

# Electronic Arts, Inc.

Q2 EPS upside, but lowered FY23 guidance. We remains positive from strong growth outlook. Lowering P/T to \$152.

## COMPANY UPDATE

### Rating: BUY

Ticker: EA

Price: \$121.74

Target: \$152  
(from \$156)

**Q2 EPS upside:** EA recently (on November 1) reported its fiscal Q2 FY23 (ending September) results. Revenue was \$1.75 billion (-5% y-o-y), compared to our estimate of \$1.82 billion and consensus of \$1.80 billion. Pro forma EPS was \$1.45, compared to our estimates of \$1.40 and consensus of \$1.36. Q2 guidance was for revenue of \$1.725 – 1.775 billion and for EPS of \$1.25 – 1.35.

**Strong results from sports games:** The company again reported strong results from its sports games (particularly *FIFA* with *FIFA 23* game sales up 10% y-o-y and helped by the current FIFA World Cup (in Qatar) tournament) and continued strong digital sales across its games including *Apex Legends*. Full game digital game sales are 66% (up from 61% last year) and steadily increasing driving higher margins.

**Key metrics:** In Q2, FIFA Mobile DAUs, were up 100% y-o-y. *FIFA 23* Ultimate Team players were up 6% on the comparable period versus *FIFA 22*.

**FY23 guidance lowered due to F/X:** Management lowered FY23 guidance for revenue to \$7.65 – 7.85 billion, from \$7.90 – 8.10 billion, and for EPS to \$6.95 – 7.25 from \$7.05 – 7.15. This is primarily due to weaker (F/X) as the company gets over 50% of revenues from international.

**Adjusting estimates:** We are adjusting our FY23 estimates for revenue to \$7.95 billion, from \$8.10 billion, and for EPS to \$7.35 from \$7.25.

**Solid FY23 growth:** Given the current strength in the video game industry (helped with pandemic and people staying at home and playing games), we believe EA should beat its FY23 guidance. Key games this year (FY23) are its sports, mobile, and online games. In addition, its 3 recent major acquisitions should help drive solid growth in FY23.

**Loss of FIFA license:** EA announced (in May) that it will no longer have the FIFA license for its soccer game after this year's version (*FIFA 23*) is released. After holding the FIFA license for 30 years, EA's soccer game will be rebranded in 2023 as EA SPORTS FC. We note that almost all of the other players, leagues, and teams licenses remain so it should have minimal impact on what is EA's biggest game. With the 2022 FIFA World Cup going on now (November/December 2022), we believe this last FIFA game will be very strong for EA.

**M&A chatter:** There has been numerous M&A deals in the video game space in the past year, including 3 done by EA and the pending mega deal by Microsoft to buy Activision Blizzard (even with the current FTC challenges). There has been recent media reports that EA may be an acquisition target, though the company has not confirmed any information.

**Expect share price rebound:** With strong growth expected in digital, key games expected over the next several years, and continued positive benefits from the strong industry growth during the pandemic, we believe a favorable valuation is likely to drive a rebound and growth in EA's share price.

**Valuation attractive:** We are maintaining our BUY rating, but lowering our 12-month price target to \$152 from \$156, which is calculated by applying a forward P/E of ~19x our FY24 EPS estimate of \$8.00. This multiple is about inline with our estimate of EA's earnings growth rate and we believe appropriately balances its outlook with execution risks.

#### Company Description

Based in Redwood City, CA, Electronic Arts is a global publisher, developer, and distributor of interactive entertainment software including the EA SPORTS, *Madden NFL*, and *The Sims* games.

#### Stock Data

Exchange:	NasdaqGS
52-week Range:	\$109.24 – 142.79
Shares Outstanding (million):	279
Market cap (\$million):	\$33,965
EV (\$million):	\$33,970
Debt (\$million):	\$1,879
Cash (\$million):	\$1,874
Avg. Daily Trading Vol. (\$million):	\$244
Float (million shares):	259
Short Interest (million shares):	4
Dividend, annual (yield):	\$0.72 (~0.6%)

#### Revenues (US\$ million)

	2023E (Cur.)	2023E (Old)	2024E (Cur.)	2024E (Old)
Q1 Jun	1,299A		1,467E	
Q2 Sep	1,754A	1,824E	1,949E	
Q3 Dec	2,600E	2,972E	2,997E	
Q4 Mar	2,297E	2,006E	1,988E	
Total	7,950E	8,100E	8,400E	
EV/Revs	4.3x		4.0x	

