



Strategic Review of Electronic Arts

Part 3: Valuation Analysis

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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

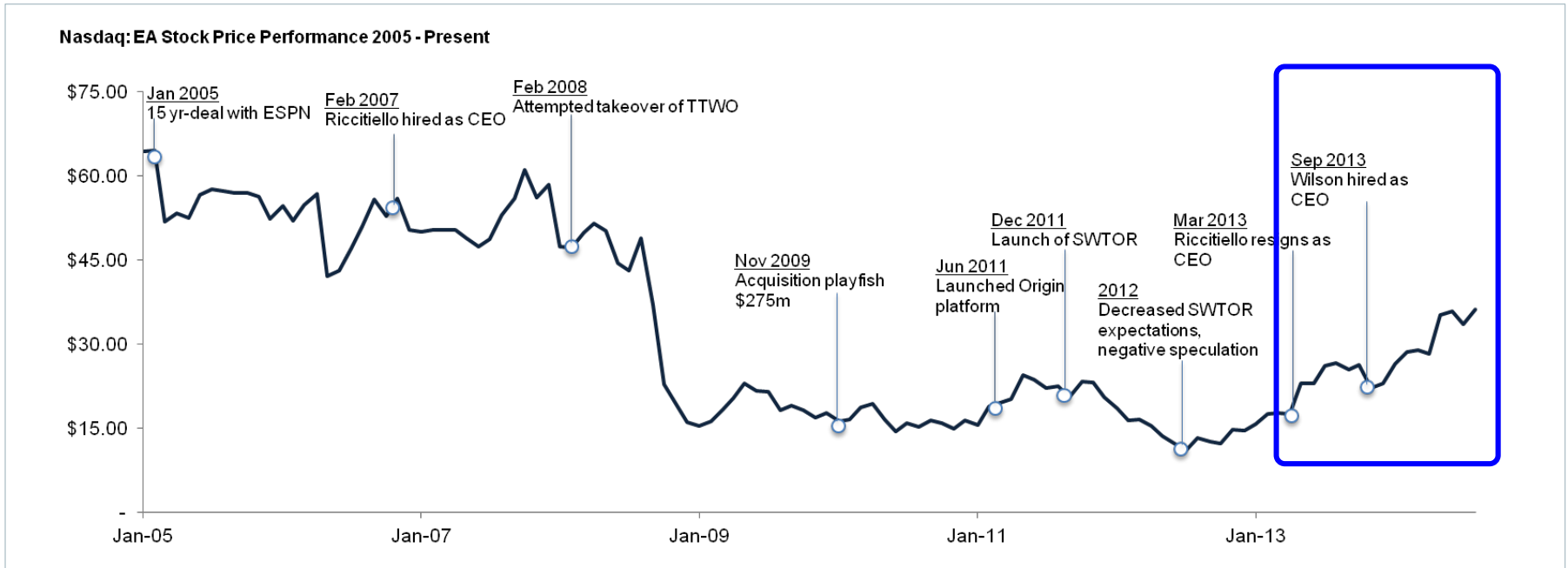
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Historic Share Price Performance

EA's valuation is currently only half of pre-crisis level despite good run in financial performance and share price last year, partially due to competitive pressures, low share of new digital markets and failed AAA product launches



- **Jan 2005** – EA signed a 15-year licensing deal with ESPN, which provided EA with exclusive access to its programming and personalities
- **Feb 2008** – EA made an all-cash bid of \$26/share, approximately \$2bn, for Take-Two Interactive, representing a 64% premium over closing price of \$15.83 on Feb 15th. Take-Two refused and the offer expired in Sep 2008
- **Dec 2011** – With estimated costs totaling \$200m, Star Wars: The Old Republic ranked as one of most expensive games ever developed. As revenue from subscription decreased in 2012, EA dropped the subscription fee for a free-to-play model
- **Mar 2013** – Riccitiello steps down as EA's CEO over the company's poor financial performance in the quarter. He was credited for diversifying EA's business model, but was unable to boost earnings and stock price in response to trends in the industry
- **Apr 2013** – EA voted unfavorably by consumers for rushing through game development, poor game releases and forcing players to purchase extra content through microtransactions despite the already expensive flat price
- **Sep 2013** – Andrew Wilson appointed new CEO with a focus on continued transition into a more digital future, instilling a culture of execution and a greater level of operational detail

Valuation Overview

Stock price has rallied over past two years and valuation analysis indicates potential further upside relative to peer group especially in digital segment

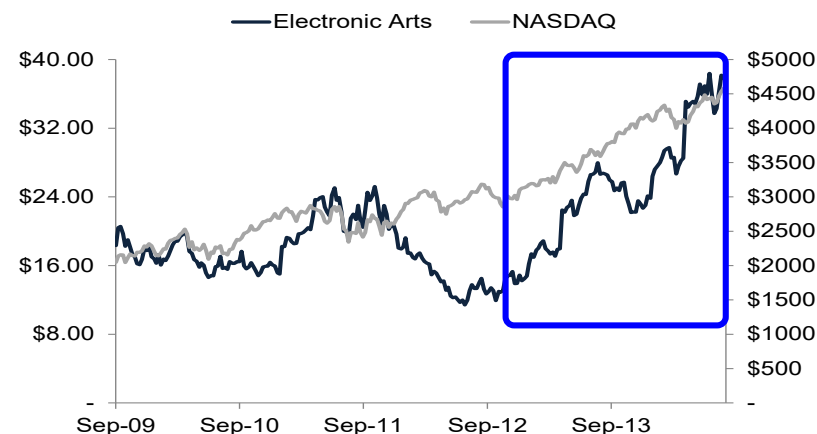
Valuation Summary

- EA's stock experienced a strong rally in past two years on higher operating margins and overall performance
- Analyst reports:** Views on EA generally range from neutral to positive with very few underperform ratings
- Comps:** EA appears to be fairly valued looking at trading comparables
- Precedents:** Undervalued in comparison to precedent transactions (premium and more digital segment)
- DCF:** Slightly undervalued in comparison to discounted cash flow valuation methodology

