



Zacks Report Date: June 20, 2024



Quote or Search

Electronic Arts Inc. (EA)

\$138.13 (Stock Price as of 06/19/2024)

 Price Target (6-12 Months): **\$143.00**

Long Term: 6-12 Months

Zacks Recommendation:**Neutral**

(Since: 04/03/23)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)**3-Hold**

Zacks Style Scores:

VGM: F

Value: D

Growth: C

Momentum: F

Summary

Electronic Arts' is suffering due to softness in demand for live services and full-game revenues. Live services revenues were flat year over year, excluding the impact of the sunset of *Apex Mobile*. Based on platform revenues, sales from consoles also declined in the previous quarter. Operating expenses have increased, impacting the bottom line of the company negatively. Intensifying competition from the likes of Take-Two Interactive and Activision, has hurt EA's prospects. Shares have underperformed the industry year to date. Upcoming games, *Madden NFL 25* and *College Football 25* present a significant growth opportunity. Its popularity is primarily driven by its franchises, which will fuel the top line. For fiscal 2025, it has a strong pipeline that includes seven new releases throughout the year.

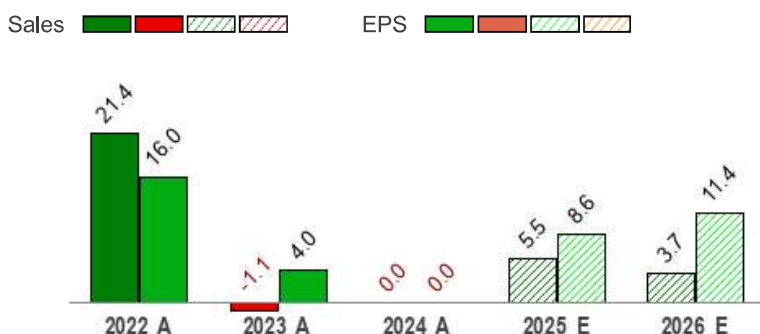
Price, Consensus & Surprise⁽¹⁾



Data Overview

52 Week High-Low	\$144.53 - \$117.47
20 Day Average Volume (sh)	2,247,946
Market Cap	\$36.7 B
YTD Price Change	1.0%
Beta	0.80
Dividend / Div Yld	\$0.76 / 0.6%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Bottom 18% (205 out of 249)

Sales and EPS Growth Rates (Y/Y %)⁽¹⁾



Last EPS Surprise	-11.0%
Last Sales Surprise	-6.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2024
Earnings ESP	0.0%

Sales Estimates (millions of \$)⁽¹⁾

	Q1	Q2	Q3	Q4	Annual*
2026					8,130 E
2025	1,412 E	1,894 E	2,516 E	2,020 E	7,841 E
2024	1,578 A	1,820 A	2,366 A	1,666 A	7,430 A

EPS Estimates⁽¹⁾

	Q1	Q2	Q3	Q4	Annual*
2026					8.41 E

			Q1	Q2	Q3	Q4	Annual*
PEG F1	1.8						
P/S TTM	4.9	2025	0.71 E	1.72 E	3.19 E	1.92 E	7.55 E
		2024	1.14 A	1.46 A	2.96 A	1.37 A	6.95 A

*Quarterly figures may not add up to annual.

- (1) The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/19/2024.
(2) The report's text and the price target are as of 06/17/2024.

Overview

Electronic Arts, popularly known as EA, is a leading developer, marketer, publisher and distributor of digital interactive entertainment, including games, extra content and services. Its portfolio includes wholly owned games like *Apex Legends*, *Battlefield*, and *The Sims* or licensed from others, including *Madden NFL*, *Star Wars* and others.

Headquartered in Redwood City, CA, EA generated revenues of \$7.56 billion in fiscal 2024, of which live services and other revenues contributed 81% and the remaining were generated from full game downloads. Net bookings for fiscal 2023 were \$7.43 billion.

Live service offerings include extra content, subscription offerings and other revenues generated outside of the sale of EA's base games. The most popular live services are the extra content purchased for the Ultimate Team mode associated with EA's sports franchises and the extra content purchased for the *Apex Legends* franchise.