#### Earnings per Share (pro forma)

	2023E (Cur.)	2023E (Old)	2024E (Cur.)	2024E (Old)
Q1 Jun	0.47A		0.84E	0.86E
Q2 Sep	1.45A	1.40E	1.86E	
Q3 Dec	3.17E	3.28E	3.33E	
Q4 Mar	2.27E	2.09E	1.96E	1.94E
Total	\$7.35E	\$7.25E	\$8.00E	
P/E	17x		15x	

#### Important Disclosures

Ascendant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 8.**

## **OVERVIEW**

- EA recently (on November 1) reported its fiscal Q2 FY23 (ending September) results.
- Revenue was \$1.75 billion (-5% y-o-y), compared to our estimate of \$1.82 billion and consensus of \$1.80 billion.
- Pro forma EPS was \$1.45, compared to our estimates of \$1.40 and consensus of \$1.36.
- Q2 guidance was for revenue of \$1.725 – 1.775 billion and for EPS of \$1.25 – 1.35.
- Management lowered FY23 guidance for revenue to \$7.65 – 7.85 billion, from \$7.90 – 8.10 billion, and for EPS to \$6.95 – 7.25 from \$7.05 – 7.15.
- Initial Q3 guidance is for revenue of \$2.425 – 2.525 billion and for EPS of \$2.90 – 3.10.
- Implied Q4 guidance is for revenue of \$2.07 – 2.37 billion and EPS of \$1.93 – 2.43.
- We are adjusting our FY23 estimates for revenue to \$7.95 billion, from \$8.10 billion, and for EPS to \$7.35 from \$7.25.
- We are maintaining our FY24 estimates for revenue of \$8.40 billion, and for EPS of \$8.00.

## **ADDITIONAL DETAILS (pro forma)**

- Gross profit for the quarter was \$1,332 million, compared with our estimate of \$1,180 million.
- Gross margin for the quarter was 76%, compared with our estimate of 65% and 75% last year.
- Operating expenses were \$833 million, compared with our estimate of \$695 million.
- Operating income was \$499 million, compared with our estimate of \$485 million.
- Pro forma net income was \$404 million, compared with our estimate of \$394 million.
  
- On November 10 2020, Take-Two announced that it has reached an agreement to acquire Codemasters, the UK-based video game publisher and developer, for ~\$994 million. Codemasters had FY20 revenue of ~\$100 million.
- On December 13, 2020, Electronic Arts announced that it has reached an agreement with Codemasters for the recommended acquisition of Codemasters for ~\$1.2 billion (in cash). Take-Two decided to let its offer lapse and EA completed its acquisition of Codemasters on February 18, 2021.
- In February 2021, Electronic Arts announced that it will acquire Glu Mobile Inc., a leading global developer and publisher of mobile games including Design Home, Covet Fashion, and MLB Tap Sports Baseball. Under the terms of the agreement, EA will acquire Glu for \$2.1 billion in enterprise value (\$12.50 in cash for each Glu stock, representing a 36% premium to Glu's share price on February 5, 2021). Upon closing, the acquisition will be immediately accretive to Electronic Arts' total net bookings, and is expected to grow underlying profitability beginning in its first year. The transaction closed in April 2021.
- In June 2021, Electronic Arts announced that it will acquire from AT&T and Warner Bros. Games' Playdemic, Ltd. for \$1.4 billion in cash. Playdemic is a premier mobile gaming company founded in 2010 and known for its popular, award-winning game *Golf Clash*, which is one of the leading mobile games in the U.S. and U.K. with more than 80 million downloads globally to date. This deal closed in September 2021.

The company's balance sheet is solid with \$1.9 billion in cash and \$1.9 billion in debt (~\$0/share in net cash), compared with \$2.4 billion in cash and \$1.9 billion in debt as of June.

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**Exhibit 1: Electronic Arts FY23 Game Release Schedule (as of November 2022)**

## FY23 Title Slate

**Q1**

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F1 22

**Q2**

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FIFA 23  
Madden NFL 23

**Q3**

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Need for Speed Unbound  
NHL 23

**Q4**

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Dead Space  
PGA TOUR  
Super Mega Baseball  
Wild Hearts  
Major IP

Source: Company reports.

