**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

- EA Sports, 35%
- EA Sports Big, 7%
- The Sims, 8%
- Major Entertainment Licenses, 16%
- Other Major Titles, 12%
- Other Titles, 2.5%
- Affiliated Label, 15%
- EA.com, 4.5%

Revenue Breakdown: Platforms

- PS2, 37%
- PC, 19%
- Gamecube, 8%
- Xbox, 9%
- PS1, 4%
- GBA, 4%
- Affiliated Label, 15%
- Other, 4%
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

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

### EA Sports Market Shares

- **College Football**: 83.5% / Currently #2 in Sales
- **Soccer**: [Bar Chart]
- **Pro Football**: [Bar Chart]
- **Golf**: [Bar Chart]
- **Hockey**: [Bar Chart]
- **Pro Basketball**: [Bar Chart]
- **College Basketball**: [Bar Chart]
- **Boxing**: [Bar Chart]
- **Baseball**: [Bar Chart]
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

<table>
<thead>
<tr>
<th>Property</th>
<th>Game</th>
<th>Movie</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Harry Potter</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Sorcerer’s Stone</td>
<td>122</td>
<td>318</td>
</tr>
<tr>
<td>The Chamber of Secrets</td>
<td>82</td>
<td>260</td>
</tr>
<tr>
<td><strong>Lord of the Rings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Fellowship of the Ring</td>
<td>N/A</td>
<td>313</td>
</tr>
<tr>
<td>The Two Towers</td>
<td>64</td>
<td>324</td>
</tr>
<tr>
<td><strong>James Bond</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agent Under Fire</td>
<td>77</td>
<td>N/A</td>
</tr>
<tr>
<td>NightFire</td>
<td>59</td>
<td>N/A</td>
</tr>
<tr>
<td>Die Another Day</td>
<td>N/A</td>
<td>1603</td>
</tr>
</tbody>
</table>

*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
Fun on the Small Screen

ELECTRONIC ARTS

![Graph showing the growth of video game sales for Gamecube, Xbox, and PS2 from 2000 to 2003E. The graph indicates a significant increase in sales for all three platforms over the years.](image1)

![Image of a video game scene with characters engaged in a confrontation.](image2)
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

<table>
<thead>
<tr>
<th></th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
<th>FY01</th>
<th>FY02</th>
<th>FY03E</th>
<th>FY04E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>($0.05)</td>
<td>($0.05)</td>
<td>($0.24)</td>
<td>($0.75)</td>
<td>($0.57)</td>
<td>($0.44)</td>
<td>($0.34)</td>
</tr>
</tbody>
</table>

- $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

<table>
<thead>
<tr>
<th>Company</th>
<th>Date</th>
<th>Price</th>
<th>Titles</th>
<th>U.S. Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maxis</td>
<td>7/97</td>
<td>$125MN</td>
<td>The Sims, Sim City</td>
<td>$324.7MN</td>
</tr>
<tr>
<td>Westwood</td>
<td>11/98</td>
<td>$123MN</td>
<td>Command &amp; Conquer, Dune</td>
<td>$107.2MN</td>
</tr>
<tr>
<td>DreamWorks</td>
<td>2/00</td>
<td>$10MN</td>
<td>Medal of Honor, Jurassic Park</td>
<td>$156.8MN</td>
</tr>
</tbody>
</table>

## 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%
Questions?