



# Strategic Review of Electronic Arts Part 5: Review of M&A Opportunities

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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

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Website | [NIBC.ca](http://NIBC.ca)  
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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

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

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	<b>Acquisition of content</b> <i>Example:</i> EA's acquisition of VG Holding (parent of BioWare & Pandemic studios)	1
	<b>Partnership with movie studios/book publishers</b> <i>Example:</i> EA's multi-year deal with LucasArts to exclusively develop Star Wars games	1
	<b>Smaller acquisitions of rights or emerging games</b> <i>Example:</i> ZeniMax acquired the Fallout franchise from Interplay Entertainment	1
Expansion into Segment	<b>Acquire companies in free-to-play, mobile, online and casual gaming segments</b> <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
	<b>Acquire company of distribution channel to build presence in Asia-Pacific video game market</b> <i>Example:</i> Syco is a JV by Sony and Simon Cowell that builds on relations in music industry	2
Consolidation	<b>Consolidation within console-game makers</b> <i>Example:</i> Activision and Vivendi Games combined to form Activision Blizzard	1
	<b>Consolidation with mobile-game makers</b> <i>Example:</i> Softbank and GungHo Online Entertainment jointly acquired 51% stake in Supercell	1
	<b>Purchase spin off divisions for sale from conglomerates</b> <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	<b>Some conglomerate which would have capacity for acquisition of this size</b> <i>Example:</i> Kadokawa's acquisition of From Software	3
	<b>Sale to Asia based companies which have shown increasing appetite for Western companies</b> <i>Example:</i> Chinese Internet company Tencent Holdings acquired a majority stake in Riot Games	3
	<b>Management-led leveraged buyout could be possible but difficult given size</b> <i>Example:</i> Giant Interactive's \$850 million leveraged buyout loan	3
Distribution and Ancillary Services	<b>Acquire distribution channels</b> <i>Example:</i> GameStop's \$1.4bn acquisition of EB Games expanded operations into Europe	3
	<b>Acquire/expand in-house distribution channel and open up to third-party games</b> <i>Example:</i> Maker studios acquired video distribution network Blip	2
	<b>Explore ancillary services and revenue generation</b> <i>Example:</i> Amazon entering into live video game streaming space with acquisition of Twitch	2
Corporate Finance Transactions	<b>Issue public equity</b> <i>Example:</i> Electronic Boutique sold 3.5 million shares of common stock in 1999	3
	<b>Issue public debt</b> <i>Example:</i> EA issued \$550 million of 0.75% Convertible Senior Notes due in 2016	3
	<b>Change dividend policy</b> <i>Example:</i> Nintendo currently has a dividend program in place	3
	<b>Share repurchase</b> <i>Example:</i> EA currently has a \$750 million share buyback program in place	3

\* 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

# Transaction Opportunities (1 of 2)

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

# Transaction Opportunities (2 of 2)

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