



Strategic Review of Electronic Arts

Part 5: Transaction Analysis

NIBC

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Executive Summary

Part 1: Company Analysis

Business Model, Operating Performance, Capital Requirements

Part 2: Industry Analysis

Value Chain, Competitive Field, Corporate Finance Activity

Part 3: Valuation Analysis

DCF, Comparables, Precedents

Part 4: Leveraged Buyout

Transaction Structure, Returns, Viability

▶ Part 5: Transaction Analysis

M&A Opportunities

Website | NIBC.ca
Competitor Portal | Nibclive.com

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EA would be well-positioned to pursue an M&A strategy to satisfy its strategic and operational objectives and build out its long-term competitive advantage

| | |
|------------------------------|---|
| Strategic Rationale | <ul style="list-style-type: none">▪ Counteract and pre-empt further consolidation in market from rivals such as Activision-Blizzard▪ Take out major competitors such as Ubisoft and Take Two▪ Build market leadership position in rapidly growing mobile and online gaming segment▪ Increase currently limited presence in Asia-Pacific market which accounts for nearly 50% of global video games revenues |
| Operational Rationale | <ul style="list-style-type: none">▪ Get access to new AAA franchises following unsuccessful in-house star wars franchise▪ Break into open world genre which is becoming dominant genre for console platforms▪ Achieve greater risk pooling when pursuing major capital-intensive major multiplayer online games▪ Improve product development results and enhance public image▪ Facilitate bringing currently below-industry operating margins back in line with competitors▪ Expand presence in growing online distribution market to eliminate third party distribution costs▪ Generate synergies from shared technology infrastructure, distribution and marketing capabilities |
| Financial Rationale | <ul style="list-style-type: none">▪ Enhance EA's valuation, long-term growth potential and competitive market position closer in line with pre-crisis levels▪ Stock price is at 5-year high and can be used as currency in non-dilutive acquisition▪ Over \$2 billion of cash on hand with significant additional untapped debt capacity up \$2bn at conservative 2x EBITDA▪ Shareholder base with long-term institutional investors that will likely react favorably to strategic transaction |

Acquisition of new content, expansion into digital or geographic segments and building scale through consolidation could be attractive options for EA

| | | Ranking* |
|------------------------|---|----------|
| Acquisition of Content | Acquisition of content <i>Example:</i> EA's acquisition of VG Holding (parent of BioWare & Pandemic studios) | 1 |
| | Partnership with movie studios/book publishers <i>Example:</i> EA's multi-year deal with LucasArts to exclusively develop Star Wars games | 1 |
| | Smaller acquisitions of rights or emerging games <i>Example:</i> ZeniMax acquired the Fallout franchise from Interplay Entertainment | 1 |
| Expansion into Segment | Acquire companies in free-to-play, mobile, online and casual gaming segments <i>Example:</i> Acquisition of PopCap by EA to enter casual gaming market <i>Example:</i> Acquisition of Playfish by EA to enter social gaming market | 1 |
| | Acquire company of distribution channel to build presence in Asia-Pacific video game market <i>Example:</i> Syco is a JV by Sony and Simon Cowell that builds on relations in music industry | 2 |
| Consolidation | Consolidation within console-game makers <i>Example:</i> Activision and Vivendi Games combined to form Activision Blizzard | 1 |
| | Consolidation with mobile-game makers <i>Example:</i> Softbank and GungHo Online Entertainment jointly acquired 51% stake in Supercell | 1 |
| | Purchase spin off divisions for sale from conglomerates <i>Example:</i> Changyou, the online gaming subsidiary of Sohu, was spun off in a \$120 million IPO | 2 |

* Numerical Ranking System with 1 representing the most attractive corporate finance initiatives for EA currently and 3 representing inappropriate transactions for EA to pursue at this time

Potential Corporate Finance Initiatives (2 of 2)

Sale to strategic or financial buyer could be possible but unlikely to receive attractive valuation; further integration into downstream distribution channel is possible but has limited impact on core business

| | | Ranking* |
|-------------------------------------|---|----------|
| Sale to Strategic or Financial | Some conglomerate which would have capacity for acquisition of this size <i>Example:</i> Kadokawa's acquisition of From Software | 3 |
| | Sale to Asia based companies which have shown increasing appetite for Western companies <i>Example:</i> Chinese Internet company Tencent Holdings acquired a majority stake in Riot Games | 3 |
| | Management-led leveraged buyout could be possible but difficult given size <i>Example:</i> Giant Interactive's \$850 million leveraged buyout loan | 3 |
| Distribution and Ancillary Services | Acquire distribution channels <i>Example:</i> GameStop's \$1.4bn acquisition of EB Games expanded operations into Europe | 3 |
| | Acquire/expand in-house distribution channel and open up to third-party games <i>Example:</i> Maker studios acquired video distribution network Blip | 2 |
| | Explore ancillary services and revenue generation <i>Example:</i> Amazon entering into live video game streaming space with acquisition of Twitch | 2 |
| Corporate Finance Transactions | Issue public equity <i>Example:</i> Electronic Boutique sold 3.5 million shares of common stock in 1999 | 3 |
| | Issue public debt <i>Example:</i> EA issued \$550 million of 0.75% Convertible Senior Notes due in 2016 | 3 |
| | Change dividend policy <i>Example:</i> Nintendo currently has a dividend program in place | 3 |
| | Share repurchase <i>Example:</i> EA currently has a \$750 million share buyback program in place | 3 |

