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## Conference Call Transcript

ERTS - Electronic Arts Inc at UBS Media and Communications Conference

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## PRESENTATION

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**Brian Pitz - UBS - Analyst**

Good morning, everyone. It is Brian Pitz and Brian Fitzgerald, also known as Pitz and Fitz, here hosting Eric Brown, CFO of Electronic Arts. EA is one of our favorite names in the video game space. Obviously a lot going on in the industry right now. We're happy to have Eric today.

Just a little bit of background, prior to his position as CFO, Eric was COO, CFO and Executive Vice President at McAfee. Previously Eric served as President and CFO of MicroStrategy, as well, after serving as CFO of Strategy.com.

I'm not going to bore you with other details, but Eric, take it away with a great EA presentation.

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

All right, thank you very much, Brian. It's a pleasure to be here with you this morning. Before I start out, I would like to just review the safe harbor disclosure. I would like to remind listeners that prior to making investment decisions with Electronic Arts that they review all of the risk factors and our most recent Forms, 10-Q and 10-K.

Today, in terms of agenda, what I would like to do is take you through some of the industry trends; talk about what we have seen thus far in our fiscal year, that is through the end of September. I will also give you an update on what we saw on the retail trading environment a week and a half ago over the Black Friday weekend. And then I will spend a bit of time on our F12 strategy and initiatives.

At the highest level, Electronic Arts competes in the interactive entertainment industry, which is about a \$50 billion industry. By the end of this calendar year, it will be the first time that total digital revenue in this sector equals and then surpasses that of packaged goods. And the way that we think about our business, digital versus packaged goods, is pretty straightforward.

Traditionally Electronic Arts has sold physical disks for the Xbox 360, the PlayStation 3, and predecessor generations of consoles. Increasingly, gaming is moving to digital direct distribution, i.e., games downloaded directly to hard drives, to smartphones, et cetera.

The growth rates between the two subsegments is quite a bit different. As you can see here, the packaged goods market in dark blue is about minus 7% growth rate, while digital has been growing fairly consistently at rates of at least 20% year over year.

Now, if we break down the revenue in the digital sector, what we find is that the PC is currently the dominant platform. And so, as of the end of calendar 12 based on estimates, we had forecast that just over \$20 billion of total digital gaming revenue are based on the PC platform.

The popular modes include free-to-play games, which are backed up by a micro transactions. These are typically casual or social games played across Facebook and other social nets, and more traditional PC games, MMOs being the category for massive multiplayer online games; full-game downloads of PC games; and DLC, or downloadable content, so, content incremental to the base game that can be purchased and downloaded directly to the user's PC and hard drive.

Mobile and handheld has also been a key driver, and increasingly the digital delivery of content to the PlayStation 3 console hard drive and the Xbox 360 hard drive has been important as well. And that, in fact, has been, on a percentage basis at least, the most rapid-growing part of digital over the last several years.

So that is a very robust ecosystem, attractive growth rates in terms of digital. And if you look at some of the underlying trends, it is fair to say that there has been a pretty rapid proliferation of gaming-capable devices. You know, five to six years ago, we used to think of the industry in terms

of having about 200 million core gamers who would play video games on a traditional dedicated gaming console. Well, today, that user base has expanded.

If you layer on the social networks, games that are played directly on the PC, typically played while people are updating or reviewing their status on Facebook; games that are played on smartphones, so iOS and Android-powered devices; and more broadly speaking, games that are played over the Internet on the PC itself, lighter-weight gaming experiences. So the adjustable market for gamers has gone from a core audience of 200 million or so to over 1 billion, if you consider all of the additional devices here.

The average gaming-capable devices used by a gamer -- this is North America data here on the right -- in about a year and a half period of time, has gone from about two devices on average to nearly three devices per person on average. And the way to think about this is, is that if in the past gamers had a console or a PC-based system or systems at home, they've now added to that an iOS or an Android device, or possibly a tablet as well. So now they are nearing three gaming-capable devices per gamer.

All of these are obviously good trends for Electronic Arts and other publishers that are participating on the digital side of gaming.

Mobile and social are important segments, and on the left here what we have done is, we've taken a look at the breakdown of the top 100 iOS games through this past month. And the genre here on the mobile devices is pretty important. About 72% of games by type are of the casual genre, so these aren't core role-playing games or first-person shooter games. These are the types of games that anyone could pick up. It could be a child aged six or seven, or someone waiting with seven minutes of downtime in an airport waiting to catch a flight. The point here being that the casual genre is really important for a portable iOS device.

On the right-hand side, we talk about the genre breakdown for Facebook games. And here, casual plays an even more important role. About 88% share of the games played on Facebook are casual by genre. We look at some of the basic demographic breakdown for the casual gamers. We find that over half, approximately 53%, of casual gamers are female. And the average age of the mobile social gamer is about 28 years old. So this describes an audience which is different than the traditional core audience on consoles for video games.

