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Analyzing the Leveraged Buyout of Electronic Arts

Yale Mergers and Acquisitions Club
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Introduction

On September 29, 2025, a consortium of buyers led by Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF), announced their agreement to acquire Electronic Arts (EA) for \$55 billion, or \$210 a share (a 25% premium to EA's unaffected share price). The deal, if closed, would be the second largest acquisition of a video game company (trailing only Microsoft's \$69 billion acquisition of Activision Blizzard) and the largest leveraged buyout in history.

About EA

Founded in 1982 in San Mateo, CA, EA's influence on global gaming culture cannot be overstated. The company's sports titles, led by the FIFA franchise, have introduced hundreds of millions of people worldwide to video games. Over a three-decade partnership with FIFA, the franchise cemented its status as the best-selling sports video game series in history.

EA has achieved similar success (though on a different scale) with its other core sports properties, including the NFL, NHL, UFC, PGA Tour, and Formula 1. Beyond sports, EA has built a diverse portfolio of successful franchises. Notable titles published include Apex Legends (currently the company's most popular game), the Battlefield series, The Sims, and Need for Speed.

EA's sports franchises, particularly FC (formerly FIFA), Madden, UFC, and NCAA, function to capture real-world sports fans (a massive and growing TAM). The company's business model has also shifted significantly from full game purchases, which comprised only 27% of total revenue in FY2025, to recurring revenue streams like online purchases and microtransactions. EA's Ultimate Team mode alone accounts for ~30% of total sales; EA sports franchises are poised to grow significantly as real-world sports fans engage with personalized gaming experiences.

Yet despite its market position and strong IP portfolio, EA demonstrates significant operational inefficiencies relative to industry peers. The company generates approximately \$128,000 in free cash flow per employee compared to roughly \$270,000 for Activision, and approximately \$515,000 in revenue per employee versus closer to \$1 million for competitors. In FY25, the company's cost structure reflected R&D at 23% of revenue and SG&A at 34% of revenue, both meaningfully above industry benchmarks.

Revenue growth has also seen a slowdown in recent years, marking only 1.8% YoY growth in FY24 and -1.3% in FY25. EA's revenue composition leaves a lot to be desired—mobile gaming, despite being the dominant global gaming format, accounts for only \$1.2 billion (comprising ~15% of total revenue in FY25) and has experienced recent declines of 3.3% and 6% in FY24 and FY25 respectively following 18% growth in FY23. EA Sports FC Mobile has demonstrated 20% YoY growth in new player acquisition in 2025, suggesting existing momentum that could

be accelerated under new ownership. The company also lacks APAC exposure, comprising only ~15% of EA's revenue in the recent fiscal year, despite representing ~50% of global gaming revenue.

Despite this, profitability and cash generation remain strong. The company posts a ~22% EBITDA margin, growing 22% and 8% in FY23 and FY24 respectively, with a dip of -8% in FY25, signaling consistent margin expansion in recent years. The company earned a total of \$865 million in unlevered free cash flow in the recent fiscal year, adding to its healthy \$2.1 billion stash of cash and cash equivalents.

Deal Overview

The \$55 billion acquisition represents a 25% premium over EA's unaffected share price. The deal is led by Saudi Arabia's PIF along with a consortium of buyers including Silver Lake and Affinity Partners. The deal features roughly \$36 billion in equity and \$20 billion in debt financing from JPMorgan Chase. Equity contributions are primarily comprised of cash from consortium members and the rollover of the PIF's existing 10% stake in EA. The deal implies a 7.5x EV/Revenue and a ~35x EV/EBITDA.

Strategic Rationale

The transaction is markedly different from standard LBOs. The EA acquisition is a major step forward in Saudi Arabia's Vision 2030, in which the Kingdom invests in high-growth sectors outside of energy/oil. In this regard, the EA deal is an acquisition of significant global cultural capital, rather than a traditional buy-and-build LBO.

The acquirer consortium brings significant complementary capabilities that align with EA's strategic gaps: PIF contributes Savvy Games Group (valued at approximately \$18.5 billion, having tripled from \$7.4 billion), which owns Scopely (Monopoly GO!), Niantic (Pokémon GO), and ESL FACEIT (esports infrastructure); Silver Lake brings a strong track record in operational optimization; and Affinity Partners (led by Jared Kushner) brings deep regulatory navigational capabilities, particularly in the US and Asia-Pacific. The strategic fit here makes the consortium the clear partners of choice for EA as they scale their platform in the coming decades.