Share Price

Current: \$35.96

High / Low: \$20.47 / \$38.64



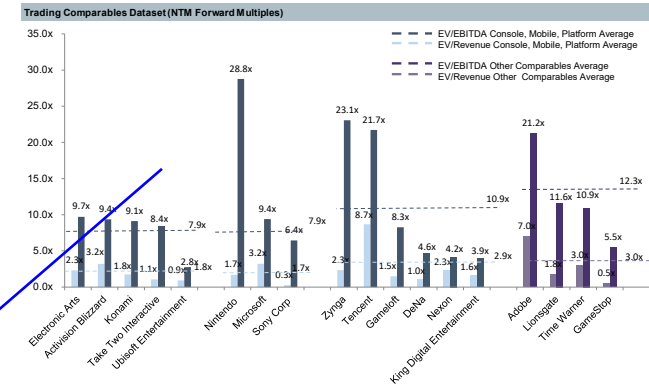
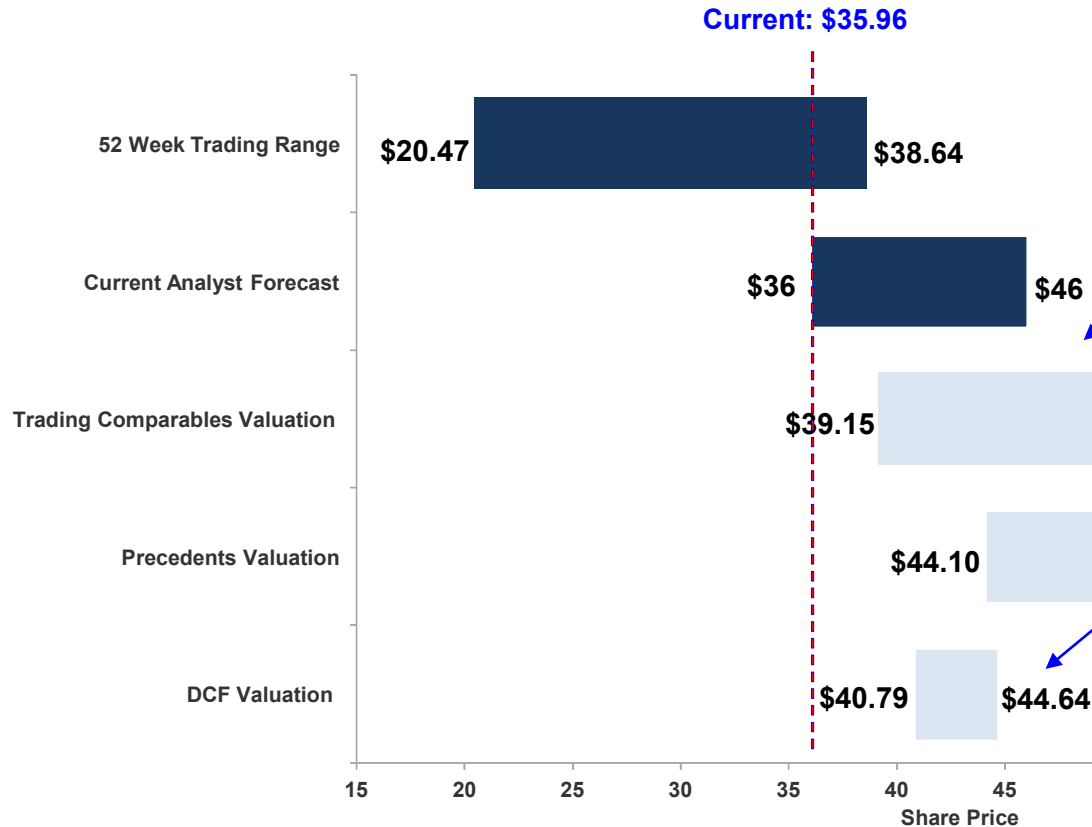
Key Metrics / Applicable Valuation Multiples

	Electronic Arts	Comparables	Precedents
EBITDA Margin	23.5%	16.4 – 38.3%	34.3 – 42.8%
Net Income Margin	11.3%	3.2 – 22%	13.8 – 41.7%
EV/EBITDA	9.7x	9.1x – 24.0x	6.0x – 35.4x
EV/Revenue	2.3x	1.1x – 3.2x	2.0x – 5.8x

Broker Estimates	Results	Period	Revenues (\$m)	EBITDA (\$m)	EBITDA Margin	EV/EBITDA (FY15)	EV/EBITDA (FY14)	P/E
High - BMO (7/23/2014)	Target Price EV (\$m)	2015E	\$4,152	\$1,053	25.4%	7.0x	9.1x	20.4x
Consensus - Credit Suisse (7/23/2014)	Target Price EV (\$m)	2014E	\$4,233	\$1,066	25.2%	8.0x	9.0x	19.6x
Low - UBS (7/22/2014)	Target Price EV (\$m)	2015E	\$4,187	\$1,119	26.7%	9.5x	8.56x	18.5x

Football Field Comparison

Combination of DCF, precedents and trading comps analysis shows EA is fairly valued relative to peers and cash flow projections although analysts see significant upside due to growing industry