The mobile gaming industries experienced some rapid growth as well as some transition. As you can see here, the CAGR has been very solid, about 14% CAGR over the last three years or so. But what has happened is the industry has transformed very quickly from what used to be feature phones into being smartphone-dominated, again, iOS devices and Android devices. And so about 90% of the market, projected out a year, so it's projected to be on smartphones with featurephones declining to 10% or so.

Now, the EA mobile business doesn't quite yet track that bias towards smartphones. We actually started out four years ago with the dominant position in featurephones. But what we have done over the last several years, as you can see, is we have taken a portfolio which about a little over 90% on the featurephones. And by the midyear point, we're nearly 55%, 45%. We expect to finish the year, or exit the year, with about a 50-50 mix on smartphone versus featurephone.

And again, some of the key drivers here are the availability of tens of millions of gaming-capable devices, and more importantly, the availability of very good digital storefronts. The Apple App Store is the example of that, with the Android Market place improving over time.

I'd like to spend some time on Electronic Arts' performance through the midpoint of the fiscal year, so this would be our quarter that ended this past September.

Overall, our revenue is up about 20% year over year. Now the key drivers here are, first and foremost, we have full-game downloads in terms of percentage growth rates. EA has a dominant position in traditional PC games, so an excellent catalog. And what we found year to date is that our digital download business for full PC games has been supported by the Battlefield franchise, specifically the Battlefield Bad Company 2 title which was launched just over a year and a half ago, and Dragon Age 2.

We've also experienced very strong growth in the extra content free-to-play space. And so this is where we provide games digitally for free to consumers and then allow them to purchase micro transaction items. That could be virtual in-game objects, they could be extra content such as new maps, et cetera.

This is a larger business. It is about \$155 million for the first six months as of fiscal 12. And that is growing at about 32% year over year. One of the platforms that is important here is not just the traditional PC, but the Xbox 360 and the PlayStation 3 console, which have hard drive capabilities, great online connectivity, and online commerce and ecosystems.

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The mobile businesses up about 9% for the first half of the year. And the balance of our business, which includes some of our existing subscription-based games, digital advertising, and other, was up about 8%. So all in, about 20% as of the midyear point for the first six months.

A week and a half ago we went through the all-important Black Friday holiday weekend in North America. I would like to share with you some of the observations that we had.

So first of all, for the retail sector overall, this is the best Black Friday since 2007, according to the National Retail Federation. A record 226 million shoppers visited stores over that weekend. So foot traffic was up over 7%. And average transaction size, or amount per shop, was up 9% over our retail spend of about 16%, so a really solid holiday overall. Online Shopping accounted for 38% of total spend. So that was up also, year over year.

Now, within the videogame sector, what we saw is that the hardware units were down overall. So this is both standard-definition hardware units, i.e., the Nintendo Wii, plus the high-definition Xbox 360 and PlayStation 3 consoles. So down slightly in aggregate; however, if we look at the high-definition console sales stand-alone, that was up sharply, approximately 60% year over year.

And I think, for the holiday season, or the holiday weekend, the Microsoft Xbox 360 console was the clear winner. According to Microsoft's data, they sold 960,000 units in the United States, and 800,000 of those were sold within a 24-hour period. It is the strongest week ever in Microsoft 360 history. So they are really driving the high-definition market overall.

On the software side, high-definition software -- so this is the 360 plus the PlayStation 3 -- software sales were up 30% year over year. So the strength in -- and although it is flattish in aggregate for hardware, what you find -- and down a bit in terms of aggregate software, you see strength in high-definition hardware platform units sold and strength in high-definition software sold at plus 30% year over year.

Based on the data that we've seen on a unit basis, EA had four of the top-10-selling games over the Black Friday weekend, led by Battlefield 3 and then followed by Madden 12, Need for Speed, and FIFA 12.

The key remaining title launch that Electronic Arts has in the calendar year is the Star Wars Old Republic MMO. And this is a game that we've had in development for several years. It launches December 20, both in North America and in Europe. And for those of you who are not familiar with the offering, it will be available both as a packaged good that we'll sell for \$59.99 retail per box; it will also be available via digital download for the same price. There are a couple of different variants, the base addition, the deluxe and collectors edition.

The way the product works is that you [buy] the client. Initially you get a free month of subscription service, and thereafter as an online service, this is a massive multiplayer online game. You pay a monthly subscription fee anywhere from approximately \$15.00 to \$13.00 per month depending upon whether you purchased one, three or six months of subscription at a time.

The game itself has a huge kind of pre-existing kind of fan base. We had about 2.4 million people register for the Star Wars fansite, over 2 million of which actually volunteered to do testing for free. The drivers for this product are pretty straightforward. Star Wars brand awareness, it's arguably one of the best if not the best entertainment brands in existence.

