

Electronic Arts

Ticker Site BiG	EA
Ticker BiGlobal Trade	EA
Ticker BT24	EA
Ticker BiG Power Trade	EA
P/E Ratio 2018E	24.26
P/BV Ratio	6.52
EV/EBITDA	8.07

Source: Bloomberg;

Price and Performance (Values in USD)

Price	112.43
52 week high	151.26
52 week low	99.63
YTD	7.0%
Average daily volume (un)	3,505,786
Market Capitalization (mn)	34,271
Beta	0.70
Dividend	0.00
EPS	3.39

Source: Bloomberg;

Analysts Consensus (last 3 months)

Buy	24
Hold	6
Sell	0

Source: Bloomberg;

Financial Data

Sales (USD mn)	5,150
EBITDA (USD mn)	1,570
Number of Employees	9,300
ROA	8.9%
ROE	14.2%
D/E	2.9%

Source: Bloomberg;

Notes:

All quotes were updated in Bloomberg at 19h01 of September 18, 2018.

Relevant Information:

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Electronic Arts (Ticker: EA US)

Description

Electronic Arts is a gaming company which distributes, publicizes and creates many titles for multiple consoles, computer and mobile devices. Its main franchises are FIFA (football), Battlefield (war), SIMS (life simulator), Star Wars, Need for Speed (cars) and Plants vs Zombies.

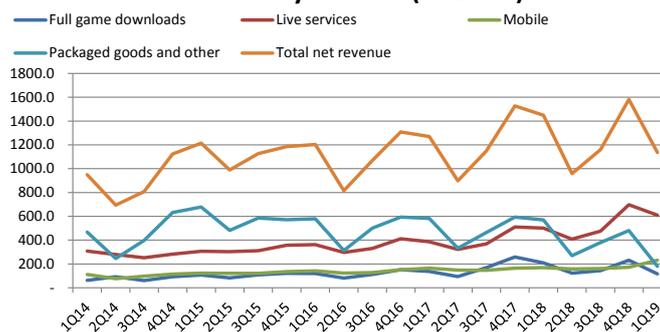
Electronic Arts has a market capitalization of USD 43.8bn and has more than 9,300 employees.

Investment Case

Successful Franchises: FIFA is a football game developed every year by EA and which generates around 11% of revenues since 2016. This is the most popular title in its segment and its available for consoles, pc and mobile devices. Battlefield is other successful franchise, being one of the most popular war games at the moment.

Growth of Live Services: In 2018's fiscal year, around 40% of revenues were originated by Live Services. This segment includes microtransactions made by players in the games, extra paid content, subscriptions and eSports revenues. One of the main sources of revenue (21% of total) in this segment is the feature of Ultimate Team in FIFA and NHL, which allows gamers to build their own team by exchanging, buying and earning players. Live Services are now the biggest source of revenue of the company.

Revenues by division (USD mn)



Source: Company's data

Netflix of Gaming: EA launched 2 subscription services, EA Access (Xbox) and EA Origin (PC). Members may opt for a monthly or annual fee which will give them access to a selection of games, while the membership is active. It will also allow them to buy games out of this selection at a discount. The company does not reveal the number of subscribers. When it launched EA Access, it tried a partnership for PS4 but was not successful with Sony. More recently EA acquired Gamefly that developed the streaming of games in Amazon Fire TV. This way EA may start selling games on a subscription base to people that do not have a console. This streaming should flourish as more people get access to fibre or even 5G.

Mobile device games growth: EA has not only exclusive mobile games (Plants vs Zombies) but also versions of its main console games adapted to mobile (SIMS, FIFA, Need for Speed and Star Wars). In this segment, games are available for free, but gamers pay for in-game content that allows them a faster progression in the game, generating this way revenues.

Asian Market: This region, and specially China, represent a huge opportunity of growth for the gaming industry, given that most of current revenues come mainly from Europe and US. EA is developing a FIFA version for the Chinese market with Tencent.

Income Stat. (USD mn)	2018	2017
Revenues	5150	4845
Product Costs	1277	1298
Amortization	9	6
R&D	1320	1205
Sales and Marketing	641	673
General Administrative Costs	469	439
Operational Expenses	3716	3621
EBIT	1434	1224
Other costs	-15	14
EBT	1449	1210
Taxes	406	243
Net Income	1043	967

Source: Bloomberg

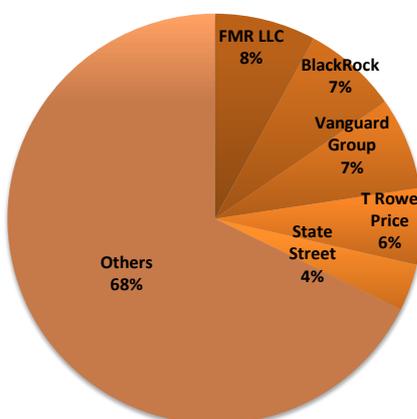
Free Cash Flow (USD mn)	2018	2017
Operational CF	1692	1578
Net Income	1043	967
Depreciation & Amortization	136	172
Net Working Capital changes	271	243
Others	242	196
Investment CF	622	-759
Capex	-257	-123
Short term investments	879	-636
Financial CF	-643	-729
Debt change	0	-163
Share buyback	-523	-436
Dividends	0	0
Others	-120	-130
Free Cash Flow changes	1671	90
Forex effects	22	-18
Final Free Cash Flow	4258	2565