The core thesis behind the acquisition is for EA's sports franchises to function as a distribution layer for the global sports entertainment ecosystem, directly aligned with Vision 2030 and the Kingdom's investments in sports and esports. The company's geographic footprint includes offices across Ireland, Shanghai, Singapore, Seoul, Tokyo, and multiple California locations, creating potential redundancies in both regional presence and shared corporate functions. These redundancies, along with AI-driven automation, leave significant room for reductions in workforce across R&D and SG&A organizations.

There also exist significant revenue synergies between EA and Scopely. Historically, EA has exhibited worst-in-class user acquisition in the mobile category. By acquiring EA, the PIF can execute Scopely's successful mobile distribution playbook, which grew the company's valuation from \$3.3 billion to \$4.9 billion in three years under the PIF. Beyond the mobile category, we forecast strong continued growth in the console category driven by recurring transaction revenue streams.

Valuation

a. Operating Model

Our base case operating model assumes modest revenue growth in console and PC, with consistently strong growth in mobile (CAGRs of 6%, 3%, and 12%, respectively), representing a ~6% YoY growth in total revenue. We assume a 2% and 2.8% yearly decrease in SG&A and R&D expenses respectively and hold cost of sales constant at 20% for the remainder of the hold. We straight-line historical averages for tax expense, NWC, depreciation, and capital expenditures. We also assume an 8% weighted-average cost of capital (WACC), derived from Goldman Sachs' fair value assessment of the company.

Given these assumptions and using an 8-year discounted cash flow model, we imply a share price of \$176.9, a 5% implied premium over the unaffected share price, compared to the 25% premium paid by the consortium. This is aligned with our original thesis—the acquisition is a play for global cultural capital, which isn't necessarily reflected in GAAP.

Under bull case assumptions (more aggressive revenue growth and SG&A/R&D cost cutting), however, we instead imply a share price of \$262, representing a 55.7% premium over EA's unaffected share price (see appendix for comprehensive assumptions).

b. LBO

While a traditional LBO would be an inadequate framework to evaluate the PIF's investment (given the fund's prioritization of a long-term hold), a quick-and-dirty LBO framework remains useful to assess return expectations for co-investors like Silver Lake and Affinity Partners. We assume an 8-year hold period ending in 2033, with Silver Lake and Affinity contributing \$10.5 billion in equity (30% of the \$30 billion equity check).

Using our base case model, we assume a projected EBITDA of \$7,366 million by FY33, representing a 21.1% CAGR since the start of the hold. Applying a conservative 16x exit multiple (in line with historical gaming precedents), we derive an exit enterprise value of \$117.9 billion. After subtracting the \$20 billion debt balance, total equity value reaches \$97.9 billion. For Silver Lake and Affinity's \$10.5 billion equity investment, this implies an exit equity value of \$29.4 billion, generating a 2.8x cash-on-cash multiple and a 13.9% IRR. Under bull case

assumptions, the return profile improves substantially, with potential for IRRs approaching or exceeding 20%.

c. Risks

The most significant risk comes from regulatory scrutiny in the EU related to loot boxes, which threatens Ultimate sports revenue, representing approximately 30% of total sales. Multiple EU member states, including Belgium and the Netherlands, have classified loot boxes as gambling and banned their sale, while broader EU legislation is under consideration. A comprehensive ban would fundamentally restructure and restrict EA's monetization model.

Competition from Chinese developers represents a second major headwind as EA pushes into mobile and APAC markets. Free-to-play studios like Tencent and NetEase have achieved massive scale through aggressive user acquisition spend and content localization. While access to successful mobile playbooks offers a road to improvement, there's a strong possibility of stalling revenue growth across two key growth sectors.

Finally, franchise fatigue has been a persistent challenge to EA's growth. The company's reliance on annual iterations of the same sports titles (FIFA/EA Sports FC, Madden NFL, NHL, etc.) creates a vulnerability to declining player engagement. The yearly release cycles risk diminishing returns as gameplay innovations become increasingly incremental. A series of bad releases could lead to significant player attrition and hamstring growth.

