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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Peter Moore** *Electronic Arts Inc. - COO*

## PRESENTATION

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### Unidentified Participant

Thanks for joining us today. Very pleased to have Peter Moore, COO of Electronic Arts. Peter, as you probably know, use to run the sports division, and we always like the animation and excitement about his presentation, so we're really pleased to have him. Probably about a 20-minute presentation, then I will do a few questions, and then we will open it up to the audience. Thanks a lot, Peter.

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**Peter Moore - Electronic Arts Inc. - COO**

Yes, pleasure. Thank you. Good morning. I don't like podiums, so I am going to apologize; I do like to wander around a little bit, so get used to me tripping over tables or what have you.

Our usual Safe Harbor statement. As everybody knows we just came off our earnings, so we can be a little bit more liberal with what we talk about today and also with our Q&A at the end. But please read the Safe Harbor and make sure we adhere to that, otherwise I get in trouble.

These are the slides. We're going to take you through -- if you listened to the call, the slides accompanied the call. We felt it was a useful way to structure out the presentation this morning. Obviously you open up to Q&A as a result of this, but give you a little bit of a focus on where we are going as a Company; some industrywide stats as well; but more importantly, how EA is leading, if you will, being the tip of the spear of this digital transformation the interactive entertainment industry is going under right now.

If you have heard our calls over the last three quarters, you have heard the three key strategic pillars -- brands, platform, and talent. I'm not going to dwell on them here this morning, but focus on the brand universe, which we will talk a little bit about in the presentation, and the great brands and the intellectual property that EA owns and EA licenses from companies like the National Football League and the Federation of International Football Association, that have helped drive our business over the last decade, in case.

This is our 24th year of shipping Madden, 19 of which have had an NFL license, and the great majority of those have had the NFL PA license. So long-term licenses have been key to our Company's success. At the same time, building our own intellectual property has also been a very important part of that.

Our platform, as you heard us talk about on the call, Rajat Taneja has joined as the CTO from Microsoft. In addition, Kristian Segerstrale will be driving our digital platform and looking at how we build our metrics and our analytics to live up to our focus on acquisition, engagement, and monetization. He was with a cofounder of Playfish, has moved recently from London to join us in Redwood Shores, and is doing a tremendous job in helping us with this transformation towards a digital pure-play entertainment company.

Then finally, talent. As John Riccitiello said, for most companies it is kind of a consideration. For us, it is critical.

I have been at EA just short of five years, and I have seen both the type, the quantity, and the quality of the people that are joining us over the last few years in particular change radically. We used to recruit from the interactive entertainment industry and aggressively go after our competitors, looking for the best talent, the best developers, C++ developers in particular.

We are now focused on looking at -- where we are on the peninsula, looking at companies like Google and Facebook in particular, as well as Apple, and bringing talent in from there that helps us build towards this digital transformation. That is a very important part of what we are going to do. As John said on the call we're going to end up at about 500 people more at the end of this fiscal year, all focused on that digital transformation the Company is leading towards and leading the industry towards.



Journey so far. Again we got into some detail on this on the call. If we look at fiscal year 2009 and look at where we just ended up with FY12, five key bullets to point out. I think the first is the most radical, and it certainly is, if you will, the keystone of everything we are doing right now.

When I joined Electronic Arts, there were actually more than 75 packaged goods titles; these were in development or ready to ship that fiscal year, which was fiscal year '08. As we started to see this quantum shift towards the digitization of our industry, the amount of packaged goods titles -- that are full-blown titles, that have multimillion development budgets, that are delivered on the disc and sold through retail -- has diminished radically.

And our investment profile certainly from an R&D basis has moved more towards building games as a service. That is a very critical difference than even when I arrived five short years ago, in which we would launch and leave as it were. We had very little interaction with the consumer once we'd shipped a game.

The typical profile of a development team was you work hard -- particularly in the area of sports, which I controlled at that time. Work hard for a year, deliver the game, go to the beach for two weeks, come back, rinse and repeat.

That is no longer how we operate. I would say as many as 40%, maybe even 50% of our development teams now are involved in what we call live operations, in which we launch the game and then continue to interact every single day with our consumer base, focusing on this acquisition, engagement, and monetization strategy that we have.

Secondly, registered users. This is our Nucleus database. You will recall if you followed the Company, I think we started talking about Nucleus about three fiscal years ago.

