

## Electronic Arts

# 3FQ24 Results: FY25 outlook lackluster but industry trends could work in EA's favor

Reiterate Rating: BUY | PO: 150.00 USD | Price: 137.55 USD

## FQ3 in line w/BofA, FC '24 grows despite tough comp

FQ3 Bookings were in line with guidance/Street/BofA, due to outperformance of FC '24; many investors we spoke with disbelieved it could grow low single digits Y/Y, as management guided, because of tough FY23 comps driven by World Cup-related engagement. FCUT drove growth with bookings up double-digits Y/Y; FC full game was down. FC Mobile grew DAUs 29% Y/Y, lapping two non-World Cup months in Sep & Oct '22. Apex Legends did not meet expectations. Some OpEx shifted into FQ4, leaving EBIT margin above Guide/Street/BofA and EPS was slightly better as well.

## FY24 Guide unchanged; FY25 indication well below Street

EA remained conservative on 24FQ4 guidance. Management expects moderated growth of FC '24 as it laps a record prior year Q. Initial indications for FY25 bookings growth (+1-3% Y/Y) were well below our model (+7% Y/Y) and Street (+4%), but many investors we spoke with had already questioned our growth assumptions prior to the print. The FY25 slate will likely be light, with only College Football (BofA est. 2mn units) discussed on the call. Management's indication for accelerating growth and profitability in FY26/FY27, based on a new release pipeline, is unlikely to move the stock significantly at this stage; we model +9% Y/Y FY26 growth given an apparently robust out-year pipeline.

## Potential for a beat & raise cycle in FY25

EA's initial FY25 indication assumes industry growth of +1-3% Y/Y in CY24, with EA retaining share. This forecast is below [Newzoo's +4% Y/Y forecast\(see note\)](#). EA broadly assumes that its core live services will gain some share of time within the industry for much of FY25, but noted that a major competing release, such as a GTA 6, could dent engagement. Given our view that (1) GTA 6 will launch in FY26, and (2) consumer demand should remain resilient due to console cycle maturation and low unemployment, (3) a weak industry slate in CY24 could make FC & Apex Legends "the only video games in town," we see potential for a beat and raise cycle as FY25 progresses.

## Maintain Buy & PO, valuation not demanding

At 18x P/E, EA still trades below its 5-year average and many large PC/Console publisher peers. Our \$150 PO is based on 19x FY25E P/E (slightly lower EPS).

| Estimates (Mar) (US\$)    | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS                       | 7.05  | 6.48  | 7.16  | 7.74  | 8.88  |
| GAAP EPS                  | 2.98  | 2.87  | 4.59  | 3.55  | 4.37  |
| EPS Change (YoY)          | 22.6% | -8.1% | 10.5% | 8.1%  | 14.7% |
| Consensus EPS (Bloomberg) |       |       | 7.16  | 7.82  | 8.53  |
| DPS                       | 0.67  | 0.76  | 0.76  | 0.78  | 0.80  |
| Valuation (Mar)           |       |       |       |       |       |
| P/E                       | 19.5x | 21.2x | 19.2x | 17.8x | 15.5x |
| GAAP P/E                  | 46.2x | 47.9x | 30.0x | 38.7x | 31.5x |
| Dividend Yield            | 0.5%  | 0.5%  | 0.6%  | 0.6%  | 0.6%  |
| EV / EBITDA*              | 13.8x | 14.9x | 15.3x | 14.2x | 13.2x |
| Free Cash Flow Yield*     | 4.2%  | 3.3%  | 4.7%  | 5.1%  | 5.0%  |

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

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Timestamp: 31 January 2024 05:00AM EST

31 January 2024

### Equity

#### Key Changes

| (US\$)        | Previous | Current |
|---------------|----------|---------|
| 2024E Rev (m) | 7,698.0  | 7,593.2 |
| 2025E Rev (m) | 8,276.3  | 7,862.3 |
| 2026E Rev (m) | 8,855.7  | 8,569.9 |
| 2024E EPS     | 7.27     | 7.16    |
| 2025E EPS     | 8.07     | 7.74    |
| 2026E EPS     | 9.00     | 8.88    |
| 2024E DPS     | 0.77     | 0.76    |

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### Stock Data

|                                 |                         |
|---------------------------------|-------------------------|
| Price                           | 137.55 USD              |
| Price Objective                 | 150.00 USD              |
| Date Established                | 10-Oct-2023             |
| Investment Opinion              | B-1-7                   |
| 52-Week Range                   | 108.53 USD - 143.47 USD |
| Mrkt Val (mn) / Shares Out (mn) | 41,127 USD / 299.0      |
| Free Float                      | 99.7%                   |
| Average Daily Value (mn)        | 212.19 USD              |
| BofA Ticker / Exchange          | EA / NAS                |
| Bloomberg / Reuters             | EA US / EA.OQ           |
| ROE (2024E)                     | 26.1%                   |
| Net Dbt to Eqty (Mar-2023A)     | -7.5%                   |
| ESGMeter™                       | High                    |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

### Acronyms:

FCUT: FC Ultimate Team

DAU: Daily Active User

GTA: Grand Theft Auto

# iQprofile<sup>SM</sup> Electronic Arts

## iQmethod<sup>SM</sup> – Bus Performance\*

| (US\$ Millions)            | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 19.1% | 13.2% | 18.7% | 17.5% | 19.8% |
| Return on Equity           | 26.1% | 24.1% | 26.1% | 27.7% | 31.5% |
| Operating Margin           | 33.2% | 30.4% | 30.9% | 32.3% | 33.4% |
| Free Cash Flow             | 1,711 | 1,343 | 1,942 | 2,103 | 2,061 |