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### Exhibit 2: Electronic Arts Stock Price (Five Years)



Source: <https://bigcharts.marketwatch.com/>

### Exhibit 3: Consensus Expectations (as of November 1, 2022)

	Revenue (mils)			EPS	
	2023E	2024E		2023E	2024E
Q1 Jun	\$1,299A		Q1 Jun	\$0.47A	
Q2 Sep	\$1,801E		Q2 Sep	\$1.36E	
Q3 Dec	\$2,626E		Q3 Dec	\$3.03E	
Q4 Mar			Q4 Mar		
Total	\$7,988E	\$8,522E	Total	\$7.19E	\$7.96E

\*Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.

Source: Company report, Refinitiv, and Ascendant Capital Markets estimates

## FINANCIAL MODEL

### Electronic Arts, Inc. Pro Forma Income Statement

Income Statement (\$ in millions) Fiscal Year End: March 31	Jun-20 1QA	Sep-20 2QA	Dec-20 3QA	Mar-21 4QA	2021 FY-A	Jun-21 1QA	Sep-21 2QA	Dec-21 3QA	Mar-22 4QA	2022 FY-A	Jun-22 1QA	Sep-22 2QA	Dec-22 3QE	Mar-23 4QE	2023 FY-E	Jun-23 1QE	Sep-23 2QE	Dec-23 3QE	Mar-24 4QE	2024 FY-E
<b>Net Revenues (non GAAP)</b>	<b>1,390</b>	<b>910</b>	<b>2,400</b>	<b>1,490</b>	<b>6,190</b>	<b>1,336</b>	<b>1,851</b>	<b>2,577</b>	<b>1,751</b>	<b>7,515</b>	<b>1,299</b>	<b>1,754</b>	<b>2,600</b>	<b>2,297</b>	<b>7,950</b>	<b>1,467</b>	<b>1,949</b>	<b>2,997</b>	<b>1,988</b>	<b>8,400</b>
Cost of Goods Sold	287	284	600	314	1,485	292	470	586	372	1,720	282	422	738	757	2,199	545	619	1,018	609	2,792
Gross Profit	1,103	626	1,800	1,176	4,705	1,044	1,381	1,991	1,379	5,795	1,017	1,332	1,862	1,540	5,751	922	1,330	1,978	1,379	5,609
Research & Devel.	372	347	377	397	1,493	430	452	453	495	1,830	491	470	390	380	1,731	365	380	410	380	1,535
Sales & Marketing	110	144	205	184	643	178	218	279	232	907	221	217	225	205	868	137	175	225	152	689
General & Admin.	112	108	124	149	493	142	145	135	139	561	138	146	153	170	607	130	130	180	160	600
Restructuring and Other Charges																				
<u>Amortization of Intangibles</u>																				
Total Operating Expenses	594	599	706	730	2,629	750	815	867	866	3,298	850	833	768	755	3,206	632	685	815	692	2,824
Operating Income (loss)	509	27	1,094	446	2,076	294	566	1,124	513	2,497	167	499	1,094	785	2,545	290	645	1,163	687	2,785
Interest Income	(3)	(10)	(6)	(10)	(29)	(14)	(14)	(11)	(9)	(48)	(5)	-	1	1	(3)	1	1	1	1	4
Income before Taxes	506	17	1,088	436	2,047	280	552	1,113	504	2,449	162	499	1,095	786	2,542	291	646	1,164	688	2,789
Income Taxes	91	3	196	78	368	50	99	200	91	441	31	95	208	149	483	55	123	221	131	530
Income b/f minority interest	415	14	892	358	1,679	230	453	913	413	2,008	131	404	887	636	2,059	236	523	943	557	2,259
<u>Minority Interest</u>																				
<b>Net Income</b>	<b>415</b>	<b>14</b>	<b>892</b>	<b>358</b>	<b>1,679</b>	<b>230</b>	<b>453</b>	<b>913</b>	<b>413</b>	<b>2,008</b>	<b>131</b>	<b>404</b>	<b>887</b>	<b>636</b>	<b>2,059</b>	<b>236</b>	<b>523</b>	<b>943</b>	<b>557</b>	<b>2,259</b>
EBITDA	648	180	1,251	613	2,692	524	809	1,399	779	3,511	406	766	1,169	860	3,201	365	720	1,238	762	3,085
Shares, Basic	288	289	290	288	289	286	285	283	281	284	279	278	279	280	279	280	281	282	283	282
Shares, Diluted	292	293	292	290	292	289	287	285	283	286	281	279	280	281	280	281	282	283	284	283
EPS (Basic pro forma)	1.44	0.05	3.08	1.24	5.81	0.80	1.59	3.22	1.47	7.08	0.47	1.45	3.18	2.27	7.38	0.84	1.86	3.34	1.97	8.02
<b>EPS (Diluted pro forma)</b>	<b>1.42</b>	<b>0.05</b>	<b>3.06</b>	<b>1.23</b>	<b>5.75</b>	<b>0.79</b>	<b>1.58</b>	<b>3.20</b>	<b>1.46</b>	<b>7.02</b>	<b>0.47</b>	<b>1.45</b>	<b>3.17</b>	<b>2.27</b>	<b>7.35</b>	<b>0.84</b>	<b>1.86</b>	<b>3.33</b>	<b>1.96</b>	<b>8.00</b>

