

# ELECTRONIC ARTS INC.

NASDAQ: ERTS

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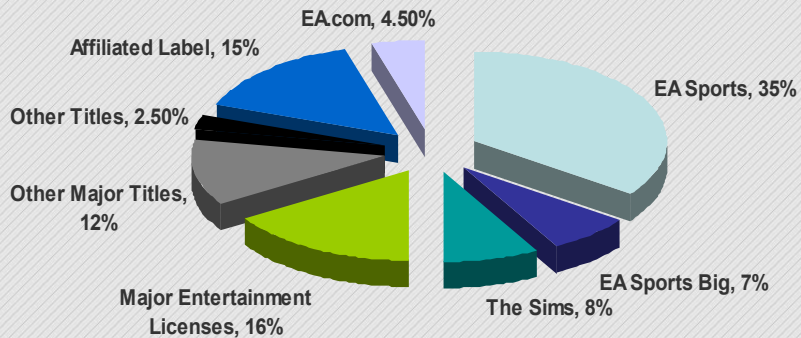
ELECTRONIC ARTS

## Bigger Than Life

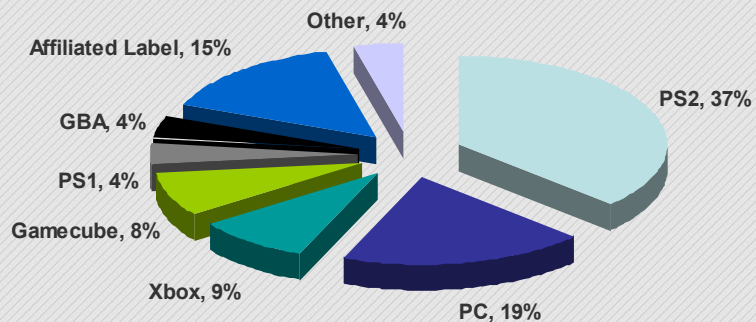
### Market Capitalization: Software Companies

1	MSFT	Microsoft Corporation	273.4B
2	ORCL	Oracle Corporation	62.9B
3	SAP	SAP Aktiengesellschaft	32.0B
4	ERTS	Electronic Arts Inc.	8.8B
5	CA	Computer Associates International, Inc.	8.5B
–	ATVI	Activision, Inc.	0.95B
–	TTWO	Take-Two Interactive Sft.	0.95B

## Revenue Breakdown: Divisions



## Revenue Breakdown: Platforms



## Survival Tactics

- **Brand Equity**
- **Economies of Scale**
  - Portability
  - Marketing
- **Internal Development**

## EA Sports

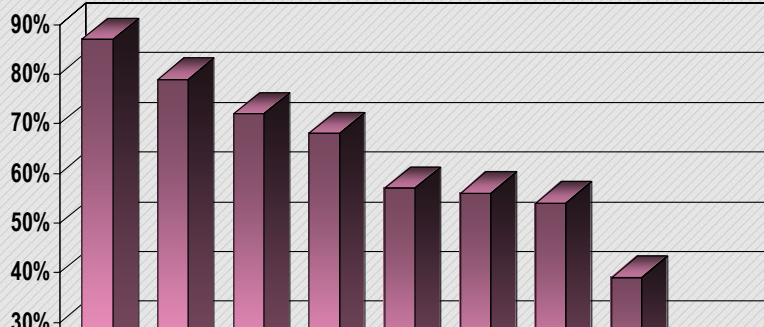
- **Consistent sales**
- **Very profitable**
  - 8-20% royalty fees
  - \$3-4MN development cost vs. \$5-8MN standard
  - 75% of EA Sports developed in-house
- **Brand equity: It's in the Game**

## The Power of the Name

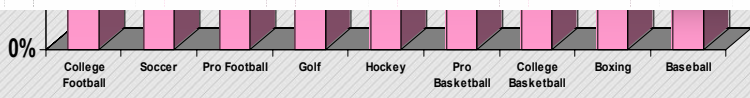
Sport	EA SPORTS		SEGA	
	Rating	Sales	Rating	Sales
NFL Football	92.3%	2,525,161	91.6%	383,979
NCAA Football	90.5%	900,468	72.4%	106,027
NBA Basketball	83.6%	761,156	91.2%	304,414
NCAA Basketball	73.1%	158,197	83.0%	57,904
NHL Hockey	80.5%	262,589	89.4%	60,236



## EA Sports Market Shares



**MVP Baseball: 83.5% / Currently #2 in Sales**



## EA Sport Big

- **High margins**
  - Internal development
  - Low royalty
- **NBA Street**
  - 1.2MN in sales
  - NBA Street 2 expected to sell 1 – 1.5MN
- **SSX Franchise**
  - 1.1MN in sales
- **Def Jam Vandetta**
  - 84.8% Composite Score (GameRankings.com)

## Blood & Guts

- **Medal of Honor**
  - 4.4MN Sold
  - Two new titles due out this year
- **Command & Conquer**
  - 2.6MN Sold
  - C&C: Generals currently #2 in North America
  - Another title expected Q4 FY04
- **Need for Speed**
  - 5.7MN Sold
  - End of franchise?