Source: Bloomberg

Balance Sheet (USD mn)	2018	2017
Assets	8584	7718
Cash & Equivalents	4258	2565
Receivables	385	359
Property Plant & Equipment	453	434
Short term investments	1073	1967
Intangible Assets & Goodwill	1954	1715
Other Assets	461	678
Liabilities	3989	3658
Short term Debt	0	0
Long term Debt	992	990
Payables & accrued expense	48	87
Deferred Revenues	1622	1539
Other liabilities	1327	1042
Total Shareowner's Equity	4595	4060
Total Equity and Liabilities	8584	7718

Source: Bloomberg

Shareholders



Source: Bloomberg

Research:

research@big.pt

▲ **Revenues and margins**

In 2018 fiscal year, EA's revenues grew by 6.3%, while operational costs increased only 2.6%, increasing consequently EBIT margin from 25.3% to 27.8%. Live Services was the main growth segment (+31%). The main costs for the company are R&D, product costs (which includes royalties paid to producers, celebrities, movie studios and other organizations which contribute to the game) and marketing & sales.

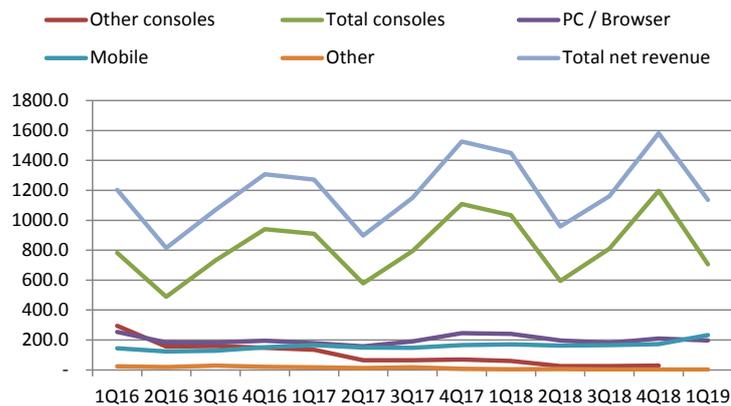
▲ **Free Cash Flows**

Operational cash flow increased to USD 1.69bn due to higher net income. The company sold several short term investments held outside of US (USD 1.89bn) in order to repatriate this money. The acquisition of Respwon led to an outflow of USD 150mn in. The financial cash flow accounted mainly for the share buyback program which the company expects to be USD 2.4bn in the next 2 years.

▲ **Balance Sheet**

Due to the sale of short term investments, Cash and Equivalents had a significant increase. Debt was around USD 900mn, and consequently net debt was negative in USD -3.2bn.

Revenues by platform



Source: Company's data

▲ **Earnings**

In the end of August the company announced the delay of the launch of the new war game, Battlefield V. Due to that reason and the adjustment of mobile revenues, the company expects now FY revenues to be USD 5.2bn, vs previously USD 5.55bn.

In the first quarter of 2019's fiscal year (ended in June 30, 2018), company's revenues were USD 749mn which compared positively with market estimate of USD 744.2mn. EPS were USD 0.15 vs est. USD 0.06. However the company's forecast for the year missed projections. EA sees FY adj. revenues of USD 5.55bn vs est. USD 5.6bn, while FY adj. EPS guidance was USD 4.85, vs est. USD 5.

In the last quarter of 2018's fiscal year (which ended at March 31, 2018), EA beat market expectations with revenues of USD 1.26bn (vs est. USD 1.24bn). EPS were USD 1.28 vs est. USD 1.16.

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Management Team

Andrew Wilson (CEO): Andrew was born in Australia in 1974 and joined EA in 2000 to help develop the Asian and European markets. Years later he became executive producer of FIFA and in 2011 was elected executive vice-president of EA Sports. He was elected CEO in September of 2013.

Andrew received in the end of 2018 fiscal year, USD 35.7 mn. This includes base salary (USD 1.1mn), shares (USD 32mn) and other benefits.

