock Performance



## Competitive Analysis

EA's main competitors are Activision Blizzard, Take-Two Interactive, and Zynga, Inc. EA's market cap and P/E ratio are relatively in the middle of their peers, with the range between 15 and 60B in market cap, and between 30 and 80 for P/E. EA has the highest return on invested capital by far, with 19.66% as compared to 9% from Activision Blizzard. EA relies more on licenses and franchise game revenue, providing them with a more predictable revenue stream.

## Competitive Advantages

EA's main competitive advantage against its peers is its licensing agreements to produce content with NFL and FIFA players and information, accounting for a large revenue base from reliable franchised products. In addition, its "One EA" approach to developing games provides an advantage in the form of economies of scale; a single engine is used for all game development to allow for different teams across the company to work on the same platform, facilitating sharing talent between projects. Digital growth has allowed EA to improve margins and reduce operating expenses, providing them with an advantage over companies in the industry struggling to meet the recent technology changes.

## Risks

- The video game industry is "hit" driven and highly competitive; all competitors compete on Sony and Microsoft platforms
- Changes in technology cause a need for constant innovation, and older products become outdated
- Cyber security and piracy is an increasing threat as hacking and encryption becomes more advanced

## Report Prepared By:

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