The studio that is producing the Star Wars MMO, BioWare, is very highly regarded for the quality of their gameplay, and they have a fan base of millions of followers that will assess the game. And also we think the time is right for a major new MMO. Our nearest competitor has in the marketplace for 6-plus years. This is a game based on a fiction that is quite a bit different from the incumbent leader.

Now one of the final milestones that we needed to get through prior to the December 20 launch of Star Wars was to run very large-scale beta testing. Again, with a product like this, which is expected to support hundreds of thousands of users simultaneously, you really need to stress-test the system. So again, over the Thanksgiving weekend what we did is, we opened to the beta -- and again, this is still by definition a closed beta, since we didn't have to go beyond the 2-million-plus pre-registered audience that we had.

We had over 725,000 unique people play the game over three days. Each player logged an average of 12 hours of gameplay, so that is four hours per day. In terms of peak concurrent users, we had just over 250,000 people playing the game simultaneously. So I would say that we met the objective of wanting to test this game at the 100,000-plus concurrent user level. We went well past that. The service was solid.

Obviously it wasn't perfect; that's why you run betas. And so the team is correcting some of the things and making adjustments based on the experience there. But overall I'm pretty comfortable with the results here, and as we go back and kind of benchmark this versus the rollout of any

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MMO, we actually put in place more capacity in terms of [ramping] players than has ever been done before in MMO history. So we feel very good heading into the 12-20 launch date here later this month.

Another key franchise that I'd like to update you on is Battlefield. We launched Battlefield 3 in late October of this year. It is a first-person shooter game with a very intense online multiplayer component. To date we have sold in 12 million units of Battlefield and sold through approximately 8 million units. So it's a very good ratio.

The quality of the game is very good, with a Metacritic weighted average score of 86 across the three platforms. The user scores in the game are actually higher than what the Metacritic would suggest. We're seeing four out of five stars on Amazon.com, people choices awards, et cetera.

And one of the things that really differentiates this product versus competitors, specifically Call of Duty, is the engine technology, which allows basically any object in the environment to be fully destructible. And if you are a first-person aficionado, full destructibility is indeed a very good thing.

The game itself also has an innovative feature called Battlelog, which is a social network overlay. It allows people to keep track of their achievements, their levels, their unlocks, their scores, their various ratios. And it allows them to easily invite their friends and drop them into a game session, so they can play either a head-to-head cooperatively or against each other.

We'll be launching a paid expansion pack tomorrow called Back to Karkand. It will be priced at \$14.99 retail, and it features four brand-new maps, which again will extend the gameplay experience. Currently in the game, I believe, there are 11 maps for the multiplayer mode. So this represents about a 40% increase in terms of the amount of content available for people on a multiplayer basis.

Not only does the expansion pack include new maps, it includes three completely new vehicle platforms and 10 new weapons that individual soldiers can deploy in the game. So we think that this is going to be a pretty interesting expansion pack with a very good tie ratio.

Okay, now for the balance of FY12 and beyond, EA has kind of four areas that it is focusing on. First of all, what we're quite intensely focused on is high-quality intellectual property. What we have done so far this year is extend, or introduce, what we think are our world-leading franchises. Battlefield 3 is the latest iteration of the very successful franchise from our DICE Studio. Star Wars The Old Republic will be launching here, as I said, December 20. This is a game that will have a five- to ten-year life with a pure digital subscription model, augmented by packaged goods releases along the way.

Need For Speed is another core franchise. It is in the driving genre. Need For Speed The Run is the latest iteration there. And from our BioWare Studios, Mass Effect, Mass Effect 3 which is actually launching in our March quarter.

Now in terms of platform initiatives, what we have started to do is orient ourselves to ensure that we are providing content distribution across, not just the traditional multi-platforms, PlayStation 3 plus Xbox 360. But we're now thinking about digital distribution in the context of having a variant for a social network such as Facebook, or a smartphone, or a tablet, or a free-to-play PC version. So the notion of building a distribution platform, and for EA it is branded Origin, is central to what we're doing going forward.

The third key area of focus is talent. And what we're doing is, again with this new platform approach, we're creating the equivalent of executive teams and executive producers that are not just managing the development, but they're owning the franchises. And they are tasked with taking the games into that intellectual property cross-platform.

So, whereas before, we used to have a SKU plan that would read traditional Nintendo, Microsoft, and SONY platforms, we now have SKU plans that read console, plus PC, plus tablet, plus smartphone, plus free-to-play social network games. And so the team itself is being given the opportunity to be true brand-owners and push across all areas of distribution, not just the physical world but the digital distribution world. And this has really had quite an energizing effect on our teams.

And, finally, the way that we're thinking about planning and measuring and [post auditing] our business is changing. In the past, in the pure packaged goods business, we used to think about our metrics in terms of quantity of units sold times wholesale, net wholesale price.

Today, and in the future we are now thinking about our business and our digital direct relations with end-users as a function of acquisition times engagement times monetization. So, it's a very different orientation, has some pretty significant implications for how we engineer our back-end systems and how we market direct to consumers.