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Transaction Opportunities (1 of 2)

| | Transaction | Rationale | Considerations | Examples |
|----------------------|--|--|---|---|
| Content | 1) Acquire content developer | <ul style="list-style-type: none"> Access to proven content and titles Facilitates hit-driven business model Growing importance of international footprint | <ul style="list-style-type: none"> Bidding wars likely Risky given that content is generally unproven in popularity | <ul style="list-style-type: none"> Acquire Telltale Games |
| | 2) Acquire movie / book franchises | <ul style="list-style-type: none"> Access to up and coming titles Destiny writer left to join Game of Thrones team | <ul style="list-style-type: none"> Limited transformational change | <ul style="list-style-type: none"> Game of Thrones |
| | 3) Acquire rights for new games | <ul style="list-style-type: none"> Acquiring new high-quality content is increasingly competitive | <ul style="list-style-type: none"> Limited transformational change | |
| Segment Expansion | 4) Acquire company in mobile, online and free-to-play segment | <ul style="list-style-type: none"> Mobile & social gaming revenue growth up 55% YoY in 2013 Establish market leadership and preempt competition | <ul style="list-style-type: none"> Difficult to gain competitive advantage as there are many players within the mobile gaming space | <ul style="list-style-type: none"> Acquire Zynga Acquire King |
| | 5) Acquire company with market share in Asia | <ul style="list-style-type: none"> Asia accounts for close to 50% of video game revenues Only ~7% of EA's revenues derive from Asia <p>EA to acquire DeNA</p> <ul style="list-style-type: none"> Gain first player advantage in Asia | <ul style="list-style-type: none"> Asian market has different culture and focuses on different genres Difficult to find target willing to sell especially in countries like Japan International acquisition brings foreign transactions problems | <ul style="list-style-type: none"> Acquire DeNA |
| Consolidation | 6) Consolidate with console-game makers | <ul style="list-style-type: none"> Economies of scale Follow consolidation trend of industry | <ul style="list-style-type: none"> Content might not be a good fit | <ul style="list-style-type: none"> Acquire Take Two Acquire Ubisoft |
| | | <p>EA to acquire Take Two</p> <ul style="list-style-type: none"> Access to blockbuster Grand Theft Auto Preempt acquisition by rivals | <ul style="list-style-type: none"> Only a couple of successful franchises Bidding war with Activision Blizzard | |
| | | <p>EA to acquire Ubisoft</p> <ul style="list-style-type: none"> Access to blockbuster franchise, Assassin's Creed, and potential titles Crew and Metro Redux | <ul style="list-style-type: none"> Limited amount of past successful AAA franchises | |
| | 7) Consolidate with mobile-game makers | <ul style="list-style-type: none"> Mobile gaming is maturing with increasing consolidation | <ul style="list-style-type: none"> High valuations for uncertain franchises in medium to long-term | |
| 8) Acquire Spin offs | <ul style="list-style-type: none"> Gaming divisions are fairly contained Some conglomerate are willing to sell | <ul style="list-style-type: none"> divisions up for sale likely unsuccessful or with low growth potential | | |

Transaction Opportunities (2 of 2)

| | Transaction | Rationale | Considerations | Examples |
|--------------------------|---|--|---|--|
| Sale | 9) Sale to Strategic Buyer | <ul style="list-style-type: none"> Increase in-house production Follow consolidation trends in industry Limited large pure-play developer targets | <ul style="list-style-type: none"> Limited number of players large enough to pay valuation | <ul style="list-style-type: none"> Microsoft to purchase EA |
| | | <p>Microsoft to purchase EA</p> <ul style="list-style-type: none"> Could benefit Microsoft's gaming division | <ul style="list-style-type: none"> High valuation Already have distribution relationships | |
| | 10) Sale to Asian Buyer | <ul style="list-style-type: none"> 8 of 10 largest games M&A made by Asia buyers Asian buyers have fallen behind in technology | <ul style="list-style-type: none"> Large Japanese platform publishers not in position to make sizeable acquisition | |
| | 11) Sale to Financial Sponsor | <ul style="list-style-type: none"> EA has proven franchises and a long track record Clean balance sheet | <ul style="list-style-type: none"> Size, valuation, low historical cashflows Changing technology in medium-term | |
| Distribution & Ancillary | 12) Acquire online distribution channel | <ul style="list-style-type: none"> Retail sales through physical stores have significantly declined in recent years Save on third-party distribution costs | <ul style="list-style-type: none"> Difficult to create competitive advantage through distribution and non-core business | |
| | 13) Acquire/expand in-house distribution | <ul style="list-style-type: none"> Digitally downloaded content has increased 12% YoY in 2013 | <ul style="list-style-type: none"> Many consumers currently still prefer physical format due to re-sale value | |
| | 14) Acquire/JV with companies with distribution relationships | <ul style="list-style-type: none"> Console game manufacturers generally have significant customer bases | <ul style="list-style-type: none"> Most console manufacturers are struggling or have other business lines | |
| Corporate Finance | 15) Explore ancillary revenue generation opportunities | <ul style="list-style-type: none"> Merchandising & in-game advertising has grown ~10% YoY | <ul style="list-style-type: none"> Doesn't build core competitive advantage of EA | |
| | 16) Issue equity | <ul style="list-style-type: none"> Good valuation for issuing equity | <ul style="list-style-type: none"> Uncertain use for proceeds | |
| | 17) Issue debt | <ul style="list-style-type: none"> Good environment for issuing debt | <ul style="list-style-type: none"> Uncertain use for proceeds | |
| | 18) Dividend policy | <ul style="list-style-type: none"> Use of large cash balance | <ul style="list-style-type: none"> Conserve cash for growth opportunities | |
| | 19) Share repurchase | <ul style="list-style-type: none"> Use of large cash balance | <ul style="list-style-type: none"> High valuation | |