

Initiating Coverage:

Electronic Arts Inc (\$EA)

End Zones and Goals Drive EA's Success

Key Take-away: Electronic Arts is one of the leaders of the gaming industry. With games like EA Sports FC, EA Sports Madden NFL, and EA Sports College Football, Electronic Arts are at the forefront of the sports gaming world. We believe that Electronic Arts will continue to lead the sports gaming industry and take steps to further penetrate the rest of the gaming market. With positive growth surprises, Electronic Arts shares are currently trading near an all-time high.

In Q2 2025, net bookings surged 14.2% YoY to \$2.079 Billion surpassing upper-level guidance of \$2.050 Billion. Over the last four quarters EA has beat EPS estimates three times including the most recent quarter recording \$2.15 EPS which was above the consensus of \$2.03. Over the last month the share price for EA has risen about 14% making up a significant portion of the stock's year to date increase of about 22%.

Shift Toward Fully Digital Games: Over the last few years, players have been increasingly buying games digitally rather than physical discs. Heading into the future this trend is expected to continue with increasing revenue from digital games and decreasing net revenue from physical games. This helps lower the cost of revenue for EA leading to a better gross margin. In the last three years, EA's cost of revenue has decreased YoY, and their total sales have concurrently increased YoY. The combination of these future changes presents a nice investment opportunity as financials are set for improvement.

Exciting New Releases: In the coming year there are plenty of new games to be released by EA. They will continue their sporting franchises with high hopes for both the global football and American football games. On top of their sports games, EA is rumored to be releasing Battlefield 6 in October 2025. This would be the newest Battlefield game since Battlefield 2042 came out in November 2021. Also, Project Rene, the newest addition to The Sims world will continue to roll out and offer new content to players of The Sims 4 which was released all the way back in September of 2014. The game will be a free add-on but will offer extra paid content that will be well received by players seeking new excitement.

Valuation: We initiate coverage with a \$180 PT.

Consortium Equity Research
TMT | Software, Gaming
December 27th, 2024

Stock Rating: Overweight

Price Target: \$180.00

Price: \$148.12

Potential Upside: 17.12%

Ticker: \$EA

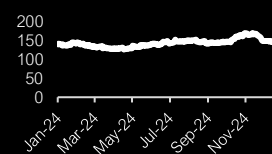
Market Cap: \$38.85b

Shares Outstanding: 262mm

Free Float (%): 90.33%

Dividend Yield: 0.51%

1 Year History



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Peer Comparisons

Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
Take-Two Interactive Software, Inc. (NasdaqGS:TTWO)	\$ 32,179	\$ 35,411	-8.9x	\$ 5,457	\$ 385	
Roblox Corporation (NYSE:RBLX)	\$ 38,894	\$ 38,319	-36.5x	\$ 3,364	\$(963)	
Unity Software, Inc. (NYSE:U)	\$ 10,687	\$ 11,763	-11.1x	\$ 1,965	\$(62)	
Electronic Arts Inc	\$ 38,848	\$ 46,895	38.1x	\$ 7,409	\$ 1,890	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF	
Take-Two Interactive Software, Inc. (NasdaqGS:TTWO)	91.91	57.4%	7.1%	(9.4%)	0.0%	
Roblox Corporation (NYSE:RBLX)	-39.81	24.7%	(28.6%)	(34.9%)	25.8%	
Unity Software, Inc. (NYSE:U)	-189.73	62.4%	(2.8%)	(27.4%)	57.2%	
Electronic Arts Inc	24.81	78.6%	25.5%	20.6%	1.8%	

High	91.91x	78.6%	25.5%	20.6%	57.2%	
75th Percentile	41.59x	66.4%	11.7%	-1.9%	33.7%	
Average	-28.20x	55.8%	0.3%	-12.8%	21.2%	
Median	-7.50x	59.9%	2.1%	-18.4%	13.8%	
25th Percentile	-77.29x	49.2%	-9.3%	-29.3%	1.4%	
Low	-189.73x	24.7%	-28.6%	-34.9%	0.0%	