The focus on digital revenue has yielded some interesting results. Number one, I would argue that EA has one of the more diversified digital portfolios in the video game business. Rather than being focused specifically on, say, one large-scale multiplayer online game or just one platform social games, EA participates relatively equally on consoles, PC and mobile. And as you can see, on a trailing 12-month basis, the overall digital portfolio is up about 37%.

The strongest growth we've seen to date is in the consoles. That pertains to extra content, downloadable content, such as map packs, expansion packs, et cetera. But there's growth across the entire portfolio. On a quarterly basis, again you can see we're up about 30% year over year with the same characteristics -- high growth in consoles, mid growth in PC, and lower growth on mobile.

Now, revenue by type is depicted here. Again, the same 37% TTM growth rate, but the mode of the content or the type of content we are delivering here is as follows. At the top, the extra content, so for free-to-play games, has the highest growth rate at 74%. So these again would be micro transactions on a PC platform or micro transactions on a high-definition console.

Full-game downloads, again, typically PC full-game downloads, although we have done, in a couple of instances, full-game downloads for high-definition consoles, and in some cases industry firsts. This is about a 28% growth rate. Now when we download a PC game direct to an end user's hard drive, this is typically one of the highest net margin businesses that we have. A PC product, you don't have to put it in a box, don't have to ship it, you just deliver the bits. And you own the intellectual property with no third-party license requirements. It can generate a 90% gross profit margin before advertising costs.

In mobile we have about a quarter-billion-dollar business. So you can see, about 14% CAGR, and again this is driven by some of the trends that I reviewed earlier where our gamers are very rapidly moving to the smartphones, iOS devices and Android devices.

And finally, subscription, ads and others -- about a 28% growth rate business for us, and of course this is before we launched the Star Wars subscription-based games. We expect that our subscription business will be quite a bit larger about 12 months from now versus where it is today.

Now one of the key drivers in the extra content space, particularly on high-definition, of the platforms of 360 and the PS3, are depicted here. These are two of our best examples, the FIFA franchise and the Battlefield franchise. Back in fiscal '09, with FIFA, we introduced for the first time a game mode which was complementary to the traditional disk-based experience. We called it ultimate team mode.

(technical difficulty) what it is, is it allows you to procure digital player entitlements. You can buy them in packs or packages. Sometimes you get some good players. Sometimes you get some bad players. But the more players that you purchase, the higher the likelihood that you can piece together a quality team. So you purchase these digital player entitlements and you play them in the simulation mode that is connected to the original disk. So you go online, you compete with your friends, you level up. It just extends the head-to-head multiplayer intensity that we see in the base FIFA game.

So we introduced the mode back in '09. As you can see we yielded \$16 million net revenue to EA. This was all on a non-GAAP basis. And for FIFA 11 a couple of years later, through the middle of the year we booked \$77 million in revenue with another \$5 million or so forecasted through the end of the fiscal year in March. So, pretty sharp increase, and this is effectively the same type of game mode.

I would tell you that six months ago when we put together this chart for FIFA 11, instead of \$82 million in revenue we had about \$63 million. So just over the course of the year, or midway through the year, that forecast has gone up by nearly 30%.

Similar type of evolution for the Battlefield franchise. We introduced some digital content for Battlefield Bad Company 1. This would have been about three years ago. Battlefield 1943 was the first digital-only high-definition console game. We actually never produced a single physical disk for this game. We sold it direct to users in the Xbox 360 and the PS3, generated about \$20 million of revenue.

Battlefield Bad Company 2, which launched well over a year and a half ago, is expected to generate about \$64 million in digital revenue. And this is, again, PC full-game downloads and micro content expansion packs. This statistic, when we looked at it six months ago, was about 20% lower. So again over the course of half a year, about a 20% increase in the overall forecast for Battlefield Bad Company 2 digital.

Now, we do not yet have any data for Battlefield 3, again the game just launched. But if we are selling more units of the underlying packaged goods and maintaining an equivalent tie ratio for digital content, we expect a similar strong digital performance from Battlefield 3.

FIFA 12, the latest iteration of the FIFA franchise, is off to a great start in the packaged goods side. Sales are up on a unit basis. And tie ratios, at a digital level, are equal to or greater than what we have seen for FIFA 11. So again, the next iteration for FIFA and Battlefield respectively bodes well in terms of digital revenue performance.

Another key franchise for Electronic Arts is The Sims. This is a game that has been around for just over a decade. We launched a Facebook version of Sims called Sims Social just this past August, so several months ago. And it is currently ranked as the number five game on Facebook in terms of DAUs, or daily active users. So 5.9 million DAUs as of a couple of days ago.