## iQmethod<sup>SM</sup> – Quality of Earnings\*

| (US\$ Millions)          | 2022A  | 2023A | 2024E  | 2025E  | 2026E  |
|--------------------------|--------|-------|--------|--------|--------|
| Cash Realization Ratio   | 0.9x   | 0.9x  | 1.1x   | 1.1x   | 1.0x   |
| Asset Replacement Ratio  | 0.4x   | 0.4x  | 0.5x   | 0.7x   | 1.1x   |
| Tax Rate                 | 21.3%  | 39.5% | 19.7%  | 30.0%  | 30.0%  |
| Net Debt-to-Equity Ratio | -11.2% | -7.5% | -12.1% | -17.6% | -22.3% |
| Interest Cover           | 43.8x  | NM    | NA     | NA     | NA     |

## Income Statement Data (Mar)

| (US\$ Millions)              | 2022A        | 2023A         | 2024E        | 2025E        | 2026E        |
|------------------------------|--------------|---------------|--------------|--------------|--------------|
| Sales                        | 7,515        | 7,341         | 7,593        | 7,862        | 8,570        |
| % Change                     | 21.4%        | -2.3%         | 3.4%         | 3.5%         | 9.0%         |
| Gross Profit                 | 5,795        | 5,676         | 5,927        | 6,148        | 6,727        |
| % Change                     | 23.2%        | -2.1%         | 4.4%         | 3.7%         | 9.4%         |
| EBITDA                       | 2,983        | 2,764         | 2,684        | 2,906        | 3,114        |
| % Change                     | 32.2%        | -7.3%         | -2.9%        | 8.3%         | 7.2%         |
| Net Interest & Other Income  | (57)         | (6)           | 59           | 40           | 40           |
| <b>Net Income (Adjusted)</b> | <b>2,017</b> | <b>1,800</b>  | <b>1,946</b> | <b>2,091</b> | <b>2,353</b> |
| <b>% Change</b>              | <b>20.2%</b> | <b>-10.8%</b> | <b>8.1%</b>  | <b>7.4%</b>  | <b>12.5%</b> |

## Free Cash Flow Data (Mar)

| (US\$ Millions)                        | 2022A        | 2023A         | 2024E        | 2025E        | 2026E        |
|--|--------------|---------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 851          | 802           | 1,250        | 960          | 1,157        |
| Depreciation & Amortization            | 486          | 536           | 340          | 365          | 249          |
| Change in Working Capital              | 96           | (336)         | (75)         | 442          | 276          |
| Deferred Taxation Charge               | NA           | NA            | NA           | NA           | NA           |
| Other Adjustments, Net                 | 466          | 548           | 596          | 606          | 649          |
| Capital Expenditure                    | (188)        | (207)         | (168)        | (270)        | (270)        |
| <b>Free Cash Flow</b>                  | <b>1,711</b> | <b>1,343</b>  | <b>1,942</b> | <b>2,103</b> | <b>2,061</b> |
| <b>% Change</b>                        | <b>-5.5%</b> | <b>-21.5%</b> | <b>44.6%</b> | <b>8.3%</b>  | <b>-2.0%</b> |
| Share / Issue Repurchase               | (1,223)      | (1,215)       | (1,171)      | (1,500)      | (1,500)      |
| Cost of Dividends Paid                 | (193)        | (210)         | (207)        | (211)        | (211)        |
| Change in Debt                         | 0            | 0             | 0            | 0            | 0            |

## Balance Sheet Data (Mar)

| (US\$ Millions)                       | 2022A         | 2023A         | 2024E         | 2025E         | 2026E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents                    | 2,732         | 2,424         | 2,805         | 3,198         | 3,547         |
| Trade Receivables                     | 650           | 684           | 843           | 724           | 730           |
| Other Current Assets                  | 769           | 861           | 743           | 795           | 845           |
| Property, Plant & Equipment           | 550           | 549           | 594           | 681           | 734           |
| Other Non-Current Assets              | 9,099         | 8,941         | 8,715         | 8,782         | 8,908         |
| <b>Total Assets</b>                   | <b>13,800</b> | <b>13,459</b> | <b>13,699</b> | <b>14,180</b> | <b>14,763</b> |
| Short-Term Debt                       | 0             | 0             | 0             | 0             | 0             |
| Other Current Liabilities             | 3,513         | 3,285         | 3,277         | 3,901         | 4,482         |
| Long-Term Debt                        | 1,878         | 1,880         | 1,881         | 1,881         | 1,881         |
| Other Non-Current Liabilities         | 784           | 1,001         | 923           | 923           | 923           |
| <b>Total Liabilities</b>              | <b>6,175</b>  | <b>6,166</b>  | <b>6,081</b>  | <b>6,705</b>  | <b>7,286</b>  |
| <b>Total Equity</b>                   | <b>7,625</b>  | <b>7,293</b>  | <b>7,618</b>  | <b>7,475</b>  | <b>7,477</b>  |
| <b>Total Equity &amp; Liabilities</b> | <b>13,800</b> | <b>13,459</b> | <b>13,699</b> | <b>14,180</b> | <b>14,763</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

Interactive Media

## Company Description

EA is one of the largest independent publishers of interactive games for all platforms, including game consoles, PC's and mobile devices. The company is realizing a greater percentage of revenues from digital platforms, which may enhance margins and lead to more sustainable revenue growth. Key franchises for the company include Madden, FIFA, Apex Legends, Need for Speed, Battlefield, Star Wars Battlefront, Mass Effect, Dragon's Age, and The Sims.

## Investment Rationale

EA franchises have deep moats making share retention in an expanding TAM environment highly likely. 72% of EA's sales come from franchises with large, loyal followings. Because of rising fixed costs, competition is falling within EA's core competency of creating AAA games. Valuation is attractive given its discount to peers and significant competitive advantages.