Key Takeaways

The \$55 billion acquisition of EA highlights the importance of digital entertainment in the coming years and reinforces Saudi Arabia as a leader in sports entertainment. The biggest LBO of all time marks a pivot in sovereign wealth fund strategy, away from passive diversification and towards active ownership of category-defining assets. The deal also sets a precedent for cross-border megadeals that allow foreign companies to compete for the best assets in the United States. Time will tell whether EA and its backers can navigate regulatory headwinds and create an unequivocal leader in global digital entertainment.

Appendix: Models

Operating Model (Base)

Operating Model FYE 3/31 \$mm	Historical				Forecast							
	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Platform Revenue												
Console	\$4,400	\$4,443	\$4,632	\$4,776	\$5,063	\$5,366	\$5,688	\$6,030	\$6,391	\$6,775	\$7,181	\$7,612
PC & Other	1,532	1,729	1,717	1,547	1,593	1,641	1,690	1,741	1,793	1,847	1,903	1,960
Mobile	1,059	1,254	1,213	1,140	1,277	1,430	1,602	1,794	2,009	2,250	2,520	2,823
Total Revenue	\$6,991	\$7,426	\$7,562	\$7,463	\$7,933	\$8,438	\$8,980	\$9,565	\$10,194	\$10,872	\$11,604	\$12,395
% Growth		6%	2%	-1%	6%	6%	6%	7%	7%	7%	7%	7%
COGS	1,859	1,792	1,710	1,543	1,013	1,073	1,138	1,206	1,278	1,355	1,436	1,522
Gross Profit	\$5,132	\$5,634	\$5,852	\$5,920	\$6,920	\$7,364	\$7,843	\$8,359	\$8,916	\$9,517	\$10,168	\$10,872
% Growth		10%	4%	1%	17%	6%	6%	7%	7%	7%	7%	7%
Operating Expenses												
Selling, General, Administrative	\$1,634	\$1,705	\$1,710	\$1,707	\$1,707	\$1,707	\$1,707	\$1,707	\$1,707	\$1,707	\$1,707	\$1,451
Research and Development	2,186	2,328	2,420	2,589	2,498	2,430	2,363	2,298	2,235	2,173	2,113	2,055
Total Operating Expenses	3,820	4,033	4,130	4,276	4,205	4,137	4,070	4,005	3,942	3,880	3,820	3,506
EBITDA	\$1,312	\$1,601	\$1,722	\$1,644	\$2,715	\$3,228	\$3,773	\$4,354	\$4,974	\$5,637	\$6,348	\$7,366
% Growth		22%	8%	-5%	9%	9%	9%	8%	8%	8%	8%	7%
EBITDA Margin	19%	22%	23%	22%	34%	38%	42%	46%	49%	52%	55%	59%
Depreciation & Amortization	\$486	\$536	\$404	\$356	\$432	\$432	\$432	\$432	\$432	\$432	\$432	\$432
Operating Profit (EBIT)	\$826	\$1,065	\$1,318	\$1,288	\$2,283	\$2,796	\$3,341	\$3,922	\$4,542	\$5,205	\$5,916	\$6,934
Taxes	292	524	316	484	843	1,032	1,233	1,448	1,677	1,922	2,184	2,580
NOPAT	\$534	\$541	\$1,002	\$804	\$1,440	\$1,764	\$2,108	\$2,474	\$2,865	\$3,283	\$3,732	\$4,374
(+) Depreciation & Amortization	486	536	404	356	432	432	432	432	432	432	432	432
(-) Capital Expenditures	188	207	199	221	209	209	209	209	209	209	209	209
(-) Change in NWC	--	341	(22)	74	(42)	--	--	--	--	--	--	--
Unlevered Free Cash Flow	\$832	\$529	\$1,229	\$865	\$1,705	\$1,987	\$2,331	\$2,697	\$3,088	\$3,506	\$3,955	\$4,597