#### Percentage Analysis

##### % of Sales

Gross Margin	79%	69%	75%	79%	76%	78%	75%	77%	79%	77%	78%	76%	72%	67%	72%	63%	68%	66%	69%	67%
Research & Devel.	27%	38%	16%	27%	24%	32%	24%	18%	28%	24%	38%	27%	15%	17%	22%	25%	19%	14%	19%	18%
Sales & Marketing	8%	16%	9%	12%	10%	13%	12%	11%	13%	12%	17%	12%	9%	9%	11%	9%	9%	8%	8%	8%
General & Admin.	8%	12%	5%	10%	8%	11%	8%	5%	8%	7%	11%	8%	6%	7%	8%	9%	7%	6%	8%	7%
Operating Profit	37%	3%	46%	30%	34%	22%	31%	44%	29%	33%	13%	28%	42%	34%	32%	20%	33%	39%	35%	33%
Net Income	30%	2%	37%	24%	27%	17%	24%	35%	24%	27%	10%	23%	34%	28%	26%	16%	27%	31%	28%	27%

##### YY % Change

Total Revenue	87%	-29%	21%	23%	19%	-4%	103%	7%	18%	21%	-3%	-5%	1%	31%	6%	13%	11%	15%	-13%	6%
Gross Margin	84%	-31%	18%	19%	17%	-5%	121%	11%	17%	23%	-3%	-4%	-6%	12%	-1%	-9%	0%	6%	-10%	-2%
Research & Devel.	12%	6%	15%	16%	12%	16%	30%	20%	25%	23%	14%	4%	-14%	-23%	-5%	-26%	-19%	5%	0%	-11%
Sales & Marketing	7%	1%	7%	17%	8%	62%	51%	36%	26%	41%	24%	0%	-19%	-12%	-4%	-38%	-19%	0%	-26%	-21%
General & Admin.	19%	0%	17%	23%	15%	27%	34%	9%	-7%	14%	-3%	1%	13%	22%	8%	-6%	-11%	18%	-6%	-1%
Operating Profit	638%	-92%	23%	21%	25%	-42%	1996%	3%	15%	20%	-43%	-12%	-3%	53%	2%	74%	29%	6%	-13%	9%
Net Income	462%	-95%	20%	14%	18%	-45%	3147%	2%	16%	20%	-43%	-11%	-3%	54%	3%	80%	29%	6%	-13%	10%