## Stock Data

Average Daily Volume 1,542,666

## Quarterly Earnings Estimates

|    | 2023  | 2024 |
|----|-------|------|
| Q1 | 0.47A | NAA  |
| Q2 | 1.45A | NAA  |
| Q3 | 2.80A | NAA  |
| Q4 | 1.77A | NAE  |

# Supporting Exhibits

## Exhibit 1: EA 24Q3 Results vs. BofA Estimates

Results vs. BofA Estimates

|                                      |         |         |                 |            | Y/Y Growth |          |            | Q/Q Growth |          |            |
|--------------------------------------|---------|---------|-----------------|------------|------------|----------|------------|------------|----------|------------|
| (\$Mn)                               | 24Q3A   | 24Q3E   | Variance (Abs.) | Variance % | Actual     | Estimate | Variance % | Actual     | Estimate | Variance % |
| Non-GAAP Income Statement            |         |         |                 |            |            |          |            |            |          |            |
| Total Revenue                        | 2,366.0 | 2,385.0 | (19.0)          | -0.8%      | 1.0%       | 1.8%     | -0.8%      | 30.0%      | 31.0%    | -1.0%      |
| Cost of Revenue                      | 529.0   | 505.2   | 23.8            | 4.7%       | -6.9%      | -11.1%   | 4.2%       | 16.0%      | 10.8%    | 5.2%       |
| Gross Profit                         | 1,855.0 | 1,881.8 | (26.8)          | -1.4%      | 2.9%       | 4.4%     | -1.5%      | 34.3%      | 36.3%    | -1.9%      |
| S&M                                  | 262.0   | 271.4   | (9.4)           | -3.5%      | 8.7%       | 12.6%    | -3.9%      | -1.9%      | 1.7%     | -3.5%      |
| R&D                                  | 476.0   | 493.0   | (17.0)          | -3.4%      | 3.3%       | 6.9%     | -3.7%      | -2.7%      | 0.8%     | -3.5%      |
| G&A                                  | 143.0   | 157.4   | (14.4)          | -9.2%      | 7.5%       | 18.4%    | -10.8%     | -3.4%      | 6.4%     | -9.7%      |
| EBIT                                 | 974.0   | 959.9   | 14.1            | 1.5%       | 0.7%       | -0.7%    | 1.5%       | 104.2%     | 101.2%   | 3.0%       |
| EPS - Diluted                        | 3.0     | 2.9     | 0.1             | 2.5%       | 5.9%       | 3.3%     | 2.6%       | 102.6%     | 97.6%    | 4.9%       |
| Segments                             |         |         |                 |            |            |          |            |            |          |            |
| Full Game                            | 654.0   | 745.0   | (91.0)          | -12.2%     | -4.8%      | 8.4%     | -13.2%     | -5.4%      | 7.8%     | -13.2%     |
| Live Services PC/Console (BofA Est.) | 1,395.0 | 1,345.0 | 50.0            | 3.7%       | 3.9%       | 0.2%     | 3.7%       | 66.1%      | 60.1%    | 6.0%       |
| Mobile Gross                         | 307.0   | 285.0   | 22.0            | 7.7%       | 1.3%       | -5.9%    | 7.3%       | 10.0%      | 2.2%     | 7.9%       |
| % of Revenue                         |         |         |                 |            |            |          |            |            |          |            |
| Cost of Revenue                      | 21.6%   | 21.1%   | -               | 50 bps     | -1.5%      | -2.0%    | 5 bps      | -2.5%      | -3.0%    | 5 bps      |
| S&M                                  | 11.1%   | 11.4%   | -               | -31 bps    | 0.8%       | 1.1%     | -3 bps     | -3.6%      | -3.3%    | -3 bps     |
| R&D                                  | 20.1%   | 20.7%   | -               | -55 bps    | 0.4%       | 1.0%     | -6 bps     | -6.7%      | -6.2%    | -6 bps     |
| G&A                                  | 6.0%    | 6.6%    | -               | -56 bps    | 0.4%       | 0.9%     | -6 bps     | -2.1%      | -1.5%    | -6 bps     |
| EBIT                                 | 41.2%   | 40.2%   | -               | 92 bps     | -0.1%      | -1.0%    | 9 bps      | 14.0%      | -26.2%   | 402 bps    |

Source: BofA Global Research estimates, Company Reports

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**Exhibit 2: EA Revenue Forecast Breakdown by Product, FY24E to FY26E**

We expect Full Game to drive PC/Console growth in FY24E, with the launch of Star Wars Jedi Survivor the biggest growth contributor; we model -4% Y/Y in mobile bookings with continued strength in FC Mobile partially offsetting the loss of Apex Legends Mobile revenue