Now, although we launched the game, this is a service. It's not a one-time launch. And we've been in the process of providing a steady pipeline of new features and content to the game. And so, for example, since we have launched the game, we're adding about 100 new virtual items per week. So these are digital items that are available in the embedded store. And so you can buy, for example, a digital entertainment system which allows your Sims Social character to level up in terms of dancing abilities, attractiveness, social status, et cetera. We keep that content catalog fresh.

We also introduced time-based items. We've also introduced quests into the game, encouraging people to have their Sim interact and collaborate with their real-world friends' Sims character as well.

And so this is -- we're off to a good start with the Sims Social. We're focused now on monetization and we're pretty proud of what the team has done in terms of taking a very successful packaged goods game, combining it with the Facebook platform experience derived from our Playfish acquisition two years ago, to produce a world-class social gaming experience.

PopCap is another very important recent addition to the EA portfolio. We purchased PopCap in August of this year, and PopCap is one of the leaders -- in our opinion, the highest quality studio in terms of producing casual games. And again, the casual game genre, as I discussed earlier, is very important in the smartphone marketplace, 72% of games are casual.

It's also very important in the social game marketplace. Nearly 90% of games on Facebook are social by genre. For the September quarter, the stand-alone revenue for PopCap grew about 28% year over year. PopCap remains on track to deliver about 30% growth overall for the calendar year '11 versus calendar year '10.

Not only are all of the games that PopCap produces of the social genre, but about 80% of what they produce is distributed digitally. Again, the iOS through Facebook micro transactions through PC full-game digital downloads.

We're also starting to see the benefits of synergies between the EA portfolio and the PopCap portfolio. We started cross-promoting, for example, The Sims Social on one of the leading intellectual properties from PopCap. Bejeweled Blitz -- we are also taking the EA digital distribution capabilities on Pogo and Origin and taking PopCap content and making it more widely available to consumers. So we're achieving the cross-promotion and revenue synergies that we set out when we announced this transaction over the summertime.

So we've got about 4.5, 3.5 months left in the fiscal year, which for us ends March. The next and final big game on the deck for the December quarter is of course Star Wars The Old Republic. I've touched upon that. Also coming up in the fiscal March quarter for Electronic Arts is Mass Effect 3.

But I think as we sit and look at where we are about nine months into the fiscal 12-year, it is important to note that EA is not just about a specific game or a franchise. It is really about stitching this all together strategically. Origin, at the top there, is an important component of what we're endeavoring to do over time as a company. Origin is our digital direct distribution platform for the PC. It allows us to take not only EA content but also third-party content. And so we've signed, for example, deals with third-party publishers to take their titles and distribute it across our network to our end users.

So we're building and developing a very diversified portfolio, as you can see here, between the casual game leader PopCap, Sims Social on Facebook, Madden, FIFA, et cetera, and Battlefield. And we're combining it with platform digital direct capabilities.

And we believe that extending to new and growing digital platforms is something that EA is uniquely positioned to do. And, again, at the top of this chart we talk about the traditional marketplace high-definition consoles.

Again now what EA is doing with its franchises is simultaneously or nearly simultaneously launching not only high-definition platforms, but we're launching social networking versions of games; tablet-based games for the iPad and others; iOS and Android-based games for smartphones; and PC clients, either full-game downloads or free-to-play PC variants.

We have what we like to refer to as the big 12 franchises, which are listed there on the right. And if you were to take a game like FIFA, what you will find as we have over 10 different and distinct platform SKUs. We're now tying games together in such a way that you can, for example, play a version of a game on a social network like Facebook, achieve a certain level or status, and unlock a digital item that you can then use in your PlayStation 3 version.

Now these would be special items you can't purchase, you can't buy, you can't earn on a PS3 network. You can only get them by playing the Facebook version as well. So the idea here is to go where the gamers are, which is cross-platform, again more gamers are playing on average on more devices; provide the right windows into the contents, because the game experience on a smartphone is different than that of a high-definition console; but stitched together in a such a way that people are encouraged to play, to cooperate, and to stay engaged with the EA brands.

A couple more slides before I take your questions. I do want to provide an update on the Origin roadmap. For those of you who have been following EA over the past fiscal year, it was back in early June at E3 that we announced Origins, so this isn't even six months ago. And the team has made absolutely tremendous progress in terms of engineering and delivering EA's consumer digital direct platform.

In the June quarter we launched Origin, and we had exclusive content. In Q2 we completed some additional features, including a unified ID so people can find and identify and chat with their friends on Origin and invite them to games.

In the third quarter, again our December quarter here, we've launched on Android. We have introduced cloud-based game saves. And so what you can do, for example, now is you can buy a game from EA, take Battlefield 3 as an example. Purchase it digital direct, it is played through Origin. You can then install Origin for free on a second PC in your household and log in, download, and provision that PC with the Battlefield 3 game that you've purchased.

Now you can't play simultaneously, but what you can do is effectively port your digital entitlements from PC to PC. You can similarly play a game that you purchased if you logged at a PC at a friend's house. Again, not concurrently, but that kind of common cross-platform ability and transferability of assets entitlements is a key Q3 feature.