Source: Company reports and Ascendant Capital Markets estimates

**Electronic Arts, Inc.**

Balance Sheet (\$ millions) Fiscal Year End: March 31	Jun-20 1QA	Sep-20 2QA	Dec-20 3QA	Mar-21 4QA	Jun-21 1QA	Sep-21 2QA	Dec-21 3QA	Mar-22 4QA	Jun-22 1QA	Sep-22 2QA	Dec-22 3QE	Mar-23 4QE	Jun-23 1QE	Sep-23 2QE	Dec-23 3QE	Mar-24 4QE
<b>ASSETS</b>																
Cash and Cash Equivalents	4,013	4,059	4,772	5,260	2,838	1,630	2,670	2,732	2,082	1,539	1,660	3,299	2,666	3,300	3,524	5,061
Marketable securities	1,947	1,972	1,938	1,106	881	342	346	330	334	335	335	335	335	335	335	335
A/R - net	507	423	778	521	557	1,031	965	650	579	919	1,589	756	1,164	944	1,562	619
Inventory	-	-	-	-	-	-	-	-	-	-	76	157	153	129	105	127
Other deferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets (& Prepaid Royalties)	223	376	233	326	401	387	377	439	522	649	649	649	649	649	649	649
<b>Total Current Assets</b>	<b>6,690</b>	<b>6,830</b>	<b>7,721</b>	<b>7,213</b>	<b>4,677</b>	<b>3,390</b>	<b>4,358</b>	<b>4,151</b>	<b>3,517</b>	<b>3,442</b>	<b>4,310</b>	<b>5,196</b>	<b>4,967</b>	<b>5,357</b>	<b>6,174</b>	<b>6,792</b>
Property and equipment, net	450	458	467	491	510	516	522	550	545	531	531	531	531	531	531	531
Long term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment in affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill and other intangibles	1,937	1,933	1,933	3,177	5,165	6,539	6,441	6,349	6,275	6,186	6,182	6,178	6,174	6,170	6,166	6,162
Other assets (& Deferred Income Tax)	2,207	2,249	2,299	2,407	2,382	2,574	2,609	2,750	2,855	2,920	2,920	2,920	2,920	2,920	2,920	2,920
<b>TOTAL ASSETS</b>	<b>\$ 11,284</b>	<b>\$ 11,470</b>	<b>\$ 12,420</b>	<b>\$ 13,288</b>	<b>\$ 12,734</b>	<b>\$ 13,019</b>	<b>\$ 13,930</b>	<b>\$ 13,800</b>	<b>\$ 13,192</b>	<b>\$ 13,079</b>	<b>\$ 13,943</b>	<b>\$ 14,825</b>	<b>\$ 14,592</b>	<b>\$ 14,978</b>	<b>\$ 15,791</b>	<b>\$ 16,405</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>																
Short term debt	599	599	600	-	-	-	-	-	-	-	-	-	-	-	-	-
A/P	51	164	89	96	73	136	86	101	70	136	255	523	381	431	348	424
Accrued Liabilities	1,040	1,083	1,423	1,341	1,093	1,119	1,443	1,388	1,215	1,034	1,034	1,034	1,034	1,034	1,034	1,034
Deferred Revenues	878	639	1,380	1,527	1,305	1,322	2,101	2,024	1,548	1,391	1,391	1,886	1,124	950	1,391	1,986
<b>Total Current Liabilities</b>	<b>2,568</b>	<b>2,485</b>	<b>3,492</b>	<b>2,964</b>	<b>2,471</b>	<b>2,577</b>	<b>3,630</b>	<b>3,513</b>	<b>2,833</b>	<b>2,561</b>	<b>2,680</b>	<b>3,543</b>	<b>2,540</b>	<b>2,415</b>	<b>2,773</b>	<b>3,444</b>
Long term debt	397	397	397	1,876	1,877	1,877	1,878	1,878	1,878	1,879	1,879	1,879	1,879	1,879	1,879	1,879
Minority Interest & Other long term liabilities	537	513	568	608	658	709	805	784	840	841	841	841	841	841	841	841
Common stock	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Additional paid-in capital	-	145	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive loss	(52)	(89)	(94)	(50)	(35)	(2)	6	15	71	137	87	37	(13)	(63)	(113)	(163)
Retained earnings	7,831	8,016	8,054	7,887	7,760	7,855	7,608	7,607	7,567	7,658	8,453	8,523	9,343	9,903	10,408	10,401
<b>Total Shareholders' Equity</b>	<b>7,782</b>	<b>8,075</b>	<b>7,963</b>	<b>7,840</b>	<b>7,728</b>	<b>7,856</b>	<b>7,617</b>	<b>7,625</b>	<b>7,641</b>	<b>7,798</b>	<b>8,543</b>	<b>8,563</b>	<b>9,333</b>	<b>9,843</b>	<b>10,298</b>	<b>10,241</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 11,284</b>	<b>\$ 11,470</b>	<b>\$ 12,420</b>	<b>\$ 13,288</b>	<b>\$ 12,734</b>	<b>\$ 13,019</b>	<b>\$ 13,930</b>	<b>\$ 13,800</b>	<b>\$ 13,192</b>	<b>\$ 13,079</b>	<b>\$ 13,943</b>	<b>\$ 14,825</b>	<b>\$ 14,592</b>	<b>\$ 14,978</b>	<b>\$ 15,791</b>	<b>\$ 16,405</b>
<b>Activity Ratios</b>																
A/R Days Sales Outstanding	33	42	29	31	38	50	34	33	40	47	55	40	45	40	55	40
Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	40x	20x	15x	20x	40x	20x
A/P Days Payable	16	52	13	27	21	25	12	22	20	26	30	60	60	60	30	60
<b>Book &amp; Cash Value (per share)</b>																
Book Value per Share (diluted)	\$ 26.93	\$ 28.14	\$ 27.94	\$ 27.70	\$ 26.74	\$ 27.37	\$ 26.73	\$ 26.94	\$ 27.19	\$ 27.95	\$ 30.51	\$ 30.47	\$ 33.21	\$ 34.90	\$ 36.39	\$ 36.06
Cash per Share (diluted)	\$ 20.62	\$ 21.01	\$ 23.54	\$ 22.49	\$ 12.87	\$ 6.87	\$ 10.58	\$ 10.82	\$ 8.60	\$ 6.72	\$ 7.13	\$ 12.93	\$ 10.68	\$ 12.89	\$ 13.64	\$ 19.00
Net Cash per Share (diluted)	\$ 19.25	\$ 19.63	\$ 22.15	\$ 15.87	\$ 6.37	\$ 0.33	\$ 3.99	\$ 4.18	\$ 1.91	\$ (0.02)	\$ 0.42	\$ 6.25	\$ 3.99	\$ 6.23	\$ 7.00	\$ 12.39