|  | FY23        | FY24E        | FY25E        | FY26E        |
|--|-------------|--------------|--------------|--------------|
| Full Game  | 1,811       | 1,966        | 1,945        | 2,198        |
| Of Which Digital   | 1,189       | 1,289        | 1,283        | 1,495        |
| Of Which Packaged (BofA Est.)                              | 622         | 677          | 662          | 703          |
| Live + Other   | 5,530       | 5,628        | 5,917        | 6,372        |
| Of Which Other (BofA Est.)                                 | 40          | 40           | 40           | 40           |
| Of Which Live Services PC/Console (BofA Est.)              | 4,246       | 4,399        | 4,617        | 4,982        |
| Of Which Mobile Gross (BofA Est.)                          | 1,244       | 1,189        | 1,260        | 1,350        |
| Of Which GLU   | 221         | 186          | 190          | 200          |
| Of Which Playdemic   | 191         | 166          | 170          | 179          |
| Of Which Apex Mobile/(Relaunch)                            | 55          | -            | -            | 20           |
| Of Which FIFA Mobile                                       | 285         | 395          | 410          | 440          |
| Of Which Battlefield Mobile                                | -           | -            | -            | -            |
| Of Which Lord of the Rings                                 | 3           | 25           | 70           | 90           |
| Of Which Legacy EA Studios                                 | 490         | 417          | 420          | 422          |
| <b>Y/Y Growth %</b>  | <b>FY23</b> | <b>FY24E</b> | <b>FY25E</b> | <b>FY26E</b> |
| Full Game Growth Y/Y %                                     | -15.6%      | 8.6%         | -1.1%        | 13.0%        |
| Of Which Digital Growth Y/Y %                              | -14.3%      | 8.4%         | -0.5%        | 16.5%        |
| Of Which Packaged (BofA Est.) Growth Y/Y %                 | -17.8%      | 8.8%         | -2.2%        | 6.2%         |
| Live + Other Growth Y/Y %                                  | 3.0%        | 1.8%         | 5.1%         | 7.7%         |
| Of Which Other (BofA Est.) Growth Y/Y %                    | 0.0%        | 0.0%         | 0.0%         | 0.0%         |
| Of Which Live Services PC/Console (BofA Est.) Growth Y/Y % | 2.6%        | 3.6%         | 5.0%         | 7.9%         |
| Of Which Mobile Gross (BofA Est.) Growth Y/Y %             | 4.3%        | -4.4%        | 6.0%         | 7.1%         |
| Of Which GLU Growth Y/Y %                                  | -29.4%      | -16.0%       | 2.2%         | 5.0%         |
| Of Which Playdemic Growth Y/Y %                            | 98.4%       | -12.9%       | 2.4%         | 5.0%         |
| Of Which Apex Mobile/(Relaunch) Growth Y/Y %               |             |              |              |              |
| Of Which FIFA Mobile Growth Y/Y %                          | 76.8%       | 38.6%        | 3.8%         | 7.3%         |
| Of Which Battlefield Mobile Growth Y/Y %                   |             |              |              |              |
| Of Which Lord of the Rings Growth Y/Y %                    |             | 900.0%       | 180.0%       | 28.6%        |
| Of Which Legacy EA Studios Growth Y/Y %                    | -21.8%      | -14.8%       | 0.7%         | 0.5%         |

Source: Company reports, BofA Global Research estimates

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**Exhibit 3: PC/Console Live Services Revenue Forecast Breakdown by Franchise, FY24E to FY26E**

We expect Ultimate Team to remain resilient and Apex Legends to decline in FY24E

|   | FY23        | FY24E        | FY25E        | FY26E        |
|---|-------------|--------------|--------------|--------------|
| Live Services Bottom Up                         | 4,246       | 4,399        | 4,617        | 4,982        |
| of which Ultimate Team                          | 2,016       | 2,215        | 2,375        | 2,541        |
| of which Apex Legends (PC/Console)              | 861         | 775          | 820          | 850          |
| of which Sims                                   | 351         | 420          | 455          | 500          |
| of which Battlefield 2042                       | 30          | 30           | 32           | 100          |
| of which All Other Live Services                | 988         | 959          | 935          | 991          |
| <b>Y/Y Growth %</b>                             | <b>FY23</b> | <b>FY24E</b> | <b>FY25E</b> | <b>FY26E</b> |
| Live Services Y/Y Growth %                      | 2.6%        | 3.6%         | 5.0%         | 7.9%         |
| of which Ultimate Team Y/Y Growth %             | 6.8%        | 9.9%         | 7.2%         | 7.0%         |
| of which Apex Legends (PC/Console) Y/Y Growth % | -2.2%       | -9.9%        | 5.8%         | 3.7%         |
| of which Sims Y/Y Growth %                      | -5.3%       | 19.7%        | 8.3%         | 9.9%         |
| of which Battlefield 2042 Y/Y Growth %          |             | 0.8%         | 6.7%         | 212.5%       |
| of which All Other Live Services Y/Y Growth %   | -1.0%       | -2.9%        | -2.5%        | 6.0%         |

Source: Company reports, BofA Global Research estimates

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**Exhibit 4: BofA Forecasts vs. Street and Company Guidance**

We lower FY25 topline/EPS forecasts based on management indications, assuming no major premium game releases other than College Football