DCF Cashflow Summary		Cashflow Forecast									
		2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
All dollar amounts in millions		2,303	2,781	2,736	2,028	2,140	1,871	2,076	2,054	1,984	1,954
Packaged Goods Non-GAAP Revenues		570	533	1,227	1,563	1,793	2,060	2,350	2,632	2,948	3,272
Distribution Non-GAAP Revenues		505	214	223	102	79	75	75	75	75	75
Total Non-GAAP Revenues		4,169	3,528	4,186	3,793	4,024	4,132	4,581	4,742	5,017	5,301
Revenue Growth		-	(8.9%)	8.4%	(9.4%)	6.0%	2.8%	8.9%	8.3%	8.8%	8.7%
Cost of Revenues		(1,857)	(1,486)	(1,544)	(1,203)	(1,285)	(1,306)	(1,418)	(1,470)	(1,545)	(1,627)
Marketing and Sales		(714)	(726)	(890)	(758)	(854)	(874)	(729)	(763)	(803)	(843)
Research and Development		(1,139)	(1,042)	(1,077)	(1,059)	(1,035)	(1,012)	(1,098)	(1,138)	(1,159)	(1,207)
Total Operating Costs		(3,690)	(3,254)	(3,477)	(3,119)	(3,974)	(3,992)	(3,236)	(3,371)	(3,647)	(3,737)
General Administrative and Other		(81)	(81)	(80)	(82)	(103)	(100)	(109)	(110)	(110)	(117)
Total EBITDA		388	493	613	631	844	1,027	1,157	1,261	1,360	1,447
EBITDA Growth		-	27.1%	24.3%	2.9%	48.6%	9.9%	11.5%	9.0%	7.8%	6.4%
EBITDA Margin		9.3%	12.9%	14.6%	16.6%	23.5%	25.1%	25.7%	26.6%	27.1%	27.3%
Capex		(202)	(150)	(152)	(156)	(167)	(153)	(113)	(119)	(122)	(133)
Tax		(57)	(90)	(110)	(102)	(178)	(190)	(228)	(251)	(271)	(289)
Working Capital and Other Adjustments		(135)	221	(575)	104	(173)	39	67	24	28	32
Stock-based Compensation		187	176	170	164	150	150	150	150	150	150
Free Cashflows		(109)	665	(244)	627	496	824	1,035	1,046	1,141	1,207
Unlevered Free Cashflows		(296)	389	(414)	343	346	744	872	900	971	1,034
Cashflow for Debt Service		(109)	665	(244)	627	496	824	1,035	1,046	1,141	1,207
Interest Expense		6	10	(3)	(1)	(5)	(3)	(5)	(6)	(8)	(9)
Debt Repayment		-	-	485	(8)	(1)	404	120	104	98	88
Interest Income and Other Items		19	24	(14)	(12)	(10)	-	-	-	-	-
Cashflow for Equity Distributions		(84)	599	224	484	480	1,288	1,190	1,197	1,157	1,199
Equity Issuance / Repurchase and Equity Items		53	(23)	(345)	(315)	90	-	-	-	-	-
Dividends		-	-	-	-	-	(1,978)	(208)	(1,001)	(1,042)	(1,057)
Net Cashflows		(31)	576	(121)	176	570	(690)	172	101	115	132
Ending Cash Balance		1,080	2,166	2,246	2,214	2,784	2,094	2,266	2,367	2,482	2,614
Ending Debt Balance		-	-	539	569	580	1,148	1,281	1,360	1,447	

Financial Forecast

Reasonable average revenue growth combined with significant EBITDA margin expansion drives robust long-term free cashflows relative to historical levels

DCF Cashflow Summary

*All dollar amounts in millions	2010	2011	2012	2013	2014	Cashflow Forecast				
						2015E	2016E	2017E	2018E	2019E
Packaged Goods Non-GAAP Revenues	2,983	2,781	2,736	2,028	2,149	1,977	2,076	2,034	1,994	1,954
Digital Goods Non-GAAP Revenues	570	833	1,227	1,663	1,793	2,080	2,350	2,632	2,948	3,272
Distribution Non-GAAP Revenues	606	214	223	102	79	75	75	75	75	75
Total Non-GAAP Revenues	4,159	3,828	4,186	3,793	4,021	4,132	4,501	4,742	5,017	5,301
<i>Revenue Growth</i>	-	(8.0%)	9.4%	(9.4%)	6.0%	2.8%	8.9%	5.3%	5.8%	5.7%
Cost of Revenues	(1,857)	(1,486)	(1,544)	(1,293)	(1,285)	(1,306)	(1,418)	(1,470)	(1,545)	(1,627)
Marketing and Sales	(714)	(726)	(856)	(758)	(654)	(674)	(729)	(763)	(803)	(843)
Research and Development	(1,119)	(1,042)	(1,077)	(1,059)	(1,035)	(1,012)	(1,089)	(1,138)	(1,199)	(1,267)
Total Operating Costs	(3,690)	(3,254)	(3,477)	(3,110)	(2,974)	(2,992)	(3,236)	(3,371)	(3,547)	(3,737)
General, Administrative and Other	(81)	(81)	(96)	(52)	(103)	(103)	(108)	(109)	(110)	(117)
Total EBITDA	388	493	613	631	944	1,037	1,157	1,261	1,360	1,447
<i>EBITDA Growth</i>	-	27.1%	24.3%	2.9%	49.6%	9.9%	11.5%	9.0%	7.8%	6.4%
<i>EBITDA Margin</i>	9.3%	12.9%	14.6%	16.6%	23.5%	25.1%	25.7%	26.6%	27.1%	27.3%
Capex	(305)	(59)	(172)	(106)	(97)	(103)	(113)	(119)	(125)	(133)
Tax	(57)	(90)	(110)	(102)	(178)	(199)	(226)	(251)	(271)	(289)
Working Capital and Other Adjustments	(135)	221	(575)	104	(173)	39	67	24	28	32
Stock-Based Compensation	187	176	170	164	150	150	150	150	150	150
Free Cashflows	(109)	565	(244)	527	496	924	1,035	1,066	1,141	1,207
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Cashflow for Debt Service	(109)	565	(244)	527	496	924	1,035	1,066	1,141	1,207
Interest Expense	6	10	(3)	(1)	(5)	(39)	(55)	(63)	(83)	(96)
Debt Repayment	-	-	485	(30)	(1)	404	120	104	98	88
Interest Income and Other Items	19	24	(14)	(12)	(10)	-	-	-	-	-
Cashflow for Equity Distributions	(84)	599	224	484	480	1,288	1,100	1,107	1,157	1,199
Equity Issuance / Repurchase and Equity Items	53	(23)	(345)	(315)	90	-	-	-	-	-
Dividends	-	-	-	-	-	(1,978)	(928)	(1,006)	(1,042)	(1,067)
Net Cashflows	(31)	576	(121)	169	570	(690)	172	101	115	132
Ending Cash Balance	1,590	2,166	2,045	2,214	2,784	2,094	2,266	2,367	2,482	2,614
Ending Debt Balance	-	-	539	559	580	1,006	1,148	1,261	1,360	1,447