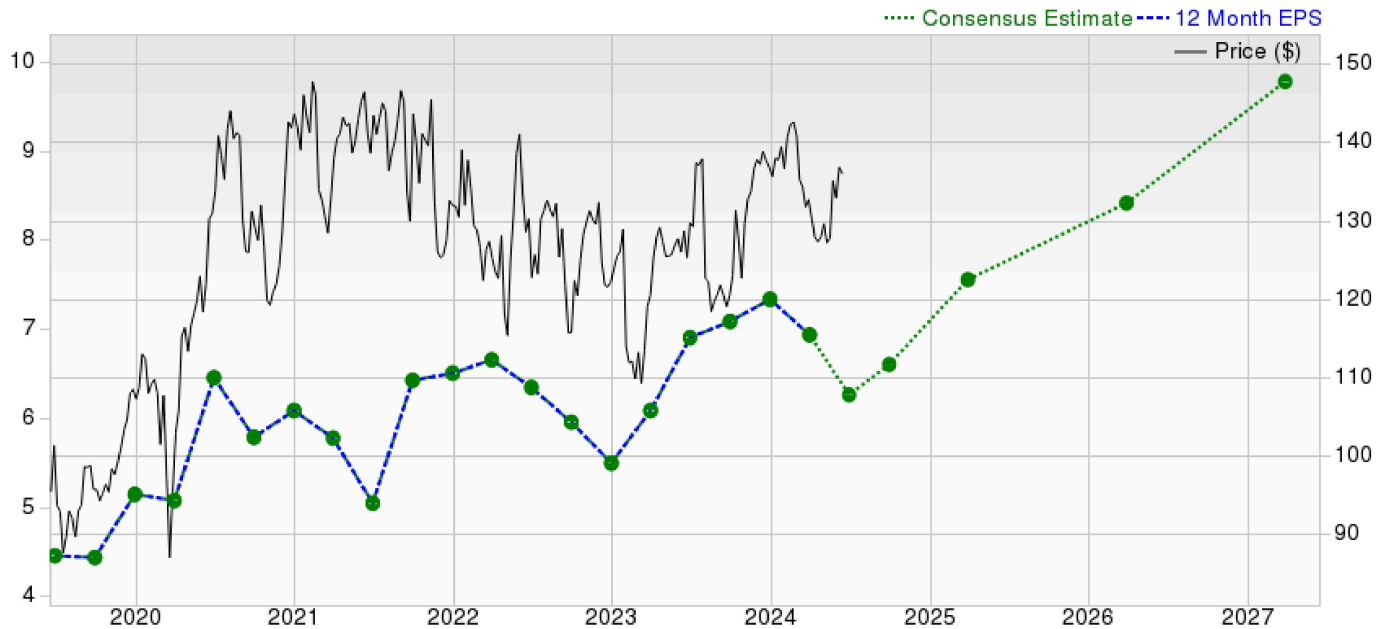
Players can access EA's games and services through traditional single-game purchases or through subscription offerings. Moreover, certain games and services are available through a "free-to-play" model, whereby players download the game for free and engage with services provided on an ongoing basis.

EA games can be played on consoles from Microsoft and Sony, personal computers, mobile devices and tablets. EA develops and publishes games and services across diverse genres, such as sports, racing, first-person shooter, action, roleplaying and simulation. Beginning fiscal 2024, EA's global football franchise will transitioned to a new EA SPORTS FC brand.

EA faces substantial competition from console and personal computer game publishers and diversified media companies including Sony, Microsoft, Nintendo, Activision Blizzard, Take-Two Interactive and Ubisoft.



As of 06/19/2024



As of 06/19/2024

Reasons To Buy:

EA's popularity is primarily driven by its well-known franchises, which will continue to fuel the top line. EA SPORTS titles, along with *Madden NFL*, *The Sims* and *Apex Legends*, are some of its biggest franchises. In fiscal 2024, the company launched seven new releases and provided more than 450 content updates across 51 titles. The strong games portfolio has helped it to reach a user base of roughly 700 million. For fiscal 2024, EA has a strong pipeline of new games that includes *Tales of Kenzera* (launched Apr 23), *EA Sports F1 24* (launched May 31), *EA Sports FC 25* (second-quarter fiscal 2025), *EA Sports Madden NFL 25* (second-quarter fiscal 2025) and *EA Sports NHL 25* (third-quarter fiscal 2024).