You can see that at that time we had built a database of about 27 million people, opt-ins that said -- love EA games; they either registered a piece of software with us or came on our website and registered on EA.com so they could get special offers. The download manager we had at that time, we invested heavily in that and over the past few years have built a database now that is north of 220 million people.

These are e-mail addresses. These are people who enjoy getting CRM communications from us and in many cases people who have given us their credit card numbers and that we are able to be able to -- at the bottom of that funnel, the monetization level -- interact with them on a commercial basis as well as on a communication basis. That becomes critical as we think about building our digital platform going forward, where we will count not in the billions -- not in the millions but in the billions consumers over the next few years who will interact with Electronic Arts during any given year.

Thirdly, the digital business. This, of course, has been the focus over the past few years. Certainly when we think about the success we've had in the past fiscal year and the projections we have for fiscal year '13, this is a strategic imperative.

This is mission-critical for our Company to be able to be a growth company going forward and leave behind what is a declining business, which is the packaged goods business. All of the growth -- and we can talk about that this morning -- in our industry is focused on the digital business.

Let me define digital. That is typically how we deliver the content, straight to a consumer's hard drive on their PC, straight to their hard drive on their Xbox 360 or their PS3, maybe directly to their mobile phone. But this is not physical media that is delivered by a retail transaction. This is Electronic Arts dealing directly with consumers.

It might be micro-transactions. It might be full downloadable content. It might be full-download games, via our Origin platform. It might be micro-transactions on a mobile phone. This is the digital future that we are driving towards.

The benefits to us as a company is that we start to move away from the anchor that is physical media. The COGS element of that; the royalties we have to pay platform holders; the ability for us to have to deliver physical media to retail stores; the price protection and sales return allowances that get encumbered against that product.

Margin-rich digital media is going to be the key to our growth. And we are seeing that double-digit growth which we spoke about on the call start to get even stronger as we look at our lineup over the next year, and in fact -- which I have visibility over the next two to three years in how digital forms the price of that.

We cannot talk about next-gen here, but you can imagine what our platform partners are thinking about of this digital future, of the size of hard drives, the ability to deliver content directly to consumers' boxes, and what the role retail will or will not play going forward here on a global basis. We have already seen one major retailer in Europe go under that didn't move quickly enough to digital and was completely focused on packaged goods and, as a result, went into administration in the UK.

Fourthly, develop and assemble the strongest brand portfolio. You have heard us talk about this for years.



We have, when we look at what we do as a content play -- the tech and the art, as we call it -- the art that we have is based upon the intellectual property we have developed. Either from an organic basis in building content like Battlefield or Need for Speed or The Sims; or from a pure license play in which we have gone in, we'd be able to negotiate licenses long-term that provide us with tremendous annuities in, for example, as I mentioned, our FIFA and NFL licenses, our NBA and NHL licenses, our Tiger Woods license.

You think about all of the things that we do when it all comes together, and again we will talk about that this morning. This becomes key to our future here, this blend of organic IP that we own as well as powerful licensed intellectual property.

Then finally, Origin. Origin is our play to be a full digital platform for the consumer direct. By that I mean not just delivering downloads of full games, which is a very powerful part as you can see, with \$150 million sales of last fiscal year for nine months of the year; but also building community levels, communication levels, customer service levels. Truly interacting every hour of every day with our consumer and allowing us a direct conduit for their opinions -- and believe me, they have plenty -- as well as directly to be able to deliver patches, customer service.

We are starting to focus now on building a portal that I think will be a very important part of our transition away from delivering physical media to our transition to delivering digital media. Origin becomes a part of that, not just for Electronic Arts games, but as an industrywide opportunity, as a service-level platform that all publishers can deliver their content through.

It is a nice counterbalance to the incumbent leader in this space. And we're already the number-two PC download platform in the world.

You have seen this probably before if you follow us, where we stand. We are proud of the fact that the investments we have made and in fact the diversity of what we do allows us to be able to look at all platforms as they come about. The power of our intellectual property, the power of our development expertise gives us the ability to put a slide like this up and feel very proud of where we're at.

You can see where even when we look at Amazon, still delivering physical media at the same time as building their own digital media platform, we are number one there, when we look at our publishing position against other publishers. Bottom line is that Electronic Arts is a diverse company that focuses on delivering experiences no matter where the consumer wants to consume them, anytime, anywhere, anyplace, and any budget, on any platform, in any locale.