* FCF numbers net of slight adjustments compare to FCF for DCF valuation

EA's valuation is justifiable based on an increase in digital revenues, additional content and continued cost cutting but relies on achieving an attractive forecast and repeat franchise successes

Valuation Analysis

- Valuation:** 9.7x EV / NTM EBITDA is relatively rich but comes down to 9.2x for 2015E as EBITDA grows at ~9.9%
- Forecast:** Seems achievable on back of strong FY 2014 EBITDA of \$944m despite lower historical EBITDA of ~\$500m in 2010-2013
 - Revenues are expected to increase by 2.8% in 2015E, 8.9% in 2016E and 5.3% thereon due to growing digital market as well as mature stage of console cycle (2016)
 - EBITDA margin is forecasted to improve from 25.1% in 2015E to 27.3% in 2019, due to games being delivered online, fewer titles and cost saving initiatives
- WACC:** Low at 10.4% with moderate beta of 1.15 given uncorrelated hit-driven business but dependency on disposable income
- Business:** Stable as 3rd largest games publisher (10.7% of global market) and long-standing franchises (FIFA Soccer, Battlefield, Sims)

FY	EV / EBITDA*	EBITDA* (\$m)	%Δ	Revenues* (\$m)	%Δ
2011	9.3x	493	27.1%	3,828	8.0%
2012	7.2x	613	24.3%	4,184	9.4%
2013	7.0x	631	2.9%	3,793	(9.4)%
2014	10.1x	944	49.6%	4,021	6.0%
2014NTM	9.7x				
2015E	9.2x	1,037	9.9%	4,132	2.8%
2016E	8.2x	1,156	11.5%	4,501	8.9%

Key Valuation Statistics (\$m)

EV*	\$9,511	Revenue	\$4,021
Market Cap*	\$11,241	EBITDA	\$944
P/E	21.0x	EBITDA Margin	23.5%
EV / EBITDA***	9.7x	Debt / EV	6%
Cash	\$2,316	Total Debt	\$580

* As of September 26th, 2014

** All other figures as of FY14 (year end March 31st, 2014)

*** On NTM basis

Positive Valuation Drivers

- ✓ Larger revenue mix attributable to digital goods and delivery should contribute to higher margins
- ✓ High industry growth in mobile, social and casual gaming
- ✓ Continued cost cutting initiatives should boost free cash flows

Valuation Concerns

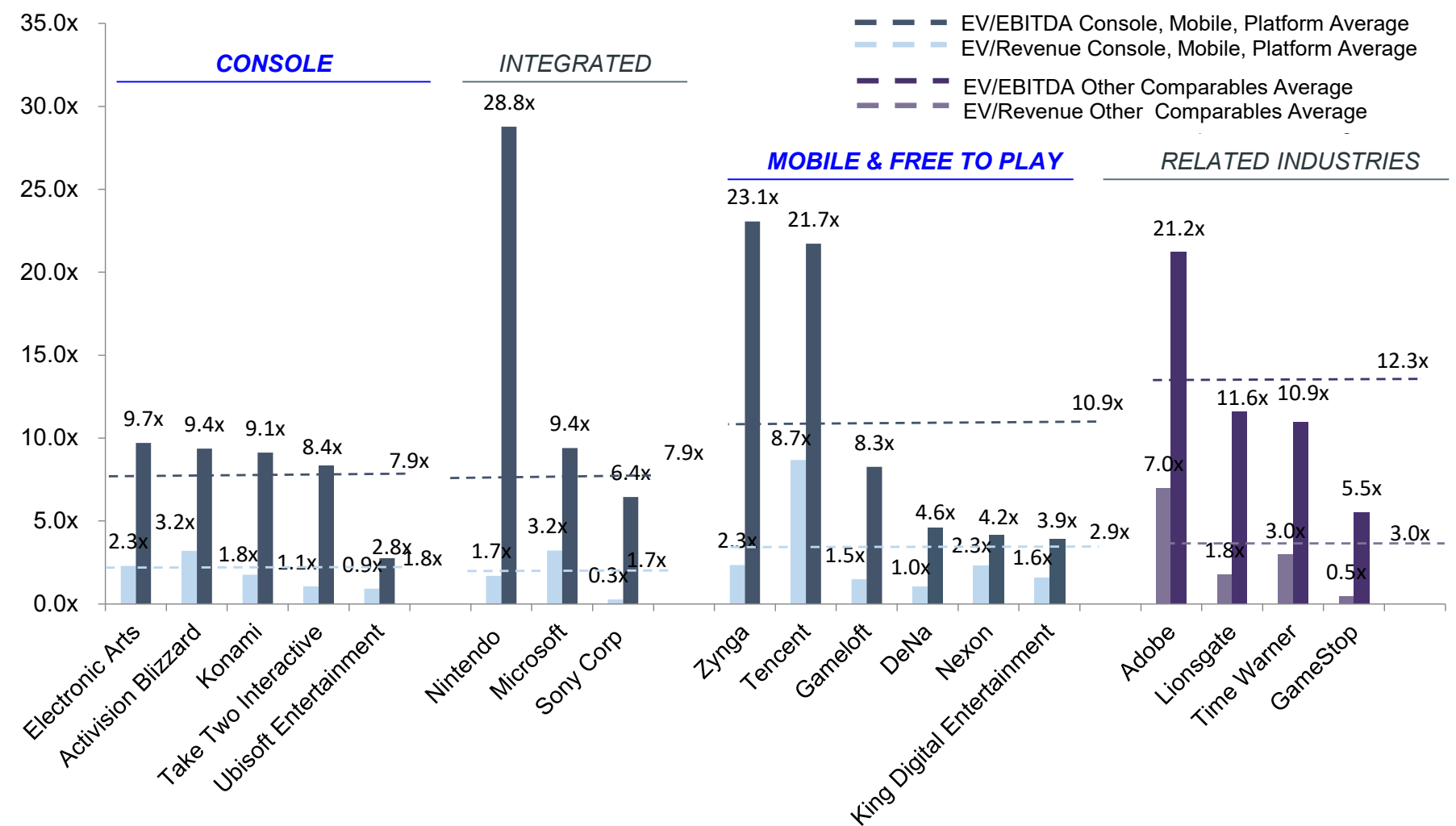
- ✗ Focus on more AAA but fewer titles overall increases revenue volatility (Star Wars franchise was very expensive but not successful)
- ✗ Increased competitive threat from successful franchises of merged Activision-Blizzard
- ✗ Higher growth in mobile, social and casual gaming segment versus console were EA has market leadership
- ✗ Customers unsatisfied about rushed development and pricing