Electronic Arts IncValuation		
Implied Enterprise Value (25th Percentile)	\$	(146,073)
Implied Enterprise Value (Median)	\$	(14,171)
Implied Enterprise Value (75th Percentile)	\$	78,597

Implied Share Price (25th Percentile)	\$	(557.04)
Implied Share Price (Median)	\$	(54.12)
Implied Share Price (75th Percentile)	\$	299.59

Source: (Capital IQ & FactSet)

Company Overview

Business Model: Electronic Arts creates and delivers interactive gaming experiences across platforms including consoles, computers, and mobile devices. The key revenue streams are game sales, in-game purchases, and subscriptions. Initial revenue comes from the game sales that span many genres and platforms. Then come in-game purchases such as virtual goods and enhancements that can provide recurring income. Finally, subscription services, like EA Play for example, allow users access to a special game library and exclusive benefits.

Digital Game Sales: EA has experienced major growth in their digital game sales which has been driven by the adoption of online platforms and the shift away from physical media. This helps EA reach higher profit margins, as digital sales eliminate much of the costs associated with manufacturing and distribution that come with selling physical copies. Platforms like EA Play and Origin are also very digital centric. This allows seamless in-game purchases and updates as well as better data collection allowing more personalized and effective marketing strategies. The emphasis on digital sales has been key to the success of EA and is likely to continue growing.

Competitive Differentiation: EA's main distinguishing factors are its iconic franchise portfolio, exclusive licensing agreements, and global reach. Some of the major franchises that are known by many are The Sims, Battlefield, Madden NFL, and EA Sports FC (Formerly FIFA). Recently, EA brought back NCAA College Football as well which has no close competitors. EA is the only gaming company that produces deeply interactive games with licenses from the NFL and NCAA. With these partnerships, EA can offer special experiences to their customers that cannot be replicated elsewhere. All these games are popular on a global scale. By continually investing in their development, EA can expand their global presence and constantly adapt to changes in regional preferences.

Industry Overview

Growth of Live-Service Gaming: The gaming industry has been shifting toward live service models where games are treated as evolving platforms rather than just static products. This approach has helped generate recurring revenue through microtransactions, subscriptions, and seasonal content. Live-service games cultivate strong player communities and help foster long term engagement by continuously offering new features and events over time. This shift has been largely beneficial for gaming companies as it has transformed games from a one-time purchase into a sustainable revenue stream.

Expanding Mobile Gaming Market: Mobile gaming has been one of the fastest growing segments in the gaming industry largely driven by the widespread availability of smartphones and increasing capabilities of the devices. As the devices are improved, the opportunities for more immersive gaming experiences on mobile platforms grow. Companies have been leveraging this trend by developing new free-to-play games that offer in-game purchases. Global reach and ease of access make mobile gaming a major focus for companies in the industry.

Advances in Gaming Technology and Streaming: Technological advancements over the years have helped remove many barriers to gaming allowing users to play high quality games at lower prices while keeping revenues for companies high. AI has been a great help in this area as it is utilized to make development processes more efficient and has also helped create more dynamic and personalized gaming experiences. Along with these improvements, the growth of streaming has provided many new opportunities for the industry. There are plenty of areas for growth through advertising, sponsorships, partnerships, and more.