This diversity becomes our strength rather than our weakness. It allows us not to be reliant on a single platform.

And as we are about to go into next-gen it will be the first time that we don't see dips in revenue, in profitability, that has sometimes -- and certainly in the last three generations -- been the casualty of that transitional shift of consoles. Because we were so reliant during the past three generations purely on the console and PC business.

This smoothing and blending of our revenue allows us now to be able to maximize our opportunities, rather than kind of hunker in, wait for the installed base of consoles to grow, and then see that upside which we have seen typically a year or two after the consoles ship. So a nice blending and a nice diversification of risk, if you will, of where the Company needs to be in delivering its franchises.

Here is our growth trends. As you might imagine from the perspective of a company that looks at the last four years and sees everything going off to the right, we are very proud of this. Particularly when we consider the investments we have made in building Nucleus databases, global billing systems, the nonsexy stuff that you guys don't see but allows us to be able to deliver against what our digital future is going to be.

When you go from shipping games, delivering games to retailers, and then if you will wiping your hands clean of them, to actually interacting directly with consumers in the tens of millions if not hundreds of millions on a regular basis, you have to make incredible investments in infrastructure. You have to build customer service centers, which we have done around the world. You have to be able to do business in multiple currencies around the world. You need security layers to protect yourself.

All of that investment has been made. And yet we have still been able to deliver on a growth basis in these four key areas -- our digital revenue; our gross profit; our average revenue per brand -- which is an interesting stat. This is an average of our top 10 brands.

So this less-is-more thing you have heard us been talking about for the last two or three years is really paying off. I want to remind you as I opened up, when I joined FY08 to come into FY09, we had about 70, coming down to 67 in FY09, packaged goods titles. Our less-is-more strategy now brings in FY13 to just 14 packaged goods title.



So we have been dropping about 10 titles a year, and yet our profitability has been growing. Our digital revenue, because we are more focused on less content, has been growing as a result. And then you can see, and of course you follow us, our EPS has grown as our margins get better because we have moved to digital.

This is a great chart because this shows you where the real growth is and in particular how digital is playing that role. So if you have ever followed -- you have looked at that, if you will, that 20-year curve of consoles grow, installed base grows, attach rate grows; and then we transition. And then everything becomes cheap, because it is the PlayStation rolling to the PlayStation2 or the N64 rolling to the GameCube.

What digital does is allows us to continue growth. It is swapping out dollars if you will for packaged goods sales; but we are monetizing our consumers far better.

So a Battlefield 3 consumer that we shipped a game to and bought it on launch day in October of last year is still being monetized today. That real growth you can see there in the purple end of the chart really is attributed to what we are doing in mobile as well as our PC and social elements of it.

So this idea of even though the console is about to go through in the next few years a transition, our ability to diversify and our ability to deal directly with consumers smoothes that out. And that is where the real growth is.

You can see standard definition, which is quite frankly the Wii, which has dropped off in the last two or three years.

HD itself, whilst you can see if you will the peak of the Xbox 360 business and the PS3 business from an installed base and attach rates, you're going to see a drop-off there. That is staying about the same in revenue; but as we start to see excitement about the new consoles over the next few years that will start to drop off.

Real focus becomes that purple element of the chart and what we are doing in those spaces here, which is considerable.

This kind of sums it up if you will for the challenges -- and both the challenges and the opportunities we, the Company, has gone through in the last three or four years. When I joined the industry, which was in late '98, I joined Sega to launch the Dreamcast. There was probably three gaming devices, maybe four if you counted a PC, which was a powerful gaming device at that time but were still selling CD-ROMs.

You can see the core gamer up top there still focuses on the consoles. But our research tells us not only do they own one of those, but they're as likely to have access to games on as many as three if not four other devices, whether they be browsers, whether they be handheld devices, and of course access through tablets and mobile, for building their, if you will, their entertainment diet. Allowing them to play, as I said, anytime, anywhere, on any budget. Any time budget, 60 seconds of Bejeweled Blitz, 3 minutes of Boggle, 5 minutes maybe of Plants vs. Zombies.

We are now as an industry having to cater to a massive funnel at the top of hundreds of millions of people. The concept of gamer when I joined Sega was -- it was boys in their bedrooms. It was a 17-year-old male that would sit there on the end of the bed with a crappie television and play with his N64. That was a gamer.