|  | FY23    | 1Q24   | 2Q24  | 3Q24   | 4Q24E   | FY24E  | FY25E   | FY26E  |
|--|---------|--------|-------|--------|---------|--------|---------|--------|
| <b>Net Bookings</b>  |         |        |       |        |         |        |         |        |
| B of A (After)   | 7,341   | 1,578  | 1,820 | 2,366  | 1,829   | 7,593  | 7,862   | 8,570  |
| B of A (Before)  |         |        |       | 2,385  | 1,915   | 7,698  | 8,276   | 8,856  |
| STREET   |         |        |       | 2,383  | 1,814   | 7,596  | 8,050   | 8,381  |
| Delta vs. STREET   |         |        |       | (0.7%) | 0.8%    | (0.0%) | (2.3%)  | 2.2%   |
| GUIDE (Midpoint)   |         |        |       | 2,350  | 1,775   | 7,539  |         |        |
| <b>Net Bookings YoY Growth %</b>                                     |         |        |       |        |         |        |         |        |
| B of A (After)   | (2.3%)  | 21.5%  | 3.8%  | 1.0%   | (6.0%)  | 3.4%   | 3.5%    | 9.0%   |
| B of A (Before)  |         |        |       | 1.8%   | (1.6%)  | 4.9%   | 7.5%    | 7.0%   |
| STREET   |         |        |       | 1.8%   | (6.8%)  | 3.5%   | 6.0%    | 4.1%   |
| Delta vs. STREET   |         |        |       | (0.7%) | 0.8%    | (0.0%) | (2.5%)  | 4.9%   |
| GUIDE (Midpoint)   |         |        |       | 0.3%   | (8.8%)  | 2.7%   |         |        |
| <b>Net Bookings – Full Game</b>                                      |         |        |       |        |         |        |         |        |
| B of A (After)   | 1,811   | 401    | 691   | 654    | 220     | 1,966  | 1,945   | 2,198  |
| B of A (Before)  |         |        |       | 745    | 290     | 2,127  | 2,307   | 2,491  |
| STREET   |         |        |       | 711    | 278     | 2,096  | 2,325   | 2,337  |
| Delta vs. STREET   |         |        |       | (8.0%) | (20.8%) | (6.2%) | (16.3%) | (5.9%) |
| GUIDE Implied (Midpoint)   |         |        |       |        |         | -      | -       | -      |
| <b>Net Bookings – Full Game YoY Growth %</b>                         |         |        |       |        |         |        |         |        |
| B of A (After)   | (15.6%) | 143.0% | 8.8%  | (4.8%) | (32.1%) | 8.6%   | (1.1%)  | 13.0%  |
| B of A (Before)  |         |        |       | 8.4%   | (10.5%) | 17.4%  | 8.5%    | 8.0%   |
| STREET   |         |        |       | 3.5%   | (14.3%) | 15.7%  | 10.9%   | 0.5%   |
| Delta vs. STREET   |         |        |       | (8.3%) | (17.8%) | (7.2%) | (12.0%) | 12.5%  |
| GUIDE Implied (Midpoint)   |         |        |       |        |         |        |         |        |
| <b>Net Bookings – Live Services</b>                                  |         |        |       |        |         |        |         |        |
| B of A (After)   | 5,530   | 1,177  | 1,129 | 1,712  | 1,610   | 5,628  | 5,917   | 6,372  |
| B of A (Before)  |         |        |       | 1,640  | 1,625   | 5,571  | 5,972   | 6,364  |
| STREET   |         |        |       | 1,670  | 1,524   | 5,485  | 5,712   | 6,016  |
| Delta vs. STREET   |         |        |       | 2.5%   | 5.6%    | 2.6%   | 3.6%    | 5.9%   |
| GUIDE Implied (Midpoint)   |         |        |       |        |         |        |         |        |
| <b>Net Bookings – Live Services YoY Growth %</b>                     |         |        |       |        |         |        |         |        |
| B of A (After)   | 3.0%    | 3.8%   | 0.9%  | 3.4%   | (0.7%)  | 1.8%   | 5.1%    | 7.7%   |
| B of A (Before)  |         |        |       | (0.9%) | 0.2%    | 0.7%   | 7.2%    | 6.6%   |
| STREET   |         |        |       | 0.9%   | (6.0%)  | (0.8%) | 4.1%    | 5.3%   |
| Delta vs. STREET   |         |        |       | 2.5%   | 5.3%    | 2.6%   | 1.0%    | 2.4%   |
| GUIDE Implied (Midpoint)   |         |        |       |        |         |        |         |        |
| <b>of which Net Bookings – Live Services PC/Console</b>              |         |        |       |        |         |        |         |        |
| B of A (After)   | 4,246   | 864    | 840   | 1,395  | 1,300   | 4,399  | 4,617   | 4,982  |
| B of A (Before)  |         |        |       | 1,345  | 1,320   | 4,369  | 4,652   | 4,954  |
| STREET   |         |        |       | 1,382  | 1,198   | 4,289  | 4,451   | 4,668  |
| Delta vs. STREET   |         |        |       | 1.0%   | 8.5%    | 2.6%   | 3.7%    | 6.7%   |
| GUIDE Implied (Midpoint)   |         |        |       | -      | -       | -      | -       | -      |
| <b>of which Net Bookings – Live Services PC/Console YoY Growth %</b> |         |        |       |        |         |        |         |        |
| B of A (After)   | 2.6%    | 6.7%   | 3.3%  | 3.9%   | 1.5%    | 3.6%   | 5.0%    | 7.9%   |
| B of A (Before)  |         |        |       | 0.2%   | 3.0%    | 2.9%   | 6.5%    | 6.5%   |
| STREET   |         |        |       | 2.2%   | (7.2%)  | 0.1%   | 3.8%    | 4.9%   |
| Delta vs. STREET   |         |        |       | 1.7%   | 8.7%    | 3.5%   | 1.2%    | 3.0%   |
| GUIDE Implied (Midpoint)   |         |        |       |        |         |        |         |        |
| <b>of which Net Bookings – Mobile</b>                                |         |        |       |        |         |        |         |        |
| B of A (After)   | 1,244   | 303    | 279   | 307    | 300     | 1,189  | 1,260   | 1,350  |
| B of A (Before)  |         |        |       | 285    | 295     | 1,162  | 1,280   | 1,370  |
| STREET   |         |        |       | 288    | 326     | 1,196  | 1,261   | 1,348  |
| Delta vs. STREET   |         |        |       | 6.5%   | (8.0%)  | (0.6%) | (0.0%)  | 0.1%   |
| GUIDE Implied (Midpoint)   |         |        |       |        |         |        |         |        |

**Exhibit 4: BofA Forecasts vs. Street and Company Guidance**

We lower FY25 topline/EPS forecasts based on management indications, assuming no major premium game releases other than College Football