And in Q4 we have some other features coming up. Again, additional cross-platform capabilities, allowing you to keep track of rewards and achievements on one particular platform that have been made available for aggregate gamer status on other platforms.

Currently Origin is at 7.7 million total installs, so obviously we started the fiscal year with zero. So it is pretty good progress. And what we're finding is that the average revenue per paying user on Origin is quite high. Fiscal year to date, the ARPPU is \$45 to \$50 for Origin.

So, summing up, where we are thus far, kind of three quarters of the way through fiscal '12. As we look back, EA has done a lot of work to change the product portfolio. A lot of what we talk about today is digital and high-definition. Back in fiscal '09, about 46% of our business was in the low-margin negative-growth segments of basic distribution in standard definition platforms.

And at the midpoint of our guidance, you can see that we expect to have, in fiscal '12, about 89% of our revenue in either digital-- which is dark blue in the upper left-hand chart quadrant there -- or high-definition, green. So pretty significant transformation in terms of our product portfolio.

Directly below that in the lower left-hand corner, you can see the impact that this portfolio transformation has had on our non-GAAP gross profit margins. We finished fiscal '09 with a 49% non-GAAP gross profit margin. And, again, at the midpoint of our guidance, and again I'm not reiterating guidance but just providing this for reference only, we expected 63% non-GAAP gross profit margins for fiscal '12. So it's a 14-point improvement. And again, it is directly correlated to the change in the portfolio composition above.

In the upper right-hand quadrant, you can see what this has produced in terms of non-GAAP operating margins. We ended fiscal '09 at a loss of minus 4%. And again the range that we gave a couple of weeks ago was for 8% to 10% and 9% at the midpoint. So again a 13% improvement in non-GAAP gross profit operating margins from fiscal '09 to fiscal '12. And that has generated similar leverage, as you would expect in terms of non-GAAP EPS. We had a deficit minus \$0.30 per share in fiscal '09, and the range for fiscal '12 is \$0.75 to \$0.90.

So, in summary, EA is going digital, growing as quickly as we can organically as well as inorganically with acquisitions like PopCap. We're also quite focused on the high-definition console portion of the marketplace. We've de-emphasized other areas of the business. We have reoriented our

cost structure. More of our operating expenditures and platform initiatives are oriented towards digital, and we're starting to see some decent leverage in terms of bottom-line performance.

So, with that, I will pause and take questions from the audience.

## QUESTION AND ANSWER

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### **Brian Pitz - UBS - Analyst**

Maybe I will start, Eric. Thanks for that presentation. Maybe a little more on the macro environment, you had a slide up there with some NPD data suggesting strength in HD consoles. Can you maybe talk to what you are seeing, US versus international? And maybe you could also talk to some of the trends, in terms of number of titles purchased per person versus previous years? Are we kind of at the same or similar run rate? Any macro impact from, anecdotally, your perspective?

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### **Eric Brown - Electronic Arts Inc. - EVP and CFO**

I think what we're seeing through Black Friday is that the high-definition console software market is very robust. And I think when we blow up the NPD numbers for December, you're going to see Battlefield 3 as well as Call of Duty included in those results. And it's going to be very strong performance year over year.

So the purchase activity to date, and I would expect through the end of December, certainly, is going to be in the high-definition category, and the genres that are really playing well right now are the first-person shooters. They're two great games out there. I am of course biased to Battlefield 3, but nonetheless, it gives customers a lot left to do here over the holiday period.

Standard-definition gaming is down. Again, if we used the Black Friday weekend as a proxy, standard-definition software is down about 30%. So people are playing games that are -- offer high-definition experience, but they are also a social experience. So people talk a lot about social games only being on Facebook. The reality is that people are looking for entertainment experiences are inherently social as well. So unless you have an intense multiplayer experience where you can play cooperatively, or kind of head-to-head over the wire, you are probably not in a great position future-wise.

So North America, again, pretty good data. Europe has performed reasonably well. We don't have the data as, you know, from third-party sources like the NRF. But again, what we've seen so far is pretty strong performance. Our biggest title and Europe is FIFA, FIFA 12 this year. I can tell you it was up about 15% or so, in terms of units throughout the last earnings call. That game continues to do very well. Again, it is the most popular sport in Europe, and in the world for that matter. That's doing very, very well. It also offers multiplayer head-to-head capabilities as well as digital extensions.

The markets in general, you know, northern Europe is feeling a bit better for us versus Southern, not that dissimilar from what a lot of other companies are seeing right now, but overall, a decent environment so far. We still have, of course, several more weeks of selling. We think that not only up to Christmas, but as well as the week after Christmas, which is where people start to deploy their other gift cards as well. So we think right up until December 31, it's a critical purchase season for a publisher like EA.