EA has been benefiting from strong demand for its well-known franchises including *Madden NFL*, EA SPORTS titles and *The Sims 4*.

EA SPORTS FIFA 23 has become the best-selling title in the franchise. In the six months since its launch, it surpassed the life-time sales of *EA SPORTS FIFA 22*. EA's initiative to offer social and creator tools in FIFA 23 helped users gain new friends, build social networks, and create community. These tools helped engagement which soared more than 150%. *EA SPORTS FC* presents a significant growth opportunity as it features 19,000 fully licensed players, 700 teams, 30 leagues and more than 300 global football partners.

Strong liquidity and cash flow-generating ability make EA an attractive pick for investors. As of Mar 31, 2024, EA had \$3.2 billion in cash and short-term investments compared with \$3.1 billion as of Dec 31, 2023. The company continues to return cash to shareholders in the form of dividends and share repurchases.

Reasons To Sell:

Video games are hit driven. Though EA has a powerful line up of games that can be repeatedly upgraded, there is no assurance that a particular game will be a hit. Moreover, the video game business is highly cyclical and heavily dependent on time-to-time upgrade/introduction of new game software and hardware systems.

The video game publishing industry is intensely competitive. EA faces significant competition from the likes of Take-Two Interactive and Activision Blizzard. The resultant pressure can affect margins and lead to market share losses. Microsoft's acquisition of Activision is expected to further intensify competition for EA.

The video game industry is inherently hit driven and highly competitive. EA faces significant competition from the likes of Take Two Interactive and Activision Blizzard.

EA is dependent on few well-known franchises for revenue generation which does not bode well. The company's failure to expand its game franchise is a major concern amid rising competition. Moreover, the reversal of pandemic trends is expected to hurt game sales in the near term.

Last Earnings Report

Electronic Arts Q4 Earnings and Revenues Decline Y/Y

FY Quarter Ending

3/31/2024

Electronic Arts reported fourth-quarter fiscal 2024 earnings of \$1.37 per share, which declined 22.6% year over year. Revenues decreased 5.1% year over year to \$1.77 billion due to weakness in Live services and other revenues.

The Zacks Consensus Estimate for earnings was pegged at \$1.55 per share. The consensus mark for revenues was pinned at \$1.78 billion.

Net bookings for the fiscal fourth quarter were \$1.67 billion, down 14% year over year in both actual and constant currency.

Full-game net bookings for the quarter were \$259 million, driven by slate timing. Live services net bookings were \$1.41 billion.

Quarter Details

EA's full-game revenues (18.7% of total revenues) decreased 10.5% year over year to \$333 million. Full-game download revenues decreased 3% year over year to \$265 million. Revenues from packaged goods plunged 31% year over year to \$68 million.

Live services and other revenues (81.3% of total revenues) decreased 3.7% year over year to \$1.44 billion.

Based on platforms, revenues from consoles decreased 4% year over year to \$1.04 billion in the reported quarter. Revenues from PC & Other declined 10% year over year to \$423 million. Revenues from the mobile platform decreased 3% year over year to \$307 million.

Operating Details

EA's GAAP gross profit declined 0.3% from the year-ago quarter's levels to \$1.42 billion. Gross margin expanded 380 basis points (bps) on a year-over-year basis to 79.9%.

Operating expenses decreased 5% year over year to \$1.18 billion. As a percentage of revenues, operating expenses remained flat on a year-over-year basis at 66.8%.

Operating income on a GAAP basis increased 33.7% year over year to \$234 million. The operating margin expanded 380 bps year over year to 13.2% in the reported quarter.

Balance Sheet and Cash Flow

As of Mar 31, 2024, EA had \$3.2 billion in cash and short-term investments compared with \$3.1 billion as of Dec 31, 2023.

For the trailing 12 months, net cash provided by operating activities was \$2.315 billion, up 49% year over year.

The board has authorized a new stock repurchase program of \$5 billion over three years. During full-year fiscal 2024, EA returned \$1.505 billion to stockholders through stock repurchases and dividends.

The company has declared a quarterly cash dividend of 19 cents per share of its common stock. The dividend is payable on Jun 19 to shareholders of record as of the close of business on May 29.