|  |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>of which Net Bookings – Mobile YoY Growth %</b> |        |        |        |        |        |        |        |        |
| B of A (After)                                     | 4%     | (4%)   | (6%)   | 1%     | (9%)   | (4%)   | 6%     | 7%     |
| B of A (Before)                                    |        |        |        | (6%)   | (11%)  | (7%)   | 10%    | 7%     |
| STREET   |        |        |        | (5%)   | (2%)   | (4%)   | 5%     | 7%     |
| Delta vs. STREET                                   |        |        |        | 6%     | (8%)   | (1%)   | 1%     | 0%     |
| GUIDE Implied (Midpoint)                           |        |        |        |        |        |        |        |        |
| <b>EBIT Non-GAAP</b>                               |        |        |        |        |        |        |        |        |
| B of A (After)                                     | 2,228  | 370    | 477    | 974    | 523    | 2,344  | 2,541  | 2,865  |
| B of A (Before)                                    |        |        |        | 960    | 590    | 2,397  | 2,684  | 2,934  |
| STREET   |        |        |        | 970    | 520    | 2,337  | 2,588  | 2,758  |
| Delta vs. STREET                                   |        |        |        | 0.4%   | 0.4%   | 0.3%   | (1.8%) | 3.9%   |
| GUIDE (Midpoint)                                   |        |        |        | 950    | 485    | 2,306  |        |        |
| <b>EBIT Margin % Non-GAAP</b>                      |        |        |        |        |        |        |        |        |
| B of A (After)                                     | 30.4%  | 23.4%  | 26.2%  | 41.2%  | 28.6%  | 30.9%  | 32.3%  | 33.4%  |
| B of A (Before)                                    |        |        |        | 40.2%  | 30.8%  | 31.1%  | 32.4%  | 33.1%  |
| STREET   |        |        |        | 40.7%  | 28.7%  | 30.8%  | 32.2%  | 32.9%  |
| Delta vs. STREET                                   |        |        |        | 0.5%   | (0.1%) | 0.1%   | 0.2%   | 0.5%   |
| GUIDE (Midpoint)                                   |        |        |        | 40.4%  | 27.3%  | 30.6%  |        |        |
| <b>Diluted EPS Non-GAAP</b>                        |        |        |        |        |        |        |        |        |
| B of A (After)                                     | \$6.48 | \$1.14 | \$1.46 | \$2.96 | \$1.60 | \$7.16 | \$7.74 | \$8.88 |
| B of A (Before)                                    |        |        |        | \$2.89 | \$1.79 | \$7.27 | \$8.07 | \$9.00 |
| STREET   |        |        |        | \$2.93 | \$1.58 | \$7.10 | \$7.86 | \$8.55 |
| Delta vs. STREET                                   |        |        |        | 1.2%   | 1.5%   | 0.8%   | (1.6%) | 3.9%   |
| GUIDE (Midpoint)                                   |        |        |        | \$2.85 | \$1.50 | \$7.05 |        |        |

Source: BofA Global Research estimates, Visible Alpha

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**Exhibit 5: EA Valuation of \$150 PO**

Our PO of \$150 is based on 19x FY25 Non-GAAP Diluted EPS of \$7.7

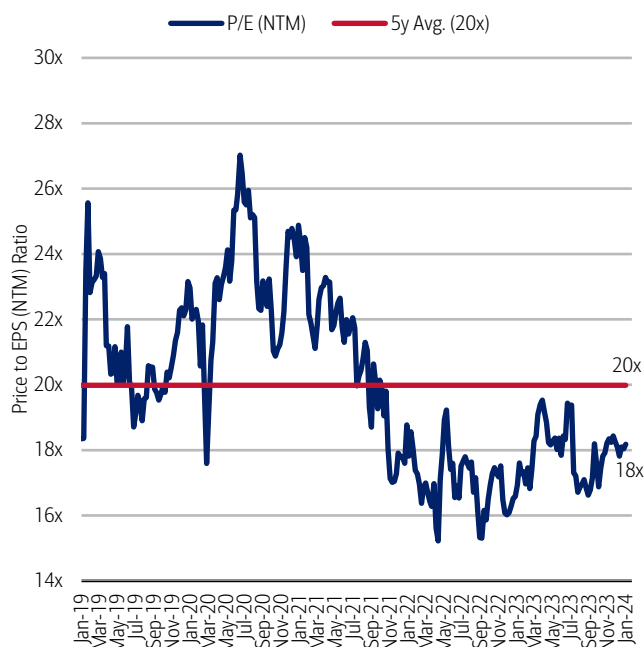
| (\$)                      | Target Valuation<br>BofA PO | Market Valuation<br>Current Price (1/30/24) |
|---------------------------|-----------------------------|---|
| Share Price               | \$150                       | \$138                                       |
| P/E                       | 19.4x                       | 17.8x                                       |
| FY25 Non-GAAP Diluted EPS | \$7.74                      | \$7.74                                      |
| <b>Valuation Upside</b>   | <b>9%</b>                   |   |

Source: BofA Global Research estimates, Visible Alpha

BofA GLOBAL RESEARCH

**Exhibit 6: EA NTM P/E Ratio, Consensus, Jan '19 to Jan '24**

EA's current valuation on NTM EPS remains near its 5-year low

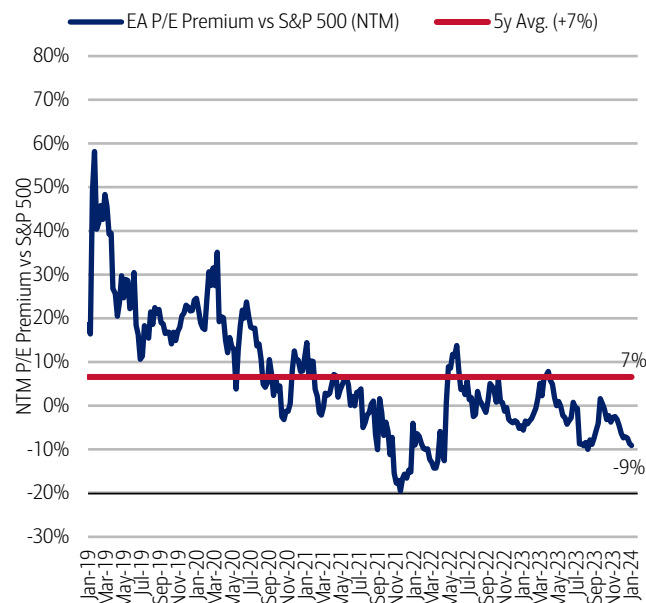


Source: Factset, BofA Global Research

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**Exhibit 7: EA NTM P/E Premium/Discount to S&P 500, Jan '19 to Jan '24**

EA currently trades at 9% discount to S&amp;P 500 on NTM P/E, below its 5y average of 7% premium



Source: Factset, BofA Global Research

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**Exhibit 8: Global PC/Console Video Game Publisher Comparable Company Analysis**