Operating Assumptions	Historical				Forecast								CAGR
	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	
Console Revenue Growth	1.0%	4.3%	3.1%	3.1%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
PC Revenue Growth	12.9%	-0.7%	-9.9%	-9.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Mobile Revenue Growth	18.4%	-3.3%	-6.0%	-6.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Total Revenue Growth	6.2%	1.8%	-1.3%	-1.3%	6.3%	6.4%	6.4%	6.5%	6.6%	6.7%	6.7%	6.8%	6.8%
Console % of Revenue	62.9%	59.8%	61.3%	64.0%	63.8%	63.6%	63.3%	63.0%	62.7%	62.3%	61.9%	61.4%	61.4%
PC % of Revenue	21.9%	23.3%	22.7%	20.7%	20.1%	19.5%	18.8%	18.2%	17.6%	17.0%	16.4%	15.8%	15.8%
Mobile % of Revenue	15.1%	16.9%	15.3%	15.3%	16.1%	16.9%	17.8%	18.8%	19.7%	20.7%	21.7%	22.8%	22.8%
COGS % of Revenue	26.6%	24.1%	22.6%	20.7%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
SG&A % of Revenue	23.4%	23.0%	22.6%	22.9%	21.5%	20.2%	19.0%	17.8%	16.7%	15.7%	14.7%	11.7%	-2.0%
R&D % of Revenue	31.3%	31.3%	32.0%	34.4%	31.5%	28.8%	26.3%	24.0%	21.9%	20.0%	18.2%	16.6%	-2.8%
Tax % of EBIT	35.4%	49.2%	24.0%	37.6%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%

DCF Analysis (Base)

Implied Share Price Calculation		Growth Rate					
Sum of PV of FCF	\$16,217						
Growth Rate	2.0%						
WACC	8.0%						
Terminal Value	\$42,222						
PV of Terminal Value	\$28,735						
Enterprise Value	\$44,952						
(+) Cash	2,136						
(-) Debt	1,884						
Equity Value	45,204						
Diluted Shares Outstanding (mm)	256						
Implied Share Price	\$176.9						
Unaffected Share Price	\$168						
Implied Premium	5.1%						
Discount Rate		1.50%	1.75%	2.00%	2.25%	2.50%	
	7.0%	\$52,169	\$53,936	\$55,880	\$58,029	\$60,416	
	7.5%	\$46,958	\$48,356	\$49,882	\$51,553	\$53,391	
	8.0%	\$42,612	\$43,735	\$44,952	\$46,275	\$47,718	
	8.5%	\$38,941	\$39,855	\$40,839	\$41,902	\$43,054	
9.0%	\$35,807	\$36,559	\$37,364	\$38,229	\$39,160		

Operating Model (Bull)

Operating Model FYE 3/31 \$mm	Historical				Forecast								
	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	
Platform Revenue													
Console	\$4,400	\$4,443	\$4,632	\$4,776	\$5,110	\$5,468	\$5,851	\$6,260	\$6,699	\$7,167	\$7,669	\$8,206	
PC & Other	1,532	1,729	1,717	1,547	1,617	1,689	1,765	1,845	1,928	2,015	2,105	2,200	
Mobile	1,059	1,254	1,213	1,140	1,368	1,642	1,970	2,364	2,837	3,404	4,085	4,902	
Total Revenue	\$6,991	\$7,426	\$7,562	\$7,463	\$8,095	\$8,799	\$9,586	\$10,469	\$11,463	\$12,586	\$13,859	\$15,308	
% Growth		6%	2%	-1%	8%	9%	9%	9%	9%	10%	10%	10%	
COGS	1,859	1,792	1,710	1,543	1,022	1,094	1,170	1,252	1,340	1,433	1,534	1,641	
Gross Profit	\$5,132	\$5,634	\$5,852	\$5,920	\$7,073	\$7,705	\$8,416	\$9,217	\$10,123	\$11,153	\$12,325	\$13,667	
% Growth		10%	4%	1%	19%	9%	9%	10%	10%	10%	11%	11%	
Operating Expenses													
Selling, General, Administrative	\$1,634	\$1,705	\$1,710	\$1,707	\$1,601	\$1,502	\$1,409	\$1,322	\$1,240	\$1,164	\$1,092	\$1,024	
Research and Development	2,186	2,328	2,420	2,569	2,384	2,212	2,053	1,905	1,768	1,641	1,523	1,413	
Total Operating Expenses	3,820	4,033	4,130	4,276	3,985	3,715	3,462	3,227	3,008	2,804	2,614	2,437	
EBITDA	\$1,312	\$1,601	\$1,722	\$1,644	\$3,087	\$3,991	\$4,953	\$5,990	\$7,115	\$8,348	\$9,711	\$11,229	
% Growth		22%	8%	-5%	9%	8%	7%	7%	6%	6%	5%	5%	
EBITDA Margin	19%	22%	23%	22%	38%	45%	52%	57%	62%	66%	70%	73%	
Depreciation & Amortization	\$486	\$536	\$404	\$356	\$432	\$432	\$432	\$432	\$432	\$432	\$432	\$432	
Operating Profit (EBIT)	\$826	\$1,065	\$1,318	\$1,288	\$2,655	\$3,559	\$4,521	\$5,558	\$6,683	\$7,916	\$9,279	\$10,797	
Taxes	292	524	316	484	980	1,314	1,669	2,052	2,467	2,923	3,426	3,986	
NOPAT	\$534	\$541	\$1,002	\$804	\$1,675	\$2,245	\$2,852	\$3,506	\$4,216	\$4,994	\$5,853	\$6,811	
(+) Depreciation & Amortization	486	536	404	356	432	432	432	432	432	432	432	432	
(-) Capital Expenditures	188	207	199	221	209	209	209	208	209	209	209	209	
(-) Change in NWC	--	341	(22)	74	(42)	--	--	--	--	--	--	--	
Unlevered Free Cash Flow	\$832	\$529	\$1,229	\$865	\$1,940	\$2,468	\$3,075	\$3,729	\$4,439	\$5,217	\$6,076	\$7,034	