Guidance

For first-quarter fiscal 2025, EA expects GAAP revenues between \$1.575 billion and \$1.675 billion and earnings per share (EPS) in the range of 73-90 cents. Net bookings are expected between \$1.15 billion and \$1.25 billion.

For fiscal 2025, EA expects revenues in the range of \$7.1-\$7.5 billion and earnings in the band of \$3.34-\$4 per share.

The company expects net bookings for the fiscal year between \$7.3 billion and \$7.7 billion.

Operating cash flow is estimated in the band of \$2.05-\$2.25 billion.

Recent News

On Jun 9, EA announced the trailer launch of *Dragon Age: The Veilguard*, an all-new single-player fantasy RPG experience set to release in Fall 2024.

On Jun 6, EA announced the Festival of Football update to *EA SPORTS FC 24* and *EA SPORTS FC Mobile* ahead of the upcoming UEFA EURO 2024 tournament.

On May 31, EA announced an immersive and authentic F1 experience with the worldwide launch of *F1 24*.

Earnings Reporting Date	May 07, 2024
Sales Surprise	-6.41%
EPS Surprise	-11.04%
Quarterly EPS	1.37
Annual EPS (TTM)	6.93

On May 22, EA announced a new comprehensive programme, Namibia Futures, in partnership with UNICEF. This multi-year partnership will use the power of football to create long-lasting social change in Namibia and beyond, reaching over 46,000 children and adolescents.

On May 16, EA announced that *EA SPORTS College Football 25*, featuring Donovan Edwards, Quinn Ewers and Travis Hunter on the cover, is set to release globally on Jul 19.

On Apr 23, EA announced the launch of *Tales of Kenzera: ZAU* in collaboration with Surgent Studios, which is available across platforms for \$19.99.

On Apr 18, EA announced a full feature set for *F1 24*, an official game of the FIA Formula One World Championship, launching earlier than previous seasons on May 31 across platforms.

Valuation

EA shares are down 0.6% in the year-to-date period and up 5.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.7% in the year-to-date period, while the same in the Zacks Consumer Discretionary sector are down 2.2%. Over the past year, Zacks sub-industry and the sector are up 6.8% and 3.3%, respectively.

The S&P 500 index is up 14.1% in the year-to-date period and up 23.2% in the past year.

The stock is currently trading at 23.2X forward 12-month earnings, which compares to 25.16X for the Zacks sub-industry, 16.64X for the Zacks sector and 21.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.45X and as low as 19.05X, with a 5-year median of 24.6X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$143 price target reflects 24.36X forward 12-month sales.

The table below shows summary valuation data for EA

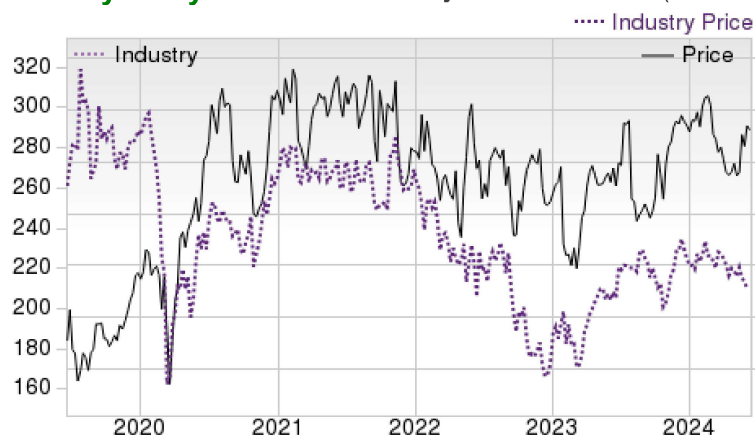
Valuation Multiples - EA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.2	25.16	16.64	21.41
	5-Year High	35.45	33.79	36.99	24.14
	5-Year Low	19.05	17.24	14.63	15.6
	5-Year Median	24.6	24.72	19.02	20.01
P/B TTM	Current	4.84	5.08	2.59	8.76
	5-Year High	5.69	7.3	4.79	9.4
	5-Year Low	3.51	3.34	2.11	4.85
	5-Year Median	4.71	5.55	3.19	7.71
EV/Sales TTM	Current	4.63	3.67	2.35	5.33
	5-Year High	7.01	5.04	4.35	5.95
	5-Year Low	3.86	2.71	2.15	3.25
	5-Year Median	4.97	3.8	2.96	4.72