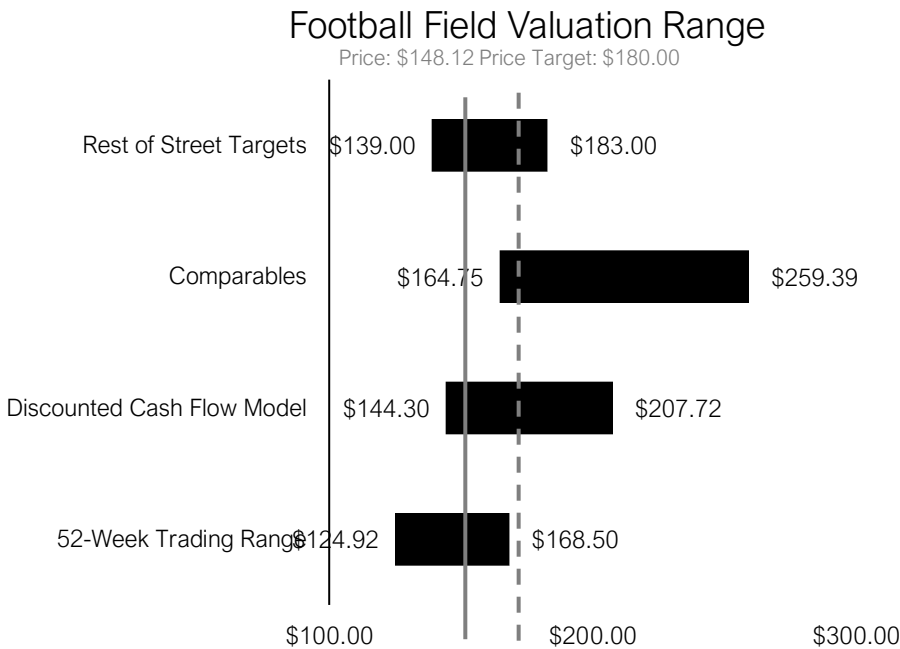
Investment Theses

Established Gaming Franchises Continue to Grow: Electronic Arts continues to capitalize on its portfolio of iconic gaming franchises, particularly in the sports genre, where its titles rank among the most popular globally. EA Sports FC, formerly known as FIFA, is the best-selling soccer game and one of the top 10 video game series of all time in terms of sales. Similarly, the Madden NFL and EA College Football series dominate the American football gaming market. Beyond sports, EA's portfolio includes The Sims, one of the most successful role-playing games of all time. These well-established franchises, supported by regular updates and new titles, position EA for sustained revenue growth.

Gross Margin Expansion and Revenue Growth: Electronic Arts has demonstrated a consistent upward trend in gross margins over the past three fiscal years, driven by the ongoing shift from physical to digital full-game downloads. Gross margins increased from 71% in FY22 to 73.6% in FY23, and further to 76.3% in FY24. This improvement has coincided with revenue growth during the same period, resulting in higher gross income to cover operating expenses. As a result, EA's bottom line has continuously improved over the past three years, a trend expected to persist in the coming years.

Price Target & Valuation

Our analysis gives \$EA a price target of \$179 and an overweight rating.



Our Price Target: \$180.00

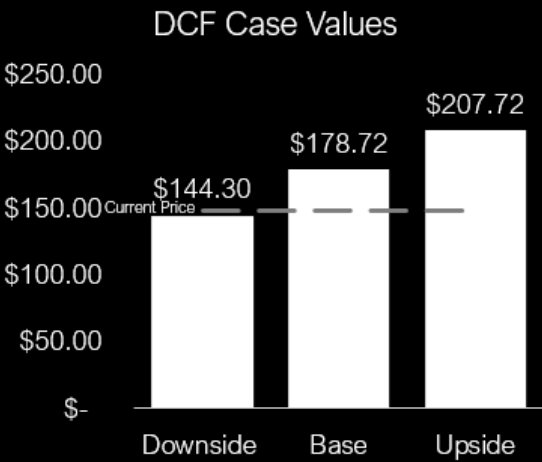
Our PT is based on the idea that EA continues to earn strong revenue from their franchises, increasing digital game sales boost their profit margins, and their mobile game growth continues.

Our Upside Case: \$210.00

Our upside case assumes that all the criteria for our PT are met. On top of that, EA announces a favorable release date of a new game for one of their major franchises like The Sims or Battlefield. Also, our upside case could happen if EA were to bring back NCAA Basketball (last released in 2010) which could mirror the success of their NCAA Football game.

Our Downside Case: \$145.00

Our downside case may occur if EA were to lose a key license to an iconic franchise, another company creates a game that rivals one of their major franchises, or their customer base spends less on in-game purchases.