* Based on Non-GAAP. 2011-2013 multiples based on historic figures; 2014-2016 multiples based on current EV.

Trading Comparables Overview

EA trades at the mid-to-upper end of range of console comps but discount to mobile and free-to-play comps which exhibit strong growth potential

Trading Comparables Dataset (NTM Forward Multiples)



Console manufacturers have lower multiples due to steady growth while mobile and free-to-play developers have high multiples driven by large user bases and high growth potential

- **Console:** Established integrated publishers are comparables to EA's packaged goods segment
- **Mobile/F2P:** Game developers and publishers in the high growth mobile and F2P segment with higher multiples are comparables for EA's digital segment
- **Integrated Platform Publisher:** Platform Providers with lower multiples ([Nintendo])
- **Other Comparables:**
 - GameStop: low valuation since physical distribution in decline
 - Lions Gate/Warner: strong valuation since market likes content producers
 - Adobe: high multiple for software leaders given scalable business with high ROA

INDUSTRY MULTIPLES FOR VALUATION (NTM)

Combined Entity

- **EV/EBITDA:** 3.9x – 24.0x (avg. 13.1x)*
- **EV/Revenue:** 0.3x – 3.2x (avg. 2.5x)*

Segmented Entity (Console)

- **EV/Revenue:** 0.9x – 3.2x (avg. 2x)*

Segmented Entity (Mobile and F2P)

- **EV/Revenue:** 1x – 7.8x (avg. 2.9x)*

Ranges exclude outliers

** used for EA valuation*

VALUATION OF ELECTRONIC ARTS

Current Market Valuation: \$35.96

- **EV/EBITDA:** 10.1x (\$0.9bn EBITDA)
- **EV/Revenue:** 2.3x (\$4.0bn Revenue)

Trading Comparables Valuation

- **EV/Revenue (Combined):** \$40.28
- **EV/EBITDA (Combined):** \$51.73
- **EV/Revenue (Segmented):** \$39.15
- Multiples applied to NTM Console Revenue (\$2.6bn) and NTM Mobile/F2P Revenue (\$1.7bn)

Trading Comparables Model

Comparables in mobile and free to play games segments trade at higher multiples to console and platform publishers; adjacent industries demonstrate that successful content developers are liked by the market