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### **Brian Pitz - UBS - Analyst**

Right, just as a follow-on to that, I think one of the questions I get most frequently from investors is, looking back at the Black Friday Thanksgiving Day promotions -- and we even saw this in e-commerce -- there was a huge amount of discounting, arguably much larger than we saw last year on a year-over-year basis.

I think the concern is, titles like Battlefield 3 are involved in that major discounting. Maybe you can say two things. To what extent, number one, are you taking a hit on that or is it all retail driven? And number two, maybe could comment on inventory levels at the locations as a [follow-up]?

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### **Eric Brown - Electronic Arts Inc. - EVP and CFO**

Sure. Well, I think that every Black Friday the video game industry is in quite promotional. If we were to go back and look at our notes from 12 and 24 months ago, it would have also been quite promotional. 12 months ago, we were promoting Medal of Honor first-person shooter across the Black Friday weekend.

And again, in terms of the way the price promotions work, it is always a combination. There's no standard rule here. Sometimes EA, as a publisher, will finance the retail price reductions completely. Sometimes the retailer themselves will price-promote aggressively and go margin-neutral, in some cases margin-negative, to drive traffic and market baskets.

And often times it's kind of a joint effort where we give a bit on our margin and pricing, and the reseller gives a bit on theirs. So not really all that dissimilar compared to last year. I think the one thing that is of interest here is, one title that did not price-promote over the Black Friday weekend, as far as we can tell, and that was Call of Duty. That was a decision on their part to maintain a \$59.99 MSRP. There are a couple of exceptions to that, but by and large they held price.

I think it will be interesting to see what happens when the overall unit sales are rolled up for NPD data for the November-December period. We think that for a game like Battlefield it is important to get units out there. The price promotions that we are seeing are not significantly different than what we did last year with our first-person shooter titles. And we think that, based on the experience of Battlefield Bad Company 2, again this is a game we launched over 18 months ago and we're now talking about a \$64 million digital tail.

And so the more client units you can get out there for a title that has additional micro transaction content the better off we will be. So in terms of inventory positions, one very specific data point I can give you is again on Battlefield 3. To date we sold in about 12 million units and we sold through about 8 million, and this is still several weeks to go before Christmas. So it's a very good relative sell-through rate.

So we feel pretty comfortable with the level of stock in channel and the sell-through rates. Some titles are doing a bit better than what we expected. Battlefield 3 is actually doing quite nicely. Need for Speed The Run is down a bit on quality. But overall, the portfolio, particularly in the sports games with the revised interest in the NFL season, for example, NFL is doing well in North America and FIFA is doing well worldwide.

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**Brian Pitz - UBS - Analyst**

Just one more question on Battlefield. Clearly with first-person shooters, we have seen the key driver being the multiplayer. Can you comment on the impact post the Call of Duty launch to your multiplayer numbers? And, in general, how they trended relative to what is the tie ratio between multiplayer and game purchases?

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

The tie ratio, in terms of registered unique multi -- people online playing multiplayer mode, versus unit sold through, which would be people who will play online and those who will just sit here and play in a single-player mode is very high.

It looks like about a 90% online play ratio in very rough numbers. So kind of the intensity and the engagement of people in Battlefield playing online multiplayer is the highest we've seen for an FPS game. So the game is doing very well. And we had expected a pretty significant downward kink in demand and sell-through following the launch of Call of Duty, and we didn't see as much of a kink as we had expected.

So the game, and we see this reflected in the user scores, and anyone here can go out there and check different places for user scores, and one title versus the other. The game is consistently being hailed as a better online experience, multiplayer experience than COD, which is often described as more of the same compared to last year.

And again, they have a very high hurdle to pass, but nonetheless we're encouraged by the ongoing engagement, sell-through, and multiplayer online play rates that we're seeing for Battlefield 3, post the launch of Call of Duty.

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**Brian Pitz - UBS - Analyst**

I will ask one more, and then turn it over to the audience real quickly.

Just in terms of Star Wars, I think the biggest question there is the breakeven. You've commented 500,000 units are breakeven. Can you walk us through that math again, the duration? How do we get our arms around what that actually means? We're very excited for that launch, but just for investors to kind of rehash that?

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

Yes, the framework we've used in the past is kind of a discounted cash flow analysis of an investment decision. And so this is how we think about the Star Wars investment. Again, we started with expense R&D about four years ago, and that is how long this game has been under development. It is the single largest undertaking in terms of R&D effort by EA ever.

And if you were to do a discounted a cash flow analysis, time zero being four years ago, use a discount rate of our weighted average cost of capital, and then from December 20 this year on, for five to 10 years, look at the game's life, the sign of perpetual value et cetera, all kind of classic DCF analyses. The way we framed it up is that if we have 500,000 subscribers steady-state, and you cap that rate and look at all of the investment prior to it, it yields a negative MPV using our cost of capital. So it's not a great investment decision. We don't lose money, but it's not -- rather than being a 10% to 11% IRR, which is our cost of capital, it is a low-single-digit IRR.