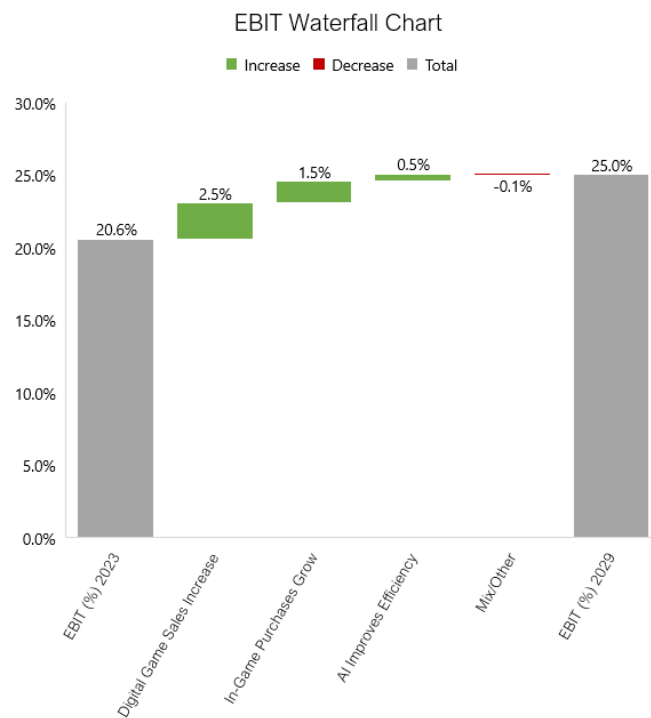
Potential Downsides to Our Rating

Competitive Advantage Weakens: Electronic Arts sees much of their revenue come from their popular franchises. Games like Madden NFL, and EA Sports FC are the best in their respective categories. Because they are the best American Football and Global Football games on the market, EA earns very high revenues from them. However, as the sports industry continues to see rapid growth, other gaming companies may put more efforts into their games and if the customer base shifts that could lower the success of EA.

Licensing Risks: In 2023, EA lost its licensing to FIFA. As a result, they changed their Global Football game title to EA Sports FC. However, they currently hold licenses with the NFL, F1, NCAA, and more. The shift to EA Sports FC was successful, but if they were to lose some of these other licenses due to new disagreements, there is potential that the success of the games related to the licenses would decrease leading the company to suffer losses.

Monetization Backlash: A major trend in the gaming industry is the growth of live-service games. EA has followed this trend and tapped into the growing market. These games rely on microtransactions over the lifetime of the game to drive higher profits. However, there is potential that customers will become fed up with this practice. If a customer buys a \$70 video game and then on top of that must pay, for example, \$10 a month to keep up with the rest of the players, then the game could be seen as exploitive. If enough players see this as a problem, the number of microtransactions and total revenue for EA would decrease.

Projections



Income Statement (\$mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	7,426	7,562	7,800	8,142	8,602	3.7%
EBITDA	1,954	1,982	1,896	2,055	2,250	3.6%
EBIT	1,527	1,650	1,560	1,710	1,892	5.5%
EBIAT	950	2,981	866	882	1,003	1.4%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	26.3%	26.2%	24.3%	25.2%	26.2%	25.6%
EBIT Margin	20.6%	21.8%	20.0%	21.0%	22.0%	21.1%
Revenue Growth	6.2%	1.8%	3.1%	4.4%	5.6%	4.2%
EBIT Growth	30.1%	8.1%	-5.5%	9.6%	10.7%	10.6%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	126.7x	95.5x	102.8x	95.0x	86.8x	78.4x
EV/Sales	5.0x	4.9x	4.8x	4.6x	4.3x	4.7x
EV/EBITDA	19.1x	18.8x	19.7x	18.2x	16.6x	18.5x
FCF Yield	3.5%	7.9%	-0.2%	1.1%	3.0%	3.1%

