

## Electronic Arts Inc. M & EA

May 23, 2022

### Key Takeaway

**On Friday, Puck reported EA has been looking to sell (Disney, Amazon, & Apple) or merge with an entertainment asset (Universal). We question Disney and Apple, as these make little sense to us. We've argued in the past Amazon should be looking to acquire a studio, so this one seems plausible. Comcast spinning Universal into EA sounds very interesting, but likely much harder in reality vs. on paper. At the very least, this likely sets a floor in the stock price.**

On paper, Disney and Apple should buy a gaming asset. Apple should have bought one years ago. An integration between Apple TV, mobile, and high end computers plus subscription, we suspect it'd be easier for Apple (1B devices) than anyone else if they could build exclusive content. However, the company seemingly has shunned gamers for decades: 1) it's been difficult to build games for Macs (DirectX/Vulcan & graphics related). 2) efforts in mobile are mixed with high take rates, developer complaints/lawsuits, and poor subscription numbers with Apple Arcade.

What wouldn't be great if Disney could launch a movie and video game at the same time? Video games are a deeply engaging way for an audience to experience their favorite characters and worlds. However, public comments indicating the company is happy licensing, a previously difficult foray into gaming that ended in failure, and likely better risk/reward from licensing (find the best studio for specific genre/platform/IP) than self developing/publishing leads us to believe Disney wouldn't be seriously interested in acquiring a studio.

**Amazon makes more sense:** Having tried to make PC/console video games since 2014 with one semi-successful hit (New World), it's easy to see why Amazon should buy a developer/publisher. Add in the failed game engine project (Lumberyard) and several failed or canceled projects, it makes even more sense to buy than build - making successful video games is very difficult. Add in Twitch, desire for sports assets, and comments from CEO Andy Jassy at GeekWire last fall, acquiring a studio like EA is believable. Regulatory is likely the biggest issue though we'd argue doing it in the shadow of Microsoft-Activision would be as good as time as any to test regulators.

**Universal:** As much as we'd love to cover such a combination, we suspect there are fewer synergies than investors can imagine. And for creative synergies - these would be years away: making video games takes a lot of time and anything current in production likely gets finished first. It's also interesting in light of recent articles indicating Warner Bros Discovery is potentially shopping Warner Interactive (the video game arm of the entertainment company).

Bottom line: Following Microsoft - Activision, TakeTwo - Zynga, and several other industry acquisitions, any good CEO is likely knocking on doors and taking calls from their banker. While our imagination can make several deals make sense on paper, we continue to believe the probability favors no deal over a deal for the next several quarters. However, the possibility likely puts a floor in the stock adds a takeout premium to any multiple.

### FLASH NOTE

USA | Interactive Entertainment

RATING	<b>BUY</b>
TICKER	<b>EA</b>
PRICE	<b>\$130.76<sup>^</sup></b>
PRICE TARGET (PT)	<b>\$165.00</b>
MARKET CAP	<b>\$37.3B</b>

<sup>^</sup>Prior trading day's closing price unless otherwise noted.

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## Company Description

### Electronic Arts Inc.

Electronic Arts Inc. develops, markets, publishes, and distributes game software content and services for video game consoles, personal computers, mobile phones, tablets and electronic readers, and the Internet. EA sells its products through mass market retailers, electronics specialty stores, and game software specialty stores worldwide in addition to direct digital downloads sold through owned and partner distribution platforms. Electronic Arts Inc. was founded in 1982 and is headquartered in Redwood City, California.

## Company Valuation/Risks

### Electronic Arts Inc.

Our \$165 PT is based on a ~21x ex-cash F2024E EPS multiple (vs 15x-30x historical range). We use both DCF and target multiple valuation methodologies to derive our PT. Risks include inability to develop hit games.

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(Article 3(1)e and Article 7 of MAR)

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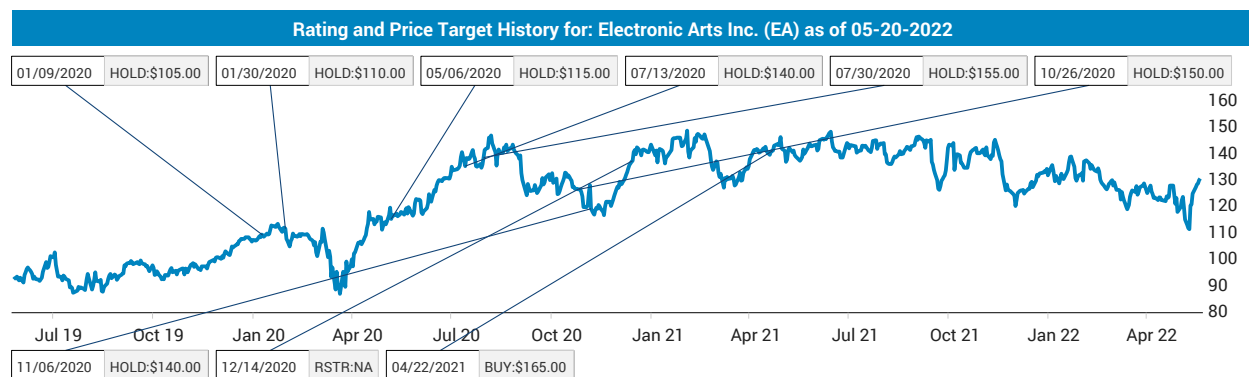
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Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
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