As of 6/14/2024

Source: Zacks Investment Research

Industry Analysis⁽¹⁾

Zacks Industry Rank: Bottom 18% (205 out of 249)

Top Peers⁽¹⁾

Company (Ticker)	Rec	Rank
Hasbro, Inc. (HAS)	Outperform	1
JAKKS Pacific, Inc. (JAKK)	Neutral	5
Mattel, Inc. (MAT)	Neutral	3
Microsoft Corporation... (MSFT)	Neutral	3
Nintendo Co. (NTDOY)	Neutral	3
Sony Corporation (SONY)	Neutral	3
Ubisoft Entertainmen... (UBSFY)	Neutral	3
Take-Two Interactive... (TTWO)	Underperform	5

Industry Comparison⁽¹⁾

Industry: Toys - Games - Hobbies

Industry Peers

	EA	X Industry	S&P 500	HAS	MAT	TTWO
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	1	3	5
VGM Score	F	-	-	A	A	D
Market Cap	36.71 B	5.87 B	34.44 B	8.44 B	5.87 B	26.63 B
# of Analysts	11	7.5	18	8	7	13
Dividend Yield	0.55%	0.00%	1.61%	4.62%	0.00%	0.00%
Value Score	D	-	-	C	A	F
Cash/Price	0.09	0.09	0.04	0.07	0.19	0.04
EV/EBITDA	17.73	13.18	14.64	24.42	8.64	58.92
PEG Ratio	1.82	1.38	2.13	0.63	1.09	1.90
Price/Book (P/B)	4.92	4.25	3.38	8.20	2.90	4.68
Price/Cash Flow (P/CF)	20.37	7.57	13.62	3.64	9.05	6.10
P/E (F1)	18.24	17.31	18.50	16.31	12.16	61.56
Price/Sales (P/S)	4.85	3.31	2.73	1.77	1.08	4.98
Earnings Yield	5.47%	5.80%	5.39%	6.13%	8.20%	1.62%
Debt/Equity	0.25	0.40	0.62	2.88	1.15	0.54
Cash Flow (\$/share)	6.78	5.36	8.64	16.69	1.89	25.48
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	5.87%	5.87%	9.87%	-5.01%	25.48%	-24.41%
Proj. EPS Growth (F1/F0)	8.63%	10.11%	7.44%	48.21%	13.82%	0.40%
Curr. Cash Flow Growth	11.90%	11.90%	3.70%	37.25%	-3.25%	96.97%
Hist. Cash Flow Growth (3-5 yrs)	6.12%	34.75%	6.94%	25.90%	49.64%	43.60%
Current Ratio	1.37	1.59	1.22	1.11	2.49	0.94
Debt/Capital	20.03%	27.54%	39.29%	74.23%	53.51%	35.05%
Net Margin	16.83%	4.84%	11.99%	-29.60%	5.38%	-69.99%
Return on Equity	18.81%	19.48%	16.63%	25.41%	24.32%	2.19%
Sales/Assets	0.57	0.60	0.54	0.64	0.88	0.37
Proj. Sales Growth (F1/F0)	5.50%	-1.43%	3.99%	-17.20%	-1.40%	5.70%
Momentum Score	F	-	-	A	C	A
Daily Price Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1 Week Price Chg	-0.61%	-0.39%	1.22%	5.22%	-2.16%	-3.53%
4 Week Price Chg	2.21%	2.21%	3.39%	0.55%	-4.53%	3.16%
12 Week Price Chg	4.75%	4.75%	4.54%	7.40%	-13.61%	5.75%

Industry Comparison ⁽¹⁾	Industry: Toys - Games - Hobbies			Industry Peers		
	EA	X Industry	S&P 500	HAS	MAT	TTWO
52 Week Price Chg	10.89%	10.61%	25.68%	0.76%	-4.48%	10.61%
20 Day Average Volume	2,247,946	323,138	1,971,087	2,221,549	2,387,674	1,588,514
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.71%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	1.71%	0.00%	2.90%
(F1) EPS Est 12 week change	-0.37%	-5.58%	0.39%	15.04%	2.50%	-77.75%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	2.70%	0.00%	0.43%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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