Source: Company reports and Ascendant Capital Markets estimates

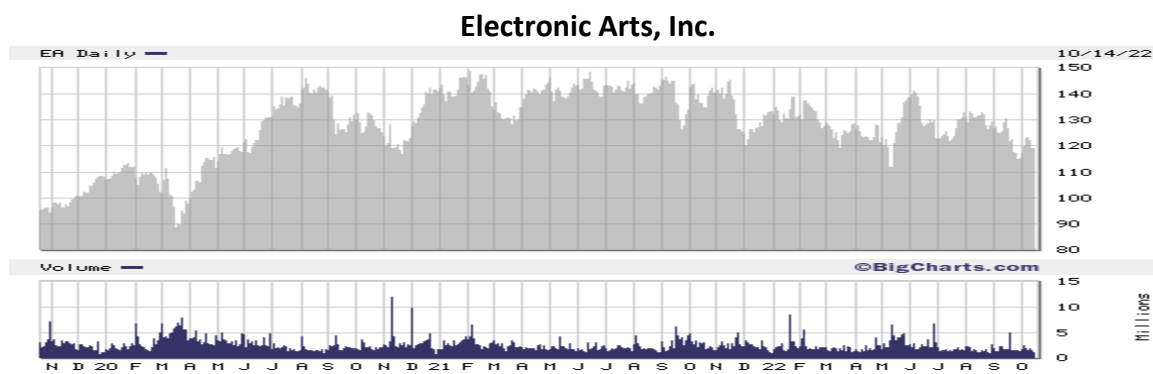
Electronic Arts, Inc.