## Major Hollywood Properties

Harry Potter	Game	Movie
The Sorcerer's Stone	122	318
The Chamber of Secrets	82	260
<b>Lord of the Rings</b>		
The Fellowship of the Ring	N/A	313
The Two Towers	64	324
<b>James Bond</b>		
Agent Under Fire	77	N/A
NightFire	59	N/A
Die Another Day	N/A	1603

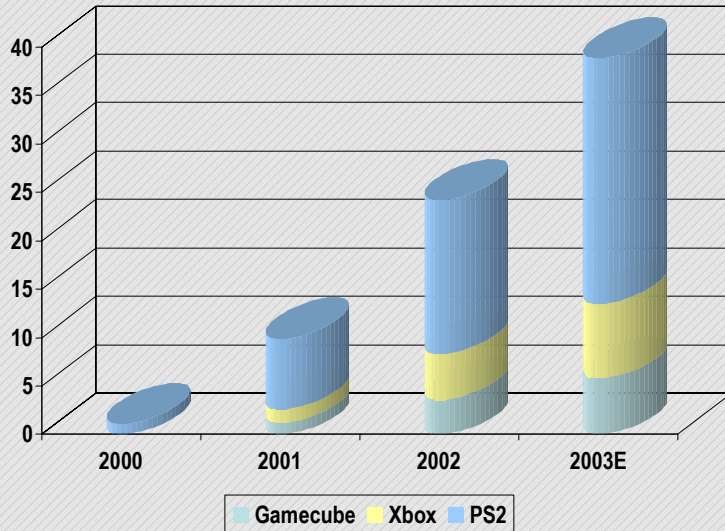
\*Sales in Millions

## Affiliated Label Products

- **Distribution**
  - Square EA products in North America
  - Capcom products in Europe/Australia
  - Relatively low 15-20% margins
- **Co-Publishing**
  - Marketing, distribution and some development
    - Battlefield 1942 (Digital Illusions)
    - Delta Force (Novalogic) (Black Hawk Down #1 in NA)
    - Soul Caliber, Dead to Rights (Namco)
  - Provides margins of 20-25% or higher

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## Fun on the Small Screen



## Living Another Life

- **Sony Online Entertainment**
  - Everquest / Everquest II
  - Planetside
  - Star Wars Galaxies
- **Vivendi Games**
  - Dark Age of Camelot
  - World of Warcraft / Warcraft / Starcraft
  - Counter-Strike

## The Online Adventures of EA

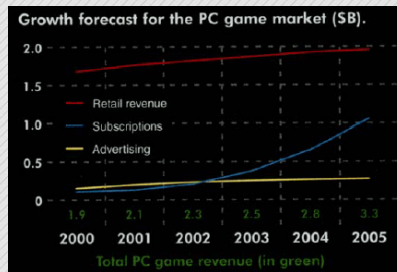
### EA.com Pro Forma EPS

FY98	FY99	FY00	FY01	FY02`	FY03E	FY04E
(\$0.05)	(\$0.05)	(\$0.24)	(\$0.75)	(\$0.57)	(\$0.44)	(\$0.34)

- \$400MN in operating losses since inception
- \$1.1BN in operating profit for EA's core business
- Consolidation of EA.com into core will boost profits
- Has created experience and existing infrastructure

## Rolling in Greens

- 1.4BN in cash expected by end FY03
- Absolutely no debt to pay down
- Recommendation: Acquire Vivendi Games
  - Creates online presence to combat Sony
  - Subscription based gaming is the way of the future



## Other Possible Targets

- Eidos (British)
  - Once high-riding Tomb Raider publisher/developer
  - Tomb Raider: Angel of Darkness coincides with new Tomb Raider film (starring Angelina Jolie)
- ~~Take Two~~
  - Grand Theft Auto franchise
  - Max Payne / Duke Nukem
- Activision (Too large? Anti-trust?)
- Infogrames (French; Deep in debt)
- Ubi Soft (Canadian)
  - Tom Clancy franchise (Splinter Cell, Rainbow Six)

## Success of Past Acquisitions

Company	Date	Price	Titles	U.S. Sales
Maxis	7/97	\$125MN	The Sims, Sim City	\$324.7MN
Westwood	11/98	\$123MN	Command & Conquer, Dune	\$107.2MN
DreamWorks	2/00	\$10MN	Medal of Honor, Jurassic Park	\$156.8MN

## Risks

- Sony/Microsoft may develop more in-house
- Nintendo slowly leaves market
- Long-term uncertainties for product lines
- Future entertainment licenses uncertain
- Affiliated Label deals uncertain
- Over 40% revenue is dependent on PS/PS2

## Free Cash Flow to Equity

Risk Premium	5.00%
Beta (Industry via Damodaran)	1.83
5 Year Note	2.92%
30 Year Bond	4.89%
Cost of Equity (HyperGrowth)	12.07%
Cost of Equity (Stable Growth)	14.04%
Assumed HyperGrowth Rate	15.00%
Assumed Stable Growth Rate	4.50%

## What's It Worth?

<b>Intrinsic Value</b>	<b>\$63.04</b>
Current Share Price	\$59.99
Upside Potential	4.83%

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Questions?

