

EA posts 2Q loss, cutting 17 pct. of work force

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FILE - In this video game image released by MTV Games, a scene is shown from "The Beatles: Rock Band." Game publisher Electronic Arts is expected to release second-quarter financial results after the closing bell Monday, Nov. 9, 2009. (AP Photo/MTV Games, file)

(AP) -- Electronic Arts plans to cut its work force by 17 percent as it tries to align its business with a transforming video game industry.

The company announced the layoffs of 1,500 people just hours after it said it is paying at least \$275 million to buy Playfish Inc., a maker of social online games popular on Facebook, MySpace and the iPhone. The layoffs are expected to save about \$100 million a year.

"We are focusing on what works and what matters," Chief Financial Officer Eric Brown said in an interview.

Digital content makes up about 12 percent of EA's revenue. But it's growing, while industry sales from packaged video games are on the decline.

The cuts are in addition to the 1,100 jobs the company already slashed this year as part of a restructuring plan to shift focus to hit games.

On Monday, EA posted a net loss of \$391 million, or \$1.21 a share, in the fiscal second quarter, wider than the loss of \$310 million, or 97 cents per share, a year earlier.

The company behind games such as "Madden NFL 10" and "The Beatles: Rock Band" reported net sales of \$788 million in the July-September period, down 12 percent from the same time a year earlier.

These results only paint a partial picture of how EA performed during the quarter. When counting deferred revenue from packaged games with online components and games that are completely digital, EA reported adjusted earnings of \$19 million, or 6 cents per share. That is up from an adjusted loss of \$20 million a year earlier, and it compares with average analyst estimates of 7 cents per share.

Adjusted revenue climbed 2 percent to \$1.15 billion, inching past analyst estimates as polled by Thomson Reuters.

For the full fiscal year, EA expects to report a net loss between \$1.20 and \$2.05 per share. It is forecasting net sales in the range of \$3.6 billion and \$3.9 billion.

On an adjusted basis, it is expecting a profit of 70 cents to \$1 per share, on revenue of \$4.2 billion to \$4.4 billion. On this basis, analysts are predicting earnings of 89 cents per share on sales of \$4.26 billion.

Shares of EA, which is based in Redwood City, Calif., fell 28 cents, or 1.4 percent, to \$19.25 in after-hours trading, after closing up 53 cents at \$19.53 in the regular session.

The video game industry has had a tough time for much of this year after capping 2008 with record retail sales. The recession has forced people to cut back on shopping, and the relative lack of big hits compared with last year has made year-over-year comparisons difficult.

But there are some bright spots. Last week, EA rival Activision Blizzard Inc. posted better-than-expected results for the third quarter and reaffirmed its outlook for the year amid high hopes for its upcoming "Call of Duty" game, which launches Tuesday and could break entertainment records when it comes to how much cash it can make in a week.

EA's upcoming games include "Left 4 Dead 2," sequel to the popular horror video game. And with the acquisition of the two-year-old startup, Playfish, EA is diving further into the lucrative world of social online games, which tens of millions of people play on Facebook, MySpace, the iPhone and other platforms. In addition to the upfront cash payment, EA will pay up to \$100 million contingent on Playfish hitting financial targets by the end of 2011, plus \$25 million in stock-based retention agreements with the company's employees.

Broadpoint Amtech analyst Ben Schachter said games on social networks are a dynamic space, and the deal suggests EA sees a big potential for this market. Even so, he said "only time will tell whether this deal will help make (EA and Playfish) a long-term leader in social gaming."

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