Operating Assumptions	Historical				Forecast									CAGR
	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E		
Console Revenue Growth		1.0%	4.3%	3.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PC Revenue Growth		12.9%	-0.7%	-9.9%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Mobile Revenue Growth		18.4%	-3.3%	-6.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Total Revenue Growth		6.2%	1.8%	-1.3%	8.5%	8.7%	8.9%	9.2%	9.5%	9.8%	10.1%	10.5%	10.5%	10.5%
Console % of Revenue	62.9%	59.8%	61.3%	64.0%	63.1%	62.1%	61.0%	59.8%	58.4%	56.9%	55.3%	53.6%	53.6%	53.6%
PC % of Revenue	21.9%	23.3%	22.7%	20.7%	20.0%	19.2%	18.4%	17.6%	16.8%	16.0%	15.2%	14.4%	14.4%	14.4%
Mobile % of Revenue	15.1%	16.9%	16.0%	15.3%	16.9%	18.7%	20.5%	22.6%	24.7%	27.0%	29.5%	32.0%	32.0%	32.0%
COGS % of Revenue	26.6%	24.1%	22.6%	20.7%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
SG&A % of Revenue	23.4%	23.0%	22.6%	22.9%	19.8%	17.1%	14.7%	12.6%	10.8%	9.2%	7.9%	6.7%	6.7%	6.7%
R&D % of Revenue	31.3%	31.3%	32.0%	34.4%	29.5%	25.1%	21.4%	18.2%	15.4%	13.0%	11.0%	9.2%	9.2%	9.2%
Tax % of EBIT	35.4%	49.2%	24.0%	37.6%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%	36.9%

DCF Analysis (Bull)

Implied Share Price Calculation	
Sum of PV of FCF	\$22,748
Growth Rate	2.0%
WACC	8.0%
Terminal Value	\$64,606
PV of Terminal Value	\$43,970
Enterprise Value	\$66,718
(+) Cash	2,136
(-) Debt	1,884
Equity Value	66,970
Diluted Shares Outstanding (mm)	256
Implied Share Price	\$262.0
Unaffected Share Price	\$168
Implied Premium	55.7%

		Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
Discount Rate	7.0%	\$77,710	\$80,415	\$83,389	\$86,677	\$90,330
	7.5%	\$69,762	\$71,902	\$74,236	\$76,793	\$79,606
	8.0%	\$63,137	\$64,856	\$66,718	\$68,743	\$70,951
	8.5%	\$57,545	\$58,944	\$60,450	\$62,076	\$63,838
	9.0%	\$52,774	\$53,924	\$55,156	\$56,479	\$57,904