Today, everybody in this room is a gamer. Everybody in this room is a gamer. You have all played Angry Birds, you have all played Cut the Rope, you have all played Fruit Ninja. You may all play Battlefield 3, or you may be an MMO player, but everybody is a gamer.

Our challenge is to be able to manage our R&D budgets and focus on where the gamer is going. I think we have done that incredibly well over the last three years with the investments we have made and, more importantly, with the investments we haven't made.

We have been very particular with our R&D budget of where we go after the consumer, and not making bad bets against consoles or platforms that aren't delivering against what we need to do from an opportunity-cost perspective of very talented developers who are looking to transition their skill sets onto other platforms.

Here is our digital revenue by platform. So, you can see the last quarter come through. The three elements you see, the green is console, and by digital revenue on a console, that is typically delivering downloadable content.

It is FIFA Ultimate Team, which we can talk about ad nauseam. If you have heard us speak about what is the best case in the industry for delivering digital content on top of a disc, it is FIFA Ultimate Team. This is a \$100-million-plus mode on top of a game.

As I mentioned on the earnings call, when we look at our content that we delivered in the UK, our second-best selling after FIFA the disc actually didn't show up on any charts. It was FIFA Ultimate Team itself. The revenue we got from that beat Battlefield 3.



So the power of what we do, the inability of the industry to track it -- because there is just nothing they can do right now to track digital revenue when it goes from company to consumer, B-to-C direct. I think this chart says it all.

Building that digital revenue across these three core elements becomes the future, none of which is trackable. NPD, Nielsen, Chartrack, GFK in Europe, none of these companies can track this.

So we feel obligated of course and incumbent upon us to be able to deliver what we are doing there. The pride we have is this on the right here of delivering over \$1.2 billion in digital revenue, making us one of a small handful of digital entertainment companies that can deliver over \$1 billion -- in the world -- deliver over \$1 billion in digital revenue. From down, if you can look at Q4 down there, and look at FY10. As recently as FY10, we have more than doubled where we were at there.

So strong progress, strong investment. All those investments I talked about in infrastructure starting to pay off.

This is my Lifesavers chart; this is EA digital revenue by type. It's important, and I am going to wander over here so I can help you out, look at this.

So, look at the extra content, free-to-play. That is a growth for us. My free-to-play -- we talked about this -- is a huge growth for us. We are doing \$1.8 million a week right now of free-to-play content.

Two major titles driving a lot of that, our Battlefield free-to-play game and our Need for Speed World. These are two pieces of intellectual property that can play globally.

The idea of free-to-play is the great majority of people will do exactly that. They play for free.

The small number which the industry calls whales will actually get hooked into the game, hence we start to monetize the consumers. They want to accelerate through the game better; they want to be able to build modes better; they want to have the access to faster cars, bigger weapons.

Because there, quite frankly, the dynamic that goes on there is one of competition with your friends. So much of it is focused around your own friends' group.

If you play games on Facebook, I take great delight in skipping over people with Bejeweled Blitz, which I am hooked to right now, and the Company is making a lot of money out of me. My gold coins that I spend every night, so I can just have the bragging rights over my friends who are all playing it, that is just one little microcosm of what we do.

If you look at the purple, that is full-game downloads, and that is going to continue to grow. That is delivering a full game, typically right now via PC, to a consumer's hard drive.

There is no better margin scenario for us than a consumer buying Star Wars The Old Republic on Origin direct to their PC for \$59.95. Our ability then to monetize in subscription layers on top of that -- because we have captured that consumer directly, we are not having to go through a middleman, if you will, of a retailer to be able to interact with that consumer -- becomes key.

The third one is the yellow. That's mobile. Again, you can see the growth in mobile.

It has been something that, as we have moved from feature phones to smartphones, from embeds to an app store model, that has -- I would say that probably hiccupped in FY11 as that transition was made. People in FY10 were still buying phones with games embedded on them. In other words, they were on the miniscule hard drive of the game because streaming and ubiquitous broadband 4G was still not there for phones.

But boy, as soon as the speeds that we can all get now on our mobile phones game, it became an app store model. And that is where you are going to start to see that take off, particularly as the Android App Store starts to get better, its navigation, the amount of content on there, more and more Android phones being sold alongside iOS phones. And that becomes key to our future.

So, let me get back over here. So, our digital growth becomes incremental. This is an interesting chart that shows you two titles I have already talked about, FIFA and Battlefield.

Look at where we are with FIFA. First of all, look how digital has grown.