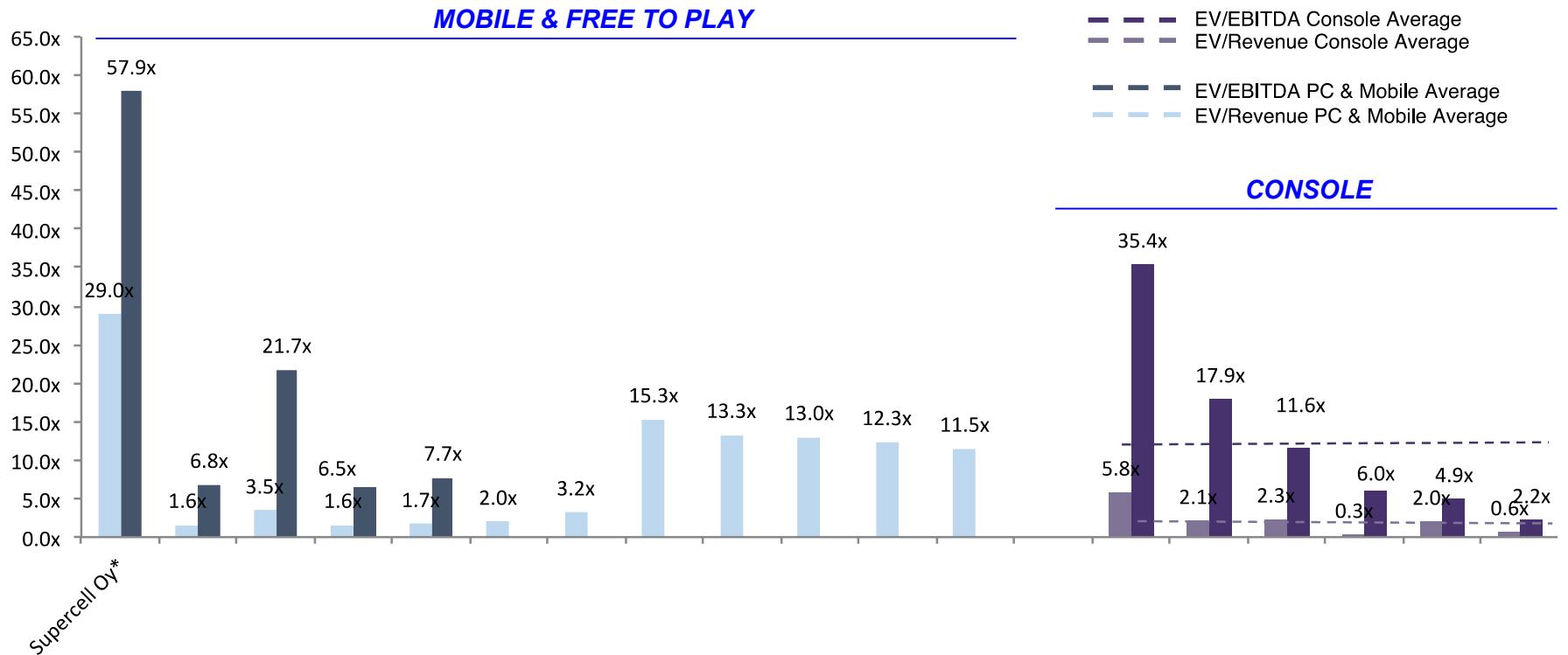
Company Name	Share Price (USD)	Market Cap.	Enterprise Value	Total Debt / EV	Net Debt / EV	EV/Revenue				EV/EBITDA				P/E				EBITDA CAGR ⁽³⁾		Revenue CAGR	
						2013A	LTM	NTM	2015E	2013A	LTM	NTM	2015E	2013A	LTM	NTM	2015E	3-Yr Hist.	2-Yr Fcst.	5-Yr Hist.	2-Yr Fcst.
Console Devices and PCs																					
Take Two Interactive	\$23.42	\$1,954.9	\$1,572.9	29.2%	-23.1%	1.3x	0.7x	1.1x	1.1x	6.2x	2.3x	8.4x	9.6x	neg	9.2x	24.4x	21.9x	(342.3)%	(19.7)%	(26.7)%	69.8%
Activision Blizzard	\$21.25	\$15,246.5	\$15,363.5	28.1%	0.8%	3.4x	3.6x	3.2x	3.2x	9.1x	11.2x	9.4x	9.0x	22.1x	22.3x	15.9x	14.7x	43.5%	0.8%	26.7%	(1.1)%
Konami	\$20.77	\$2,980.4	\$3,078.2	17.4%	3.0%	1.1x	1.4x	1.8x	1.4x	7.9x	15.2x	9.1x	10.4x	18.1x	68.2x	23.2x	21.7x	16.1%	(12.9)%	13.6%	(21.2)%
Ubisoft Entertainment	\$16.65	\$1,779.4	\$1,798.4	14.1%	1.3%	1.1x	1.3x	0.9x	0.9x	3.0x	4.0x	2.8x	3.1x	19.0x	neg	12.8x	13.4x	4.6%	(2.5)%	5.4%	(2.4)%
Mobile																					
Zynga	\$2.83	\$2,535.3	\$1,808.0	0.0%	-7.5%	2.1x	2.6x	2.3x	2.2x	28.5x	neg	23.1x	16.4x	neg	neg	176.9x	70.8x	(0.7)%	31.8%	712.5%	(27.0)%
King Digital Entertainment	\$12.80	\$4,031.1	\$3,198.9	0.0%	-26.0%	1.7x	1.7x	1.6x	1.4x	4.4x	4.4x	3.9x	3.7x	6.9x	7.3x	7.1x	6.7x	8.7%	8.7%	266.7%	
Gameloft	\$6.81	\$583.8	\$523.4	0.3%	-5.1%	1.7x	1.6x	1.5x	1.4x	10.3x	N/A	8.3x	9.6x	44.4x	58.2x	18.2x	18.2x	14.2%	3.8%	28.5%	9.0%
DeNa	\$12.02	\$1,813.3	\$1,357.0	8.8%	-36.3%	0.6x	0.8x	1.0x	1.0x	1.4x	2.6x	4.6x	4.2x	3.0x	6.1x	12.2x	11.1x	67.1%	(43.3)%	166.7%	(1.4)%
PC Free-to-Play Online																					
Tencent	\$15.01	\$140,578.6	\$138,610.4	25.3%	1.7%	14.1x	12.0x	9.6x	8.7x	40.8x	31.8x	24.0x	19.6x	54.5x	42.2x	30.2x	26.8x	43.7%	44.5%	159.9%	36.4%
Nexon	\$8.42	\$3,619.9	\$2,753.7	13.5%	-33.1%	1.7x	1.8x	2.3x	1.7x	4.1x	4.4x	4.2x	4.2x	11.9x	15.7x	23.7x	10.5x	34.5%	(0.7)%	86.6%	5.4%
Platforms																					
Nintendo	\$110.16	\$15,606.9	\$8,599.9	0.2%	-51.0%	1.1x	1.5x	1.7x	1.6x	neg	neg	28.8x	28.5x	164.0x	neg	neg	91.7x	(138.2)%	#NUM!	(25.2)%	(16.3)%
Microsoft	\$46.41	\$382,411.4	\$319,347.4	7.1%	4.4%	4.1x	3.7x	3.2x	3.2x	10.5x	9.6x	9.4x	9.4x	17.8x	17.5x	16.6x	16.6x	10.0%	5.7%	10.5%	8.3%
Sony Corp	\$17.39	\$18,884.1	\$19,359.2	50.3%	17.8%	0.2x	0.2x	0.3x	0.3x	2.9x	4.4x	6.4x	5.4x	33.6x	neg	neg	neg	21.7%	(27.5)%	2.8%	(4.3)%
Partner Channels																					
Google	\$577.10	\$390,345.8	\$334,391.8	1.6%	-4.3%	5.6x	5.3x	5.8x	5.3x	18.7x	16.8x	11.6x	10.7x	26.2x	26.2x	20.1x	18.3x	16.9%	32.4%	51.7%	2.8%
Apple	\$100.75	\$603,277.6	\$596,512.6	5.2%	3.0%	3.5x	3.3x	3.0x	3.0x	10.7x	10.1x	9.3x	9.0x	17.6x	16.3x	14.5x	14.0x	91.3%	9.1%	104.3%	7.3%
Other																					
Facebook	\$78.79	\$203,882.2	\$190,252.2	0.2%	-2.1%	24.2x	19.0x	13.4x	11.6x	49.9x	35.2x	21.0x	17.8x	127.1x	85.6x	44.1x	38.8x	51.7%	67.2%	332.5%	55.1%
Lionsgate	\$31.20	\$4,277.3	\$4,892.1	13.6%	12.6%	1.8x	1.9x	1.8x	1.8x	17.4x	17.4x	11.6x	11.9x	18.0x	20.3x	18.9x	18.4x	(158.5)%	20.8%	8.0%	31.2%
Time Warner	\$75.66	\$64,676.9	\$82,759.9	27.3%	21.8%	2.8x	2.8x	3.0x	2.9x	10.7x	10.5x	10.9x	10.5x	19.0x	17.9x	18.1x	16.5x	7.3%	1.0%	4.1%	(2.3)%
Adobe	\$68.36	\$34,091.3	\$32,079.4	4.7%	1.9%	7.9x	7.8x	7.0x	6.5x	41.6x	45.1x	21.2x	18.5x	117.9x	142.3x	39.6x	32.9x	13.4%	50.0%	10.9%	(3.1)%
Expedia	\$85.90	\$10,925.5	\$10,407.0	12.0%	-1.8%	2.2x	2.0x	1.7x	1.6x	13.3x	11.1x	9.4x	8.6x	49.7x	31.6x	20.6x	18.2x	(3.6)%	24.3%	17.1%	19.3%
GameStop	\$42.04	\$4,736.5	\$4,757.9	4.5%	0.4%	0.5x	0.5x	0.5x	0.5x	34.7x	6.1x	5.5x	5.7x	neg	12.8x	10.8x	11.3x	(2.6)%	145.9%	16.0%	(2.1)%
Majesco Entertainment	\$1.15	\$7.7	-\$3.3	0.0%	333.4%	neg	neg	neg	neg	0.3x	0.2x	0.8x	0.7x	neg	neg	neg	neg	(231.4)%	(32.1)%	43.9%	(45.6)%
Electronic Arts	\$35.96	\$11,241.6	\$9,511.6	6.2%	-10.2%	2.5x	2.3x	2.3x	2.3x	15.1x	9.6x	9.7x	9.1x	112.4x	19.9x	19.6x	18.7x	(221.0)%	73.3%	6.3%	(2.7)%
Average																					

