

ELECTRONIC ARTS INC.

NASDAQ: ERTS

RAHAT AHMED
SPENCER BERG
STEVEN SAKAMOTO

INVESTMENT ANALYSIS GROUP
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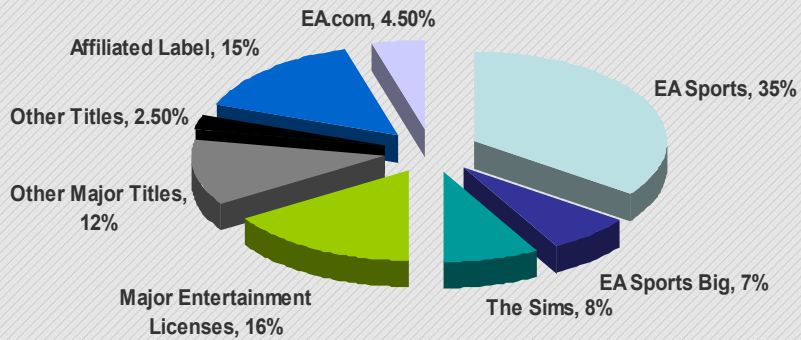
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Bigger Than Life

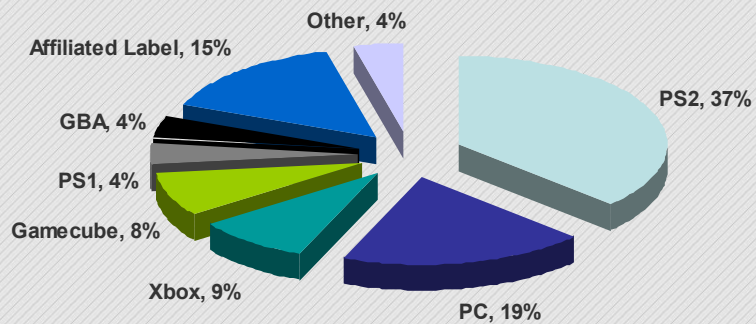
Market Capitalization: Software Companies

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

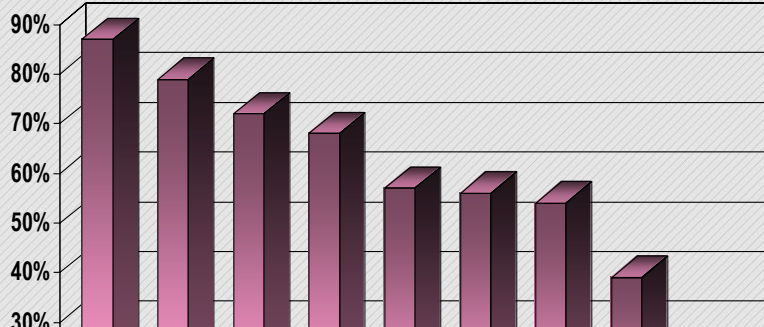
- **Consistent sales**
- **Very profitable**
 - 8-20% royalty fees
 - \$3-4MN development cost vs. \$5-8MN standard
 - 75% of EA Sports developed in-house
- **Brand equity: It's in the Game**

The Power of the Name

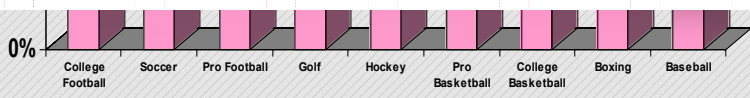
Sport	EA SPORTS		SEGA	
	Rating	Sales	Rating	Sales
NFL Football	92.3%	2,525,161	91.6%	383,979
NCAA Football	90.5%	900,468	72.4%	106,027
NBA Basketball	83.6%	761,156	91.2%	304,414
NCAA Basketball	73.1%	158,197	83.0%	57,904
NHL Hockey	80.5%	262,589	89.4%	60,236



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
Lord of the Rings		
The Fellowship of the Ring	N/A	313
The Two Towers	64	324
James Bond		
Agent Under Fire	77	N/A
NightFire	59	N/A
Die Another Day	N/A	1603

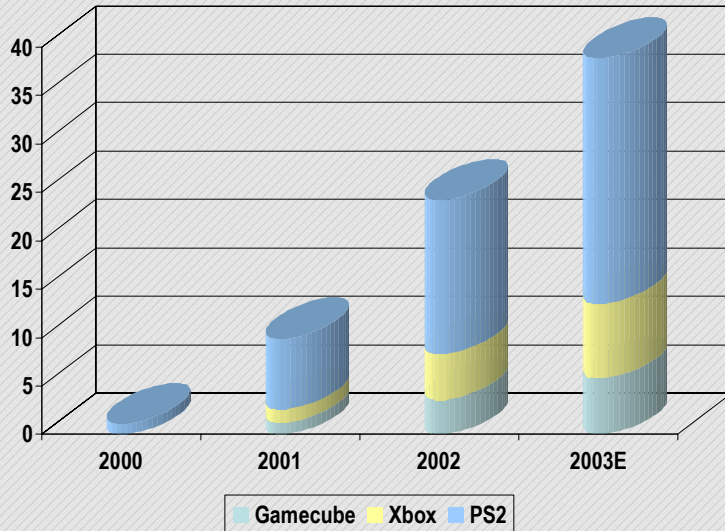
*Sales in Millions

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

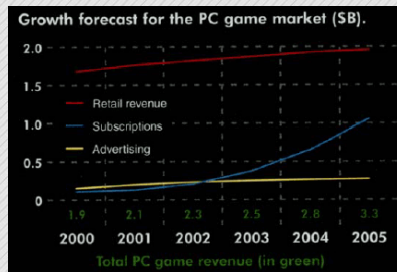
EA.com Pro Forma EPS

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?

Intrinsic Value	\$63.04
Current Share Price	\$59.99
Upside Potential	4.83%

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Questions?