Cash Flow Statement (\$ millions)	Jun-20	Sep-20	Dec-20	Mar-21	2021	Jun-21	Sep-21	Dec-21	Mar-22	2022	Jun-22	Sep-22	Dec-22	Mar-23	2023	Jun-23	Sep-23	Dec-23	Mar-24	2024	
Fiscal Year End: March 31	1QA	2QA	3QA	4QA	FY-A	1QA	2QA	3QA	4QA	FY-A	1QA	2QA	3QE	4QE	FY-E	1QE	2QE	3QE	4QE	FY-E	
<b>OPERATING ACTIVITIES:</b>																					
Net Income	365	185	211	76	837	204	294	66	225	789	311	299	795	70	1,475	820	560	505	(7)	1,878	
Minority interest in consolidated joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Equity in net loss of affiliates / minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gain on sale of affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Depreciation	37	40	46	58	181	105	94	146	141	486	114	127	25	25	291	25	25	25	25	100	
Stock comp	102	113	111	109	435	125	149	129	125	528	125	140	50	50	365	50	50	50	50	200	
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	4	4	8	4	4	4	4	16	
Acquisition Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loss on sale of fixed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gain on sale of marketable securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Provision for doubtful accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Charge for acquired in-process R&D and other charges	-	-	-	-	-	-	-	-	-	-	-	-	3	3	6	3	3	3	3	12	
Tax benefit from exercise of stock options	-	-	-	-	-	-	-	-	-	-	-	-	(50)	(50)	(100)	(50)	(50)	(50)	(50)	(200)	
Change in assets and liabilities, net of acquisitions:																					
Receivables	(44)	83	(348)	268	(41)	12	(458)	56	313	(77)	70	(346)	(673)	830	(119)	(411)	218	(621)	940	125	
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	(76)	(80)	(157)	4	23	25	(23)	30	
Other assets	44	(157)	85	(42)	(70)	(74)	23	(24)	(82)	(157)	(15)	(10)	-	-	(25)	-	-	-	-	-	
Accounts payable	(3)	109	(77)	(11)	18	(19)	61	(51)	2	(7)	(16)	69	119	268	440	(141)	49	(82)	76	(99)	
Accrued liabilities	(66)	(30)	341	(109)	136	(302)	52	433	(14)	169	(105)	(234)	-	-	(339)	-	-	-	-	-	
Deferred revenue and income taxes	(57)	(282)	755	22	438	(194)	(151)	779	(266)	168	(562)	(157)	-	595	(124)	(862)	(174)	441	595	-	
<b>Net cash provided by operating activities</b>	<b>378</b>	<b>61</b>	<b>1,124</b>	<b>371</b>	<b>1,934</b>	<b>(143)</b>	<b>64</b>	<b>1,534</b>	<b>444</b>	<b>1,899</b>	<b>(78)</b>	<b>(112)</b>	<b>196</b>	<b>1,713</b>	<b>1,720</b>	<b>(558)</b>	<b>709</b>	<b>299</b>	<b>1,613</b>	<b>2,063</b>	
<b>INVESTING ACTIVITIES:</b>																					
Proceeds from sale of property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Proceeds from sales of marketable securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Proceeds from the sale of affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Capital Expenditures	(38)	(25)	(30)	(31)	(124)	(44)	(43)	(48)	(53)	(188)	(59)	(53)	(25)	(25)	(162)	(25)	(25)	(25)	(25)	(100)	
Investment in affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Purchase of marketable securities	30	(28)	30	826	858	222	537	(4)	20	775	(6)	(1)	-	-	(7)	-	-	-	-	-	
Proceeds from maturity of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Change in short-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of Pogo Corporation, net of cash acquired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of Westwood Studios, Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of Kesmai	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of other subsidiaries, net of cash acquired	-	-	(1,239)	(1,239)	(1,239)	(1,989)	(1,405)	3	(3,391)	(3,391)	-	-	-	-	-	-	-	-	-	-	
<b>Net cash used in investing activities</b>	<b>(8)</b>	<b>(53)</b>	<b>-</b>	<b>(444)</b>	<b>(505)</b>	<b>(1,811)</b>	<b>(911)</b>	<b>(49)</b>	<b>(33)</b>	<b>(2,804)</b>	<b>(65)</b>	<b>(54)</b>	<b>(25)</b>	<b>(25)</b>	<b>(169)</b>	<b>(25)</b>	<b>(25)</b>	<b>(25)</b>	<b>(25)</b>	<b>(100)</b>	
<b>FINANCING ACTIVITIES:</b>																					
Proceeds from debt	-	-	-	878	878	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Proceeds from sales of shares through stock	(66)	(8)	(67)	(8)	(149)	(154)	(16)	(72)	(11)	(253)	(104)	30	-	-	(74)	-	-	-	-	-	
Proceeds from sales of shares and other	40	13	30	83	83	41	3	33	77	77	1	-	-	1	-	-	-	-	-	-	
Purchase of treasury shares/dividends	(78)	-	(375)	(374)	(827)	(325)	(373)	(373)	(373)	(1,444)	(373)	(378)	(50)	(50)	(851)	(50)	(50)	(50)	(50)	(200)	
Proceeds from minority interest in cons. joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Net cash provided by financing activities</b>	<b>(144)</b>	<b>32</b>	<b>(429)</b>	<b>526</b>	<b>(15)</b>	<b>(479)</b>	<b>(348)</b>	<b>(442)</b>	<b>(351)</b>	<b>(1,620)</b>	<b>(476)</b>	<b>(348)</b>	<b>(50)</b>	<b>(50)</b>	<b>(924)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(200)</b>	
Effect of exchange rate on cash and cash equivalents	19	6	18	35	78	11	(13)	(3)	2	(3)	(31)	(29)	-	-	(60)	-	-	-	-	-	
<b>Net increase (decrease) in cash and equivalents</b>	<b>245</b>	<b>46</b>	<b>713</b>	<b>488</b>	<b>1,492</b>	<b>(2,422)</b>	<b>(1,208)</b>	<b>1,040</b>	<b>62</b>	<b>(2,528)</b>	<b>(650)</b>	<b>(543)</b>	<b>121</b>	<b>1,638</b>	<b>567</b>	<b>(633)</b>	<b>634</b>	<b>224</b>	<b>1,538</b>	<b>1,763</b>	
<b>Beginning cash and equivalents</b>	<b>3,768</b>	<b>4,013</b>	<b>4,059</b>	<b>4,772</b>	<b>3,768</b>	<b>5,260</b>	<b>2,838</b>	<b>1,630</b>	<b>2,670</b>	<b>5,260</b>	<b>2,732</b>	<b>2,082</b>	<b>1,539</b>	<b>1,660</b>	<b>2,732</b>	<b>3,299</b>	<b>2,666</b>	<b>3,300</b>	<b>3,524</b>	<b>3,299</b>	
<b>Ending cash and equivalents</b>	<b>4,013</b>	<b>4,059</b>	<b>4,772</b>	<b>5,260</b>	<b>5,260</b>	<b>2,838</b>	<b>1,630</b>	<b>2,670</b>	<b>2,732</b>	<b>2,732</b>	<b>2,082</b>	<b>1,539</b>	<b>1,660</b>	<b>3,299</b>	<b>3,299</b>	<b>2,666</b>	<b>3,300</b>	<b>3,524</b>	<b>5,061</b>	<b>5,061</b>	