And in particular, the best example I gave you was FIFA Ultimate Team. That \$108 million you can see there in the green chart on the right side, that is pure digital. That is our actuals through the last fiscal year.

That is digital revenue. That is a consumer typically buying -- if you have ever played FIFA Ultimate Team -- at about \$3.00 a pack you buy players, digital players; and then you put in your soccer team that is FIFA; and then you go play. They don't play for your team.

It is that fantasy kind of element that we all love in this country of -- if I had this player on my team at running back or quarterback, what would my team look like? It is the same in soccer. If I had a midfielder or a striker on my team that is from a different team that I have always wanted, what would that team look like?

This becomes addictive to our soccer fans around the world, to the, if you will, 18 million people that have already bought FIFA 12. It is a digital layer on top of a physical media play that becomes very important to us.

The other side of it is it keeps the disc in the tray 12 months a year. Does not play it for a month, put it to one side, and go buy another game. We are seeing MAUs and DAUs on a par where we were at launch back in late September or early October.

The more digital content, the fresher it feels. As the season goes along, people are still engaged with this game. This becomes nirvana for a company like us, because not only are we getting the revenue from the physical media, but as you can see here the growth that we continue to have, as everything goes off to the right, is that digital play for us that becomes important.

Same with Battlefield here. A lot more as you can see, a more radical growth as the quality and the quantity of what we sold of Battlefield 3, with the digital layers coming on.

And then going forward, more digital content. Even though it's a game we sold last fiscal year, the engagement levels we are seeing with Battlefield 3, as we continue to provide the consumer more digital content, makes that game more profitable as it goes on.

Which is the complete reversal of what our industry has been, which most of the profit is accrued in the first 30 days, and then as you know everything drops off and it goes to catalog. That is being reversed with the business models we are building around digital.

Talk to you a little bit about Origin. You can see how powerful Origin has been for us.

This is a long-term investment for this Company to be able to interact directly with our consumers. It's called Origin, not EA.com; and it's done that for a reason, because we see ourselves as a multiplatform, multi-publisher service that will have a growth curve that will hopefully continue to look like that over the coming years.

As consumers want to now have direct downloads, the instant gratification of buying a game, getting a download, doing transactions right on their PCs, and maybe going forward on their consoles and their mobile devices, Origin becomes an incredible investment opportunity for us as well as a way to invest in our consumer relationship.

CRM. We think about what we do right now with our consumers. Having that 220 million Nucleus accounts is starting to see -- provide us with leverage in our OpEx which is called marketing.

So instead of spending money with ABC or NBC or ESPN or even online with the IGNs or the Game Spots of this world, we are building our own network. We are building our own ability to deliver billions of impressions to move gamers from Bejeweled to Boggle, from Battlefield to FIFA.

And our ability to do that is the impressions, the engagement levels we have, is we have our own network. So you will see us spending less money going forward on external marketing outlets and more money inside our own network to build capabilities to communicate on an impressions and an engagement level.

That if you are playing -- and you already see it if you play our games online, particularly in the social and mobile space. If you are playing an EA game, we will make a suggestion based on what you are playing that there is another game you would like to play.

Our assets. We talked about the brands. I did skip by PopCap; but our acquisition of PopCap, this is the year I think it is going to be accretive to us. This is the year that we are going to deliver against the projections that we have made.



As we said on the call, a strong year ahead for PopCap. It is our first full year since the acquisition. The IP speaks for itself -- Plants vs. Zombies, Bejeweled, Zuma, Peggle -- all of the stuff that we feel are intellectual property assets that will still be around 20 years from now.

We think about the Pac Mans and the Tetrises, the things that we have all played over the years that have withstood the test of time. We think they have intellectual property that absolutely withstands the test of time.

If you haven't played these games, they are absolutely addictive. They are incredibly inexpensive, but also brilliantly engaging. And the key for us again is not getting that million people paying us \$10; it is getting the hundreds of millions of people paying us \$1 or \$2. Having this big funnel that PopCap is going to be responsible through delivering a great majority of the people at the top of the funnel there.

The investments we are making. We talked about Play4Free. We have talked about Origin. We have talked about Nucleus. These are the layers that sit in between that we are making investments that we believe pay off this fiscal year and beyond, as we complete this transformation to being a full pure-play digital entertainment company.

Then you can see there where we think that -- where the opportunities are. And then you match it to our content; you match it to our current market position. Then you take those investments, and we think it all gels together and you can see our leadership positions on all those platforms.

