Electronic Arts standing firm on USD 26 offer; CFO says Take Two's undervaluation argument is unrealistic

By James Erik Abels in New York

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Electronic Arts (EA) is standing firm on its offer of USD 26 per share to acquire rival Take Two Interactive Software, CFO Warren Jenson said in an interview, dealReporter reported. Calling the number "hugely pre-emptive," he said Take Two's demand for a higher bid was unrealistic.

Jenson declined to comment on whether management has discussed offering more. Take Two's stock price was USD 17.36 last Friday, the last trading day before the offer was publicly disclosed.

Last week, a top Take Two shareholder told this news service that USD 30 per share was a more realistic price. He cited the upcoming 29 April release of Grand Theft Auto 4 and other cost-cutting measures that Take Two has said have not yet been recognized by the market.

"It's a dance, right," said EA's Jenson of Take Two's rejection of the offer. "There's not a shred of historical evidence to show that is the case," he said of assertions that Grand Theft Auto 4 sales would dramatically change Take Two's value.

As the seventh version of the game, Jenson said there is plenty of data to predict sales. While he said EA may not dramatically increase its US and UK sales, it could in more far-flung markets such as Spain or Russia.

"They're [EA] very serious here," said Kaufman Brothers analyst Todd Mitchell. "They took some money out of short term investments and put it into cash." Still Mitchell said he remains unconvinced a deal will close as the Take Two acquisition is not an imperative for EA.

"If they overpay for this thing, people are going to smell desperation," he said.

EA's Jenson said it may drop the size of its bid if Take Two does not act quickly enough.

He warned that the pressure is on to finish a deal in order to integrate Take Two's management into EA in time for this year's holiday season. The period can account for some 40% of video game sales, he said.

"We just don't need both," he said in reference to overlap in EA's and Take Two's management. Creative personnel may be a different story.

Rockstar Games – the Take Two publisher of the Grand Theft Auto series – is a "significant part of this transaction," said Jenson. Yet the value of Rockstar is said by some to be tightly aligned with Sam Houser, its president, and his brother, Dan Houser, vp creative.

"Everyone acknowledges the Housers are the glue that keeps this [Grand Theft Auto] together," said Michael Pachter, an analyst with Wedbush Morgan Securities.

But it is unclear whether the two would be willing to move to EA – particularly with a contract that is said to give them a cut of gross revenues from Take Two's Grand Theft Auto sales. "The myth is they get 15% of revenues," said Pachter, "I think that's probably right."

With that standard dangling before employees – and a history of building controversial themes such as sex into Grand Theft Auto – Pachter questioned whether EA would want the two in-house. Earlier this week, Pachter publicly suggested that EA split Rockstar off into a separate company to avoid some of these issues.

"The analysts see Rockstar and they see risk," said EA's Jenson. "We see Rockstar and we see opportunity."

While he said he had some understanding of the Housers' contracts, he declined to specify what that was.

Instead, he said he believed that the Housers would be comfortable working within EA.