Our comp set includes global PC/Console Video Game Publishers

| Company                  | Ticker    | 1/30/24 Price | EV/Sales         |                  |                  | Sales CAGR CY22-CY24 | EV/EBIT          |                  |                  | EBIT CAGR CY22-CY24 | P/E              |                  |                  | EPS CAGR CY22-CY24 |
|--------------------------|-----------|---------------|------------------|------------------|------------------|----------------------|------------------|------------------|------------------|---------------------|------------------|------------------|------------------|--------------------|
|                          |           |               | (Consensus) CY22 | (Consensus) CY23 | (Consensus) CY24 |                      | (Consensus) CY22 | (Consensus) CY23 | (Consensus) CY24 |                     | (Consensus) CY22 | (Consensus) CY23 | (Consensus) CY24 |                    |
| Index                    |           |               | 3.8x             | 3.6x             | 3.4x             | 7%                   | 19.7x            | 14.3x            | 12.7x            | 24%                 |                  |                  |                  |                    |
| CD Projekt               | CDR PW    | PLN 103.80    | 11.2x            | 8.4x             | 12.8x            | 19%                  | 28.2x            | 22.8x            |                  | 41%                 | 30.2x            | 24.3x            | 43.4x            | 44%                |
| Remedy Entertainment Oy  | REMEDY FH | € 24.10       | 7.0x             | 9.6x             | 4.4x             | 26%                  | NA               | NA               |                  |                     | NA               | NA               | 33.0x            |                    |
| Paradox Interactive AB   | PDX SS    | 199.10 kr     | 10.2x            | 7.7x             | 7.2x             | 19%                  | 22.7x            | 29.5x            | 21.4x            | 3%                  | 29.7x            | 35.9x            | 27.1x            | 5%                 |
| Capcom                   | 9697 JP   | ¥5,563.0      | 7.6x             | 7.3x             | 6.5x             | 8%                   | 18.8x            | 17.8x            | 15.5x            | 10%                 | 31.8x            | 27.5x            | 24.3x            | 15%                |
| Pearl Abyss Corp.        | 263750 KS | ₩33,750       | 4.2x             | 5.0x             | 3.2x             | 15%                  | 96.7x            | NA               | 14.8x            | 156%                | NA               | 105.8x           | 18.4x            |                    |
| Electronic Arts          | EA US     | \$138.26      | 5.2x             | 5.0x             | 4.8x             | 4%                   | 17.2x            | 16.3x            | 15.0x            | 7%                  | 21.9x            | 19.4x            | 17.8x            | 11%                |
| DeNA Co., Ltd.           | 2432 JP   | ¥1,504.0      | 0.5x             | 0.5x             | 0.5x             | 0%                   | 15.6x            | 14.8x            | 8.0x             | 40%                 | 19.6x            | 24.3x            | 16.4x            | 9%                 |
| Nexon                    | 3659 JP   | ¥2,369.5      | 3.3x             | 3.1x             | 2.8x             | 9%                   | 11.4x            | 9.1x             | 8.1x             | 19%                 | 20.7x            | 16.1x            | 15.8x            | 14%                |
| Digital Bros S.p.A.      | DIB IM    | € 10.27       | 1.7x             | 1.8x             | 1.6x             | 3%                   | 6.2x             | 11.0x            | 10.9x            | (25%)               | 5.5x             | 15.1x            | 12.2x            | (33%)              |
| Ubisoft                  | UBI FP    | € 20.33       | 2.0x             | 1.7x             | 1.6x             | 14%                  | NA               | 9.4x             | 8.5x             |                     | NA               | 13.3x            | 10.4x            |                    |
| Sega Sammy Holdings Inc. | 6460 JP   | ¥2,166.0      | 1.0x             | 0.9x             | 0.9x             | 9%                   | 8.5x             | 6.9x             | 6.8x             | 12%                 | 10.4x            | 13.3x            | 10.4x            | (0%)               |
| Median                   |           |               | 4.2x             | 5.0x             | 3.2x             | 9%                   | 17.2x            | 14.8x            | 10.9x            | 12%                 | 21.3x            | 21.8x            | 17.8x            | 10%                |
| Average                  |           |               | 4.9x             | 4.6x             | 4.2x             | 11%                  | 25.0x            | 15.3x            | 12.1x            | 29%                 | 21.2x            | 29.5x            | 20.8x            | 8%                 |

Source: Bloomberg, FactSet

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## Price objective basis & risk

### Electronic Arts (EA)

Our price objective of \$150 is based on a share price 19x our FY25E Non-GAAP Diluted EPS estimate. We think EA should trade at a premium to PC/Console game publisher peers in light of its ownership of two of only 10 "mega" franchises in the world. EA currently trades below the median valuation of 10 PC/Console game publishers on a P/E basis.

Downside risks to EA are loss of key personnel, deterioration of gamer budgets in a return-to-work environment, rising personnel costs that are not offset by price increases, and production delays driven by return to office by employees.

## Analyst Certification

I, Omar Dessouky, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Internet Coverage Cluster