Digital, this is a little bit more a deeper take on what -- the slide we showed about five or six slides ago. Digital and Gen4. We are not going to talk about Gen4 right now, but it's probably no surprise to anybody that the new platforms over the next few years will come.

We are enjoying a tremendous time with current generations right now. But as you might imagine, Electronic Arts continues to keep a very close pulse on what is going on with next-gen. As we mentioned on the call, in next-gen technology development we are already putting aside \$80 million this year to start ramping up our teams to think about that future when it arrives.

But look again how digital starts to go. We are going to see the tailing off over the next couple of years of standard def, and that is primarily the Wii. We will see what happens with the Wii U; that becomes an HD digital play. Their backend from an Internet perspective and an online perspective has always trailed what Sony and Microsoft have done, and we are hoping they play catch-up here.

But you can see the CAGR that we have got there of 20% for digital. This really will complete the transition to high def and digital; standard definition gaming goes away. Digital from the perspective of having those higher margins allows -- we get the benefit of that 20% growth CAGR as well as the higher margins that digital has, as I mentioned a few moments ago, and eliminating all of the cost of doing business in a physical world.

Our titles and services. This breaks down what we see as our business models, quite frankly. HD console/PC, all IP, all brands that you know and know very well.

Our subscription business is starting to ramp as we start to move the consumer to thinking less about a transactional basis of going to Best Buy, and figuring out which game they want to buy, and as I called it last 3 feet of the sale, which is reaching for the game and buying it. But getting on a more regular and consistent, if you will, an annuity-based business model for us in offering consumers content on a regular basis in return for a subscription.

We're already doing it in sports with our Season Ticket, which allows early access to the games, discount on PDLC, and making sure that we deliver a VIP experience to that hard-core sports gamer. It is a great pilot program.

We've been doing it for years with Club Pogo, with a very interesting demographic. Let's call it the 45- to 55-year-old female. Having subscription-based services there for Club Pogo is something that we have been doing for a number of years with a very focused demographic. It is a great advertising platform as well.

Play4Free. You can see how we are using our key brands and then going higher up the funnel, broadening the reach. Consumers who didn't want to pay \$60 for Need for Speed Most Wanted can play a version of Need for Speed on a Facebook platform or other social network platforms for free.

Again, two things happen for us then. We're introducing them to a piece of intellectual property that we hope to upsell against on different platforms. Then secondly, the hope is that we can get them lured into the game, to be able to monetize them. Whether it is dollar, whether it is cents, whether it is dollars; and we start thinking on an ARPU basis of what those consumers do.

Great brands make the difference, no doubt about that. In any form of entertainment when you think about once it gets through its business model, the great brands. The great piece of IP, as timeless as they can -- Avengers, anybody? -- is what will really make the difference from an entertainment perspective.



So when you think about that, I understand there's a lot of companies that are doing generic branding and trying to build a game mechanic around things and simply going and [hopping] consumers from there. But when it all boils down to it, consumers love intellectual property they grew up with, they are familiar with, they know the characters, they know the gameplay, they know the storylines. That is what we deliver with the great brands.

Mobile and tablet. You can see it here, huge growth opportunity for us. We are the number one on iOS from the perspective of delivering our content on both iPhones and iPads. We will continue to make those investments.

Again, fabulous brands; and having Origin play a part in that in the future, an even bigger part of that, becomes critical.

Then social. When we combine all of our social, mobile, and Play4Free titles in FY13 there will be 41 titles that we will launch on top of the titles that are already in market right now. 41 brand-new titles, many of which are represented here.

A lot are unannounced because of the competitive nature of our industry. We just simply don't announce them until we are ready to go, to avoid people coming in and looking at what we are doing and quickly coming to market with an inferior product.

But that 41 I think is proof positive of the radical change that this Company has made. 14 packaged goods titles; 41 Play4Free social and mobile titles.

Let me finish here so I can go to Q&A. I think this slide -- and I use this slide a lot when I talk to external audiences. It sums up who we are.

Our gamer, our consumer, is at the center. The center. He is a hard-core gamer, but he is starting to branch out. He probably plays three or four of those games that then surround him.

Origin starts to tie that together for him, because that is his portals to Electronic Arts as well as to other companies.

Then all of the platforms that he has access to, we are delivering that content to those platforms. Different game mechanics, different types, different price points, and certainly different game experiences from a handheld to an Xbox 360. But he gets to enjoy that intellectual property.

