

EA to pay \$750M for PopCap Games

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Electronic Arts said Tuesday it is buying PopCap Games for \$750 million in cash and stock. "PopCap's great studio talent and powerful IP add to EA's momentum and accelerate our drive towards a \$1 billion digital business," EA chief executive John Riccitiello, pictured in 2010, said in a statement.

Electronic Arts Inc. said Tuesday that it will buy PopCap Games for at least \$750 million in a bid to snag a larger piece of the rapidly growing market for games on cell phones and social networks.

The video game publisher also said that its fiscal first-quarter results will be better than it anticipated but issued a second-quarter forecast below analyst estimates, saying expenses from the purchase will weigh down its results for the July-September period. Its shares fell more than 3 percent in extended trading.

Redwood City-based EA will pay PopCap \$650 million in cash and \$100 million in common shares. PopCap, which makes the popular

"Bejeweled" series and "Plants vs. Zombies" games, will get up to \$550 million more if it reaches certain financial milestones. EA plans to offer PopCap employees \$50 million more during the next four years in order to entice them to stay, too. The deal is expected to be completed in August.

If all the payouts are made, the acquisition would be EA's largest to date.

PopCap will be latest addition to EA's digital business, which includes games on Facebook, the iPhone and other gadgets, as well as downloadable add-on content for games sold on discs. EA is building up this side of its business as consumers increasingly play games on smartphones, tablet computers and Facebook, and grow less interested in expensive, packaged video games.

EA CEO John Riccitiello said in an interview that about a quarter of video games are now played on mobile devices and social networks - a figure he expects to climb to 50 percent in the next five years.

"PopCap is a leader on all of those platforms," Riccitiello said.

PopCap CEO David Roberts said the company had been mulling a public offering of its stock, and was also approached by multiple companies interested in buying it.

"It was kind of intense for us," he said. "At the end of the day, EA prevailed."

EA's other recent purchases in the digital space include PlayFish, a maker of social network games, for which it paid \$275 million in 2009 and Chillingo, the publisher - but not creator - of "Angry Birds" and other mobile games, for about \$20 million last October. Until now, the largest of these types of deals was Jamdat Mobile Inc., which EA bought

for \$684 million in 2006.

The announcement was not much of a surprise, as rumors circulated last month that EA was in talks to buy the company. The technology blog TechCrunch, citing multiple unnamed sources, reported in late June that EA was in the process of buying PopCap for more than \$1 billion.

Seattle-based PopCap was founded in 2000 and began offering downloadable PC games that people could try before buying in 2001, the first of which was "Bejeweled Deluxe." The company went on to release dozens of games for all sorts of platforms, including consoles like Sony Corp.'s PlayStation3, cell phones, Apple Inc.'s iPad and Facebook. Today, PopCap has 500 employees, and it doesn't expect any staff changes due to the acquisition. Both companies said the PopCap brand name will live on under EA's ownership.

ThinkEquity LLC analyst Atul Bagga said he feels positive about the deal, and that the price seems fair.

"I'd say it's a pretty good deal for EA and for PopCap too," he said.

Also Tuesday, EA, citing preliminary results, said it now expects fiscal first-quarter revenue of \$975 million to \$1 billion and an adjusted loss of 37 cents to 40 cents per share - better than it had previously predicted. Riccitiello said the change was due to lighter expenses during the quarter.

And the company forecast an adjusted second-quarter loss of 5 cents to 15 cents per share, which Riccitiello attributed to expenses related to the PopCap purchase, as well as increased marketing costs. Analysts had been expecting a profit of 12 cents per share.

EA shares declined 79 cents to \$23.27 in extended trading. The stock

finished regular trading down 22 cents at \$24.17.

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