| Investment rating | Company                           | BofA Ticker | Bloomberg symbol | Analyst            |
|-------------------|-----------------------------------|-------------|------------------|--------------------|
| <b>BUY</b>        |                                   |             |                  |                    |
|                   | Alphabet                          | GOOGL       | GOOGL US         | Justin Post        |
|                   | Alphabet                          | GOOG        | GOOG US          | Justin Post        |
|                   | Amazon.com                        | AMZN        | AMZN US          | Justin Post        |
|                   | AppLovin                          | APP         | APP US           | Omar Dessouky, CFA |
|                   | DoorDash                          | DASH        | DASH US          | Michael McGovern   |
|                   | DoubleVerify Holdings, Inc.       | DV          | DV US            | Omar Dessouky, CFA |
|                   | Electronic Arts                   | EA          | EA US            | Omar Dessouky, CFA |
|                   | Expedia                           | EXPE        | EXPE US          | Justin Post        |
|                   | Integral Ad Science Holding Corp. | IAS         | IAS US           | Omar Dessouky, CFA |
|                   | LegalZoom                         | LZ          | LZ US            | Michael McGovern   |
|                   | Match Group                       | MTCH        | MTCH US          | Curtis Nagle, CFA  |
|                   | Meta Platforms Inc                | META        | META US          | Justin Post        |
|                   | Pinterest                         | PINS        | PINS US          | Justin Post        |
|                   | RH                                | RH          | RH US            | Curtis Nagle, CFA  |
|                   | Roblox Corp. Class A              | RBLX        | RBLX US          | Omar Dessouky, CFA |
|                   | Squarespace, Inc.                 | SQSP        | SQSP US          | Michael McGovern   |
|                   | Uber                              | UBER        | UBER US          | Justin Post        |
|                   | Udemy Inc                         | UDMY        | UDMY US          | Curtis Nagle, CFA  |
|                   | Vivid Seats                       | SEAT        | SEAT US          | Curtis Nagle, CFA  |
|                   | Wayfair                           | W           | W US             | Curtis Nagle, CFA  |
|                   | Wix.com                           | WIX         | WIX US           | Michael McGovern   |
| <b>NEUTRAL</b>    |                                   |             |                  |                    |
|                   | ACV Auctions                      | ACVA        | ACVA US          | Curtis Nagle, CFA  |
|                   | Airbnb                            | ABNB        | ABNB US          | Justin Post        |
|                   | Beyond Inc                        | BYON        | BYON US          | Curtis Nagle, CFA  |
|                   | Booking Holdings Inc              | BKNG        | BKNG US          | Justin Post        |
|                   | Bumble                            | BMBL        | BMBL US          | Curtis Nagle, CFA  |
|                   | Digital Turbine, Inc              | APPS        | APPS US          | Omar Dessouky, CFA |
|                   | Duolingo                          | DUOL        | DUOL US          | Curtis Nagle, CFA  |
|                   | eBay                              | EBAY        | EBAY US          | Justin Post        |
|                   | Etsy, Inc.                        | ETSY        | ETSY US          | Curtis Nagle, CFA  |
|                   | Instacart                         | CART        | CART US          | Justin Post        |
|                   | Magnite, Inc.                     | MGNI        | MGNI US          | Omar Dessouky, CFA |
|                   | Snap                              | SNAP        | SNAP US          | Justin Post        |
|                   | Take-Two Interactive              | TTWO        | TTWO US          | Omar Dessouky, CFA |
|                   | Zillow                            | ZG          | ZG US            | Curtis Nagle, CFA  |
|                   | Zillow                            | Z           | Z US             | Curtis Nagle, CFA  |



## US - Internet Coverage Cluster

| Investment rating   | Company               | BofA Ticker | Bloomberg symbol | Analyst            |
|---------------------|-----------------------|-------------|------------------|--------------------|
| <b>UNDERPERFORM</b> | Chewy Inc             | CHWY        | CHWY US          | Curtis Nagle, CFA  |
|                     | Lyft, Inc.            | LYFT        | LYFT US          | Michael McGovern   |
|                     | Opendoor Technologies | OPEN        | OPEN US          | Curtis Nagle, CFA  |
|                     | Peloton               | PTON        | PTON US          | Curtis Nagle, CFA  |
|                     | Playtika              | PLTK        | PLTK US          | Omar Dessouky, CFA |
|                     | Redfin Corp           | RDFN        | RDFN US          | Curtis Nagle, CFA  |
|                     | Shutterstock          | SSTK        | SSTK US          | Curtis Nagle, CFA  |

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

**iQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

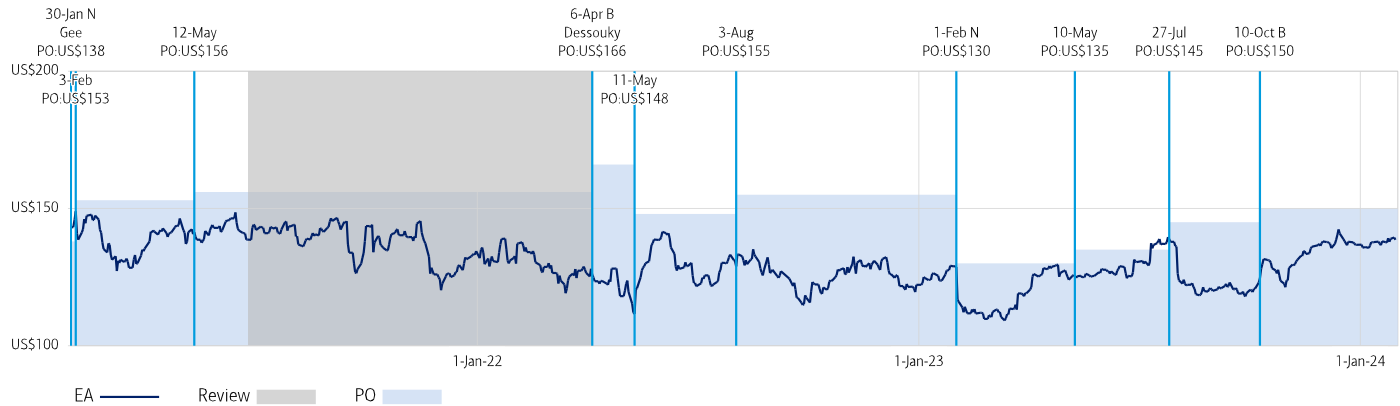
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# Disclosures

## Important Disclosures

### Electronic Arts (EA) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 35    | 53.85%  | Buy                                      | 15    | 42.86%  |
| Hold              | 15    | 23.08%  | Hold                                     | 8     | 53.33%  |
| Sell              | 15    | 23.08%  | Sell                                     | 7     | 46.67%  |

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Electronic Arts.

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BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Electronic Arts.

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