Then finally, our mantra which we talk about a lot -- connecting those experiences, connecting the consumer. Bring it all together no matter where he is.

Whether he is getting up in the morning and checking his stats; on the train with his iPhone; getting into work and doing something on his PC; on the train, on the way back home, and updating his stats, seeing where he is on the leader boards; and then playing on his Xbox 360 or PS3 in the evening. It all comes together. It is all EA. So with that, as always, I just ramble on and we have got a few minutes for questions.

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**Unidentified Participant**

All right, Peter, I will ask one and then we will go to the audience. So, you look at the charts that you put up there. Some really nice growth trends, yet the stock is not reflecting the opportunity maybe to continue to do that.

Where do you think the disconnect is? As a traditional analyst I have been covering this group 12 years. I'm used to the stocks trading up into big console titles, and those aren't quite the story anymore.

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**Peter Moore - Electronic Arts Inc. - COO**

Right.

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**Unidentified Participant**

So how is the story changing? And what maybe are investors missing about the digital transition?



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**Peter Moore - Electronic Arts Inc. - COO**

I think our progress is outstripping investors' and analysts' ability to grok what is going on here. So, you deal with the facts of today, I couldn't -- we had a great year; we are projecting an even better year.

The hard work and the blood, sweat, and tears that has gone on over the last three fiscal years of investments made in infrastructure, billing systems, developing Origin, building new IP, acquiring PopCap, and Playfish, all of those -- in some instances because we haven't seen a full-year of PopCap -- have not been able to deliver the revenue yet, because we haven't had the full years. But now we are positioned.

And the narrative that we continue to tell is one we believe in. I think we have been relatively consistent with the brands, the platform, and the talent story because that is going to be key to us going forward here.

I think about the industry we are leaving behind, and I think about the industry that we are helping create. I am so happy we are in the latter rather than the former.

There are companies that haven't made those investments. There are companies that are struggling right now in our former world of videogame publishing, which we don't describe ourselves as any more. We are a pure-play digital entertainment company.

I can't answer the question of why people either don't believe or don't understand. I think our earnings call laid it out in brutal detail where we think we need to be.

When I combine the brands that we have, the people that make the games, the platforms we invest in, and what we think -- what we know about the console future -- and one thing I didn't say. Don't discount the power of what consoles will be in the next generation.

I think there is a belief that the console business in some way is dying, that we're all going to free-to-play and smart TVs will take over. Consoles will be a very important part of the industry growth going forward. Sony and Microsoft will make sure of that, and the investments that they will make companies like ourselves will benefit from.

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**Unidentified Participant**

Okay. Why don't we see -- there is a question here.

## QUESTION AND ANSWER

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**Unidentified Audience Member**

Pardon me. This is a little bit long, but where do retailers fit in the future? The background is, Wall Street looks at this as a binary outcome, digital or nondigital. But somebody needs to sell the console.

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**Peter Moore - Electronic Arts Inc. - COO**

Yes.

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**Unidentified Audience Member**

And there is a benefit to publishers if a retailer can push sales and increase your sales, because after all your margin is 100% on variable sales. So, how does that fit?

You are transitioning to digital. Where is the place, or is there a place for retail?



**Peter Moore - Electronic Arts Inc. - COO**

Absolutely. You look at a \$4.3 billion business projected in FY13. \$1.7 billion of that alone is digital. That is still -- whatever the math is -- \$2.6 billion that we will be selling of discs through digital.

A, we enjoy having our big blockbuster titles like Medal of Honor, FIFA, Madden all sell through in the tens of millions of physical media. But the real key is what we then do is different. Once we get that disc installed in a tray in an Xbox 360 or a PS3, we then look at our consumer on an [optual] basis.

We love what retail does for us. We love the ability for them to create massive launches and the excitement. GameStop in this country probably see three or 4 million hard-core gamers walk through their doors every single day, and that is a marketing opportunity for us.

Retail eventually needs to evolve. As I mentioned, one retailer in the UK, Game, as we all saw, went into administration because they didn't have a digital play. GameStop, as I think everybody knows here, has done a brilliant job in building digital opportunities to sell cards -- what we call POSA cards, point-of-sale activated cards -- that you want to walk in and buy Xbox LIVE points, you want to walk in and buy downloadable content, you can do that on cards.