Main Games	Launch date
James Bond	1982-2005
Madden NFL	1988-Present
NHL	1991-Present
FIFA	1993-Present
NBA Live	1994-Present
Need for Speed	1994-Present
Command & Conquer	1995-Present
Medal of Honor	1999-2012
The Sims	2000-Present
Battlefield	2002-Present
FIFA Street (2005)	2005
Need for Speed: Hot Pursuit (mobile)	
Plants vs Zombies (mobile)	2010
The Sims Freeplay (mobile)	2011
Plants vs Zombies 2 (mobile)	2013
EA Sports UFC	
Titanfall	2014
SimCity BuildIt (mobile)	
EA Sports UFC (mobile)	
Star Wars Battlefront	2015
FIFA (mobile)	
Titanfall 2	
FIFA 17	
NHL 17	2016
NBA Live (mobile)	
Madden NFL 17	
EA Sports UFC 2	
FIFA 18	
NHL 18	
NBA Live 18	2017
Madden NFL 18	
Star Wars Battlefront II	
EA Sports UFC 3	
The Sims (mobile)	2018
Madden NFL 19	10-08-2018
NBA Live 19	07-09-2018
NHL 19	14-09-2018
FIFA 19	28-09-2018
Battlefield V	19-10-2018
Anthem	22-02-2019
Need for Speed Edge	TBA
Command & Conquer (mobile)	TBA
Star Wars: Jedi Fallen Order	TBA
Titanfall 3	TBA

Main divisions

EA Sports: This division's focus is in sports games, including FIFA (football), Madden NFL (american football), NHL (ice hockey), NBA (basketball) and UFC (martial arts). A new version of these games is launched every year, bringing new features and gameplay. EA has been focusing on a specific feature called Ultimate Team in which players buy credits in-game that can later be exchanged by players for their team.

Battlefield V: This war game will be launched in November and the main scenario will be WWII. It will include the campaign mode, multiplayer and battle royale (online mode where 100 players fight until only one is left).

Need for Speed: This is a street racing game that enables the gamers to customize their cars and race them online or in the mode campaign.

eSports: Electronic Arts started recently a partnership with ESPN to transmit the NFL Madden League and it has a championship of FIFA.

Comparative Analysis

Electronic Arts has currently a lower P/E ratio as investors penalized the company after the delay of Battlefield V.

Name	Country	Market Cap (mn)	Currency	P/E 2018E	P/E 2019E	EV/Sales	NetDebt/EBITDA	Margin EBITDA
ACTIVISION BLIZZARD INC	UNITED STATES	60,932	USD	30.6	26.6	7.9	-0.2	35.2
TAKE-TWO INTERACTIVE SOFTWARE	UNITED STATES	15,239	USD	30.0	27.0	6.7	-5.5	16.4
ATARI SA	FRANCE	101	EUR	39.5	39.5	9.3	-0.6	25.0
UBISOFT ENTERTAINMENT	FRANCE	10,791	EUR	32.7	26.3	4.7	0.7	44.2
ELECTRONIC ARTS INC	UNITED STATES	34,310	USD	24.3	20.9	8.1	-3.5	23.4
Média exc. Electronic Arts				33.2	29.8	7.2	-1.4	30.2

Source: Bloomberg; BiG Research

M&A

Lately, EA has been actively acquiring smaller companies like Respawn Entertainment for USD 315mn in December of 2017, GameFly in May 2018 and Industrial Toys in July 2018. Respawn was formed by former employees of Activision Blizzard in 2010, and since then made Titanfall in 2014 and Titanfall 2 in 2016. The company is preparing a launch of a virtual reality first person shooter game for 2019 and Star Wars Jedi: Fallen Order. Gamefly is a company focused on the streaming of games in tvs and devices like Amazon FireTV. Industrial Toys is a small mobile game developer.

▲ **Risks**

Possible acquisitions: As the sector is growing at a high rate is expected that the companies will invest in order to leverage this growth trend. There is the risk that Electronic Arts engages in acquisitions of smaller companies, which the market may perceive as expensive. It may also merge with a competitor which would be positive for both companies as there are clear synergies in the content aggregation. In a very optimistic scenario, it might be bought by a media giant such as Disney, Comcast, Tencent or Netflix.

FIFA is crucial: The game sales correspond to 10% of total company's revenues, while in-game purchases are 30% of Live Services revenue. There is another soccer game directly comparable to FIFA which is Pro Evolution, made by Konami. The two games have been battling for popularity since the 90s, and currently FIFA is winning. If there is a change, revenues may drop significantly.

Loot boxes in Europe: European regulators may probe Electronic Arts over the loot boxes (packages that gamers buy in FIFA to get players), given that these may be a form of gambling.

Rating		
Agency	Rating	Outlook
S&P	BBB+	STABLE
Moody's	Baa 1	POS
Fitch	BBB	STABLE

Source: Bloomberg

▲ **Chart Analysis**



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

▲ **Calendar**

- August 10th 2018:** Madden NFL 19 release
- September 7th 2018:** NBA Live 19 release
- September 14th 2018:** NHL 19 release
- September 28th 2018:** FIFA 19 release
- November 20th 2018:** Battlefield V release
- January 22nd 2019:** Anthem release

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 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
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PSI20 Notes in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
Total	4	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	11	78,6%
Stop Loss	1	7,1%
In Place	2	14,3%
Total	14	100,0%

Pair Trades in the last 12 months as of 30th of June of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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