(all figures presented in USD millions, except per share figures or where noted)

Precedent Transactions Overview

Precedents transactions of mobile companies have been completed at a higher valuation than console due to high growth potential and large user bases paid for mobile and online game developers

Precedent Transactions Dataset (LTM)



Precedent transactions show significant revenue multiples being paid for mobile and free-to-play developers as they build up their user bases

- **Console:** Established integrated publishers comparable to EA's packaged goods segment
- **Mobile/F2P:** Game developers and publishers in the high growth mobile and F2P segment comparable to EA's digital segment
- **Other:**
 - Console manufacturers characterized by lower multiples due to steady growth and stable revenues
 - Mobile/F2P game developers characterized by higher multiples due to high growth potential and large user bases, as well as competition for acquiring a particularly attractive company

INDUSTRY MULTIPLES FOR VALUATION (LTM)

Combined Entity

- **EV/EBITDA:** 4.9.x – 35.4x (avg. 12.1x)*

Segmented Entity (Console):

- **EV/Revenue:** 0.3x – 5.8x (avg. 2.2x)*

Segmented Entity (Mobile / F2P):

- **EV/Revenue:** 1.6x – 13.0x (avg. 6.1x)*

Ranges exclude outliers

** used for EA valuation*

VALUATION OF ELECTRONIC ARTS (2014A)

Current Market Valuation: \$35.96

- **EV/EBITDA:** 10.1x (\$0.9bn EBITDA)
- **EV/Revenue:** 2.3x (\$4.0bn Revenue)

Precedent Transactions Valuation

- **EV/EBITDA (Combined):** \$44.10
- **EV/Revenue (Segmented):** \$54.44
- Multiples applied to LTM Console Revenue (\$2.4bn) and LTM Mobile/F2P Revenue (\$1.6bn)

Precedent Transactions Model

Industry transactions in recent years have primarily focused on mobile and online segments with high growth potential and valuation multiples