Source: Company reports and Ascendant Capital Markets estimates

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Each analyst hereby certifies that the views expressed in this report reflect the analyst's personal views about the subject securities or issuers. Each analyst also certifies that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The analyst who prepared this report is compensated based upon the overall profitability of Ascendant Capital Markets, LLC, which may, from time to time, include the provision of investment banking, financial advisory and consulting services. Compensation for research is based on effectiveness in generating new ideas for clients, performance of recommendations, accuracy of earnings estimates, and service to clients.



Source: <https://bigcharts.marketwatch.com/>

	Report Date		Price
Report	Date	Rating	Target
39	1/31/2018	B	138.00
40	5/9/2018	B	150.00
41	7/29/2018	B	155.00
42	10/31/2018	B	112.00
43	2/7/2019	B	100.00
44	5/9/2019	B	110.00
45	8/2/2019	B	112.00
46	10/31/2019	B	110.00
47	2/3/2020	B	121.00
48	6/6/2020	B	138.00
49	8/23/2020	B	165.00
50	12/7/2020	B	167.00
51	2/24/2021	B	170.00
52	6/20/2021	B	171.00
53	9/14/2021	B	175.00
54	1/9/2022	B	170.00
55	4/12/2022	B	158.00
56	6/12/2022	B	160.00
57	9/13/2022	B	156.00

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**BUY:** We expect the stock to provide a total return of 15% or more within a 12-month period.

**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

### **Ascendant Capital Markets, LLC Rating System**

*Prior to January 31, 2014, ASCM used the following rating system:*

**Strong Buy:** We expect the stock to provide a total return of 30% or more within a 12-month period.

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**Neutral:** We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

**Sell:** We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

**Speculative Buy:** This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below \$50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

### Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of October 7, 2022)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	43	98%	17	40%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	44	100%	17	39%

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