A lot of our consumers don't own credit cards. A lot of our consumers are still afraid of what happened in the PlayStation network when 77 million accounts were accessed by Anonymous in calendar '11, if you remember that.

So a lot of our consumers prefer to go into retail, buy those Xbox LIVE or PlayStation network cards. Retail gets a very strong margin on that. So retail, if they can evolve to being not only a physical media purveyor but a digital purveyor, plays a very strong role in our business going forward. They are also the catchment at the top of the funnel for the hard-core guys.

Secondarily, you're exactly right. As we think about the next-generation, retail actually become stronger again because somebody has to sell the hardware.

Not to say that Microsoft, as you saw this week, isn't against selling directly on a subscription basis. You didn't see it; you can now get for a -- it feels like a mobile phone play. You can now get an Xbox 360, I think it is a 4-gigabyte hard drive and a Kinect, for \$99 if you sign up for two years of Xbox LIVE.

So again it feels like where the mobile phone companies have been for a number of years, in which if they can lock you in on a subscription service they will provide you the hardware for an inexpensive cost; and God only knows whether it actually becomes free at some point.

So answer to your question, retail is still very important. We are still going to be selling tens of millions of discs on a global basis for many, many years to come.

The challenge for us is how to leverage those discs into digital consumers once they buy the disc. Our games are big; they're still 6 and 7 gigabytes in file size. So a disc is still the easiest way for many consumers to be able to get the content itself if they don't have speed of broadband.

The other thing is the used games business is an important part of the ecosystem that we have learned, quite frankly, to embrace here, because it keeps moving money around in our industry. Consumers like to have physical media, because then they can go to GameStop and trade it back to buy brand-new games.

So retail plays a very strong role. I would say in the next five to 10 years we are going to still see retailers selling video games in one form or another. I liken it to when Apple did the iPod and iTunes retail; decided the only way they were going to play with music then was to sell iTunes cards to the tune of hundreds of millions.

I can tell you, I ran Xbox for Microsoft for a number of years. When I left in 2007 it was already hundreds of millions of dollars in profit going into retail selling Xbox LIVE points. Moms would go in because they didn't want their sons or daughters to be putting their credit card online.

And those points cards are margin-rich. They drive a lot of engagement, and they are a very important part of the future. We're doing that, working with all retailers doing that.

The other key thing is selling digital content on the day of launch. We are seeing huge uplifts there.

When we sold Mass Effect 3 back in March, we saw a 40% attach rate that first week to DLC at GameStop in the United States. So not only are you selling a \$60 game; we love it, GameStop loves it. They are selling \$20 DLC, so their sale becomes \$80, not \$60.



Sorry, that was -- you had a long question, I had a long answer. So that is where it was.

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**Unidentified Participant**

Maybe time for one more. All right. We don't have any out there. Here, I just have one more question.

Obviously, big transition, mobile going from 1.2 to 1.7. We can all figure out --

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**Peter Moore - *Electronic Arts Inc. - COO***

Yes, digital.

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**Unidentified Participant**

Sorry, digital. The percentage of revenue change. How do you think about mobile margin -- or digital margins versus your traditional packaged goods?

Is one going to be 25% and the other is 10%, so we can model that out? I know it's not going to work on an annual basis. But when you are thinking very long term.

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**Peter Moore - *Electronic Arts Inc. - COO***

Yes. The key is we need to put behind us the stuff that is the anchor that is physical media. Whether it is us, whether it is movie companies, whether it is music companies, when you ship something physical, you have to keep the inventory clean; you have to FedEx it sometimes. Then there are what we call SRAs, sales return allowances.

We always say there's no bad games, there is just bad price points. All right? So the ability to move stuff through, we have to support.

Now if my content sits on a server there is no COGS. There is no cost of goods sold.

There is OCOR, online cost of revenue. But that is bandwidth, and that is a variable cost.

We have fixed costs. We have operations teams, we have warehouses, we have trucking companies, we have all of the allowances where you have to provide retailers to make sure we keep their inventories clean and keep moving through.

That goes away. So the margins eventually start to increase.

Now, there is still, as our friends at Sony and Microsoft still take royalties, the margin shifts. But the efficiency levels that we get because of digital [rods] and physical are very material to our bottom line. Very material.

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**Unidentified Participant**

Great. Thank you. I really appreciate your time.

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**Peter Moore - *Electronic Arts Inc. - COO***

My pleasure. Thanks, everyone.



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