Target		Buyer			Transaction				LTM		EV/LTM	
Company	Type	Company	Type	EV	Date	Year	Rationale	Implied EV	Revenue	EBITDA	Revenue	EBITDA
<i>(all figures presented in USD millions, except per share figures or where noted)</i>												
Mobile & PC F2P Game Developers												
Supercell Oy	Developer	SoftBank / GungHo	Conglomerate	158,076 / 8,233	October 15, 2013	2013	Acquisition of content	3,000	104	52	29.0x	57.9x
gloops	Developer	NEXON	Developer/Publisher	5,218	October 1, 2012	2012	Expansion into mobile gaming	486	305	75	1.6x	6.5x
Ourpalm	Developer	Huayi Brothers Media	Film Producer	1,455	June 21, 2010	2010	Vertical integration	99	57	13	1.7x	7.7x
Funzio	Developer	GREE	Developer / Publisher	3,941	May 1, 2012	2012	Expansion into mobile gaming	210	64	31	3.3x	6.8x
OMGPOP	Developer	Zynga	Publisher	8,107	March 21, 2012	2012	Acquisition of content	183	91		2.0x	
Double Down Interactive	Developer	Int. Game Technology	Platform Manufacturer	6,238	January 12, 2012	2012	Vertical integration	412	128		3.2x	
PopCap Games	Developer	Electronic Arts	Diversified Publisher	5,819	August 12, 2011	2011	Expansion into mobile gaming	1,301	100		13.0x	
Insider Guides	Social Platform	MeetMe	Social Platform	116	July 19, 2011	2011	Horizontal integration	100	29	5	3.5x	21.7x
Riot Games	Developer	Tencent Holdings	Conglomerate	42,015	February 18, 2011	2011	Acquisition of content	329	29		11.5x	
ngmoco	Publisher	DeNA	Developer/Publisher	3,962	October 12, 2010	2010	Expanding into mobile social gaming	400	30		13.3x	
Playdom	Developer	Walt Disney	Conglomerate	71,954	August 27, 2010	2010	Expansion into social gaming	763	50		15.3x	
Playfish	Developer	Electronic Arts	Diversified Publisher	4,020	November 9, 2009	2009	Expansion into social gaming	391	32		12.3x	
Mobile & PC F2P Games Average											9.1x	20.1x
Integrated Platform Publishers												
Hudson Soft	Publisher	Konami	Developer / Publisher	3,301	January 20, 2011	2011	Horizontal integration	58	194	10	0.3x	6.0x
Inspired Gaming Group	Platform Manufacturer	Vitruvian Partners	Private Equity	N/A	May 4, 2010	2010	Private investment	175	87	35	2.0x	4.9x
Eidos	Publisher	Square Enix	Diversified Publisher	1,674	February 12, 2009	2009	Acquisition of content	125	194	56	0.6x	2.2x
Take-Two Interactive	Publisher	Electronic Arts	Diversified Publisher	7,237	February 15, 2008	2008	Horizontal integration	2,000	945	112	2.1x	17.9x
Activision	Diversified Publisher	Vivendi	Publisher	52,968	December 2, 2007	2007	Horizontal integration	18,900	3,244	534	5.8x	35.4x
Integrated Platform Publisher Average											2.2x	13.3x
Electronic Arts											2.3x	11.6x

Discounted Cashflows Overview

DCF valuation in line with current price as upside from strong forecasted cashflows is slightly counteracted by low target gearing which increases WACC

- Strong cashflow forecast based on record results in 2014
- Assumed moderately conservative terminal growth rate of 2.50% on free cashflow to firm which equates to 8.5x EBITDA multiple
- Moderate WACC given hit-driven nature and limited correlation with market factors (low beta), but modest use of leverage
- EBITDA CAGR 8.9%, Revenue CAGR 5.7%
- EBITDA margin improvement from 23.5% (2014) to 27.3% (2019)

DCF Valuation Results

(\$ in millions of U.S. dollars except per share amounts)

Free Cash Flows

	Projected Fiscal Years Ending March 31				
	2015	2016	2017	2018	2019
EBIT * (1-tax rate)	626	720	800	874	939
Depreciation And Amortization	203	196	194	194	196
Non-cash Interest Adjustment	22	23	9	-	-
Other	-	-	-	-	-
Capex	(103)	(113)	(119)	(125)	(133)
Net Change in Working Capital	17	45	15	28	32
Free Cash Flows to Firm (FCFF)	389	872	900	971	1,034
<i>Years to Discount</i>	0.51	1.51	2.51	3.51	4.51
<i>Cost of Capital</i>	10.4%	10.4%	10.4%	10.4%	10.4%
<i>Discount Factor</i>	0.95	0.86	0.78	0.71	0.64
PV Free Cash Flows to Firm (FCFF)	370	750	702	685	661

Enterprise Value EBITDA Multiple Method

EBITDA Multiple	8.5x
Terminal Year EBITDA	1,447
Present Value of Terminal Value	7,865
Present Value of Forecast FCF	3,168
Enterprise Value	11,033
- Debt	(633)
+ Cash	2,784
Equity Value (Market Cap)	13,184
Shares outstanding	316
Fair value share price	\$41.72

Enterprise Value Perpetual Growth Method

Perpetual growth of firm cash flows	2.50%
Present Value of Terminal Value	8,543
Present Value of Forecast FCF	3,168
Enterprise Value	11,711
- Debt	(633)
+ Cash	2,784
Equity Value (Market Cap)	13,862
Shares outstanding	316
Fair value share price	43.87

WACC Assumptions

Valuation date	26-Sep-14
10-yr US government bond rate	2.5%
Expected market return	10.0%
Market risk premium	7.5%
Beta	1.15
CAPM cost of equity	11.2%
Cost of debt	6.0%
Tax rate	35.0%
After tax cost of debt	3.9%
Target gearing	10.0%
WACC	10.4%