About \$EA

Electronic Arts Inc. (NASDAQ: EA), founded in 1982 and headquartered in Redwood City, California, is a leading global developer, publisher, and distributor of interactive entertainment software. The company operates across North America, Europe, Asia, and other regions, serving a diverse international audience. EA’s business segments include live services, full-game sales, and mobile gaming, driven by a portfolio of iconic franchises such as *FIFA*, *Madden NFL*, *The Sims*, and *Apex Legends*. Focused on delivering innovative and immersive experiences, EA leverages cutting-edge technology to engage players across consoles, PCs, and mobile platforms.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

Electronic Arts Inc

Discounted Cash Flow

Active Case:

2 Base

Current Share Price\$142.13

DCF Analysis (\$mm)											
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Stub						0.04	0.04	0.04	0.04	0.04	0.04
Discount Period						0.02	0.54	1.54	2.54	3.54	4.54
Revenue	4,950.00	5,537.00	5,629.00	6,991.00	7,426.00	7,562.00	7,800.00	8,141.92	8,601.78	9,199.51	9,761.34
Revenue Growth	0%	12%	2%	24%	6%	2%	3%	4%	6%	7%	6%
Full Game	680.00	809.00	918.00	1,282.00	1,262.00	1,343.00	1,450.00	1,595.48	1,786.94	2,037.11	2,240.83
Live Services & Other	4,270.00	4,728.00	4,711.00	5,709.00	6,164.00	6,219.00	6,350.00	6,546.44	6,814.84	7,162.40	7,520.52
EBIT	1,010.00	1,450.00	1,046.00	1,174.00	1,527.00	1,650.00	1,560.01	1,709.80	1,892.39	2,115.89	2,440.34
EBIT Margin	20%	26%	19%	17%	21%	22%	20%	21%	22%	23%	25%
Tax Expense	60.00	(1,531.00)	180.00	292.00	524.00	316.00	327.60	359.06	397.40	444.34	512.47
Effective Tax Rate	6%	-106%	17%	25%	34%	19%	21%	21%	21%	21%	21%
NOPAT	950.00	2,981.00	866.00	882.00	1,003.00	1,334.00	1,232.41	1,350.74	1,494.99	1,671.55	1,927.87
D&A	142.00	148.00	179.00	438.00	427.00	332.00	336.36	344.75	357.50	375.16	390.45
Capex	119.00	140.00	124.00	188.00	207.00	199.00	203.21	209.98	219.57	232.41	244.03
Changes in NWC	489.00	115.00	(827.00)	(302.00)	326.00	(22.00)	(16.59)	(10.96)	(4.85)	2.01	9.76
UFCF	1,320.00	2,956.00	(85.00)	392.00	1,122.00	1,489.00	1,382.15	1,496.47	1,637.77	1,812.30	2,064.52
PV of FCF						1,486.92	1,332.14	1,347.35	1,377.48	1,423.90	1,515.26

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.04%
Beta	0.71
Risk Free Rate	4.40%
Cost of Equity	7.27%
Tax Rate	21.00%
Cost of Debt	4.25%
Total Equity	\$37,277
Total Debt	\$22
Equity/Total Capitalization	94.38%
Debt/Total Capitalization	5.62%
WACC	7.05%

Terminal Value	
Perpetuity Growth Method	
2029 FCF	\$2,065
Growth	3.50%
Terminal Value	\$
PV of Terminal Value	\$
PV of Projection Period	\$8,483
Implied TEV	\$51,183
(-) Debt	\$2,219
(+) Cash	\$2,197
Implied Equity Value	\$51,161
Basic Shares Outstanding	262
Implied Share Price	\$195.07
Upside/Downside	37%

Implied BF EV/EBIT	21.0x
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Terminal Value	
Exit Multiple Method	
2029 EBITDA	\$2,831
EV/EBITDA Exit Multiple	19x
Terminal Value	\$53,785
PV of Terminal Value	\$
PV of Projection Period	\$8,483
Implied TEV	\$47,959
(-) Debt	\$2,219
(+) Cash	\$2,197
Implied Equity Value	\$47,937
Diluted Shares Outstanding	262
Implied Share Price	\$182.77
Upside/Downside	29%

Implied PGR	1.7%
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$182.77
Upside/Downside	29%