At 1 million steady-state subs, it is pretty close to our cost of capital, produces a slightly positive NPV. If it ends up lifetime of about 1.5 million subs, it produces a very nice premium to our cost of capital. So a nice positive NPV at a 10% to 11% discount rate. So that is how we framed up the Star Wars investment and how different steady-state subscriber numbers over the life of the franchise play into the overall investment decision.

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**Brian Pitz - UBS - Analyst**

Great. With that, I will turn it over to any questions in the audience.

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**Unidentified Audience Member**

Good morning. Thank you for that very fine and informative presentation. I had a question regarding shareholder wealth creation. Recently CEO Magazine ranked about 500 companies regarding wealth creation for shareholders of over, I believe, the past year.

I was very surprised to see EA ranked in the bottom, very far down. And I'm curious if whether you had seen it, had any comments on their criteria or their methodology, if any other panelists had a comment? Because it was quite explicit and it was quite elaborate.

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

I actually haven't seen the survey you're referring to, so I really can't comment on their methodology. Offline, we will take a look at it, to understand the rank and the methodology. I would tell you that in terms of shareholder wealth creation, EA has done well thus far calendar year to date. We have 40%-plus return for our common stockholders.

And as a company, what you find is that CEO comp and executive comp is aligned on the equity side, on performance RSUs. The last kind of comp cycle, half of equity comp to senior officers was on performance-based RSUs indexed directly to a TSR shareholder return index with a kind of a breakeven point of not the median, but actually the 60th percentile.

So as a company, philosophically we definitely believe in orienting long-term compensation with shareholder returns. So there is pretty good alignment as far as that goes. Now again, as to the rankings of the survey you're referring to, I just haven't studied it so I cannot comment further.

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**Brian Pitz - UBS - Analyst**

Another question? Larry?

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**Unidentified Audience Member**

(inaudible - microphone inaccessible) how much money has been spent from the beginning? And second, could you walk through the advertising strategy in terms of outlets and levels of spending? Because I turn on the football games, and Call of Duty is all over the place but Star Wars is kind of invisible. And I'm just sort of wondering how you are trying to get the audience you're trying to get?

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**Eric Brown - *Electronic Arts Inc. - EVP and CFO***

Yes. So in terms of the specific R&D budget, I won't give a number. Again, just to reiterate the comment, though, it's the -- in terms of total R&D expense, it's the greatest investment EA has ever made on a title. And high-definition console titles, average ones, have budgets in the tens of millions of dollars, \$25 million-plus typically. Star Wars is above that. Again it is been under development, like I said, for about four years or so.

In terms of the marketing strategy, it's a very good question because Star Wars itself is a game service. It's very different than a packaged good video game launch, which will do the bulk of its revenue and net margin in, say, the first six months following launch. There is a tail, a decay curve as it were, to the sales of packaged goods video games. You can extend it by having multiplayer capabilities, downloadable content, et cetera. But in general it follows a decay curve.

An MMO is quite a bit different. If you do it right, you can launch with -- one month after launch or two months after launch -- you could have potentially the lowest number of subscribers, say, looking out forward over a five year period of time. That is what happened with World of Warcraft. They launch with hundreds of thousands of subscribers, and ended up with about 10 million. So the strategy for launching the MMO and how you market it is very different.

I would argue that ensuring that you have a high-quality of service at launch is more important than exactly the amount and type and media that you would spend in the weeks surrounding the launch.

In the case of Star Wars, we have tremendous pre-registered demand. In the slide, I noted that we had 2.4 million people that had registered in advance with the Star Wars community, and over 2 million of which volunteered to test the game for free. So we like free testing, obviously. And I think those 2 million people that have volunteered to test, and obviously many of them have, it is pre-registered and built-in demand for the product.

And we actually don't have to spend mass media at this point like we do with a traditional packaged goods video game launched to acquire them. They are there. We have hundreds of thousands of pre-orders of the game already registered. So that -- we've already taken orders, as it were, in advance. So the launch advertising campaign is going to be quite a bit different for those reasons, compared to a big media event around a first-person shooter.

Over time, thought, what we will be doing is investing incremental marketing dollars to acquire new customers, because we want to manage the rate of churn. So probably the single most important statistic over time is the percent of people that renew month-to-month and pay another \$15 for their subscription. If we do this right while the service is high, we retain a lot of customers.

But on the back end of that, we will spend steadily over time to acquire new customers into the game, not just two to three weeks post-launch or two to four months, but two to four years post-launch. So very different advertising curve compared to Call of Duty.

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**Brian Pitz - *UBS - Analyst***

We only have a minute left, but I think there's a quick question in the back and a quick question in the front.

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**Unidentified Audience Member**

Thanks. Just to follow up on Larry's question about your investment in Star Wars. You talked about 500,000 to 1 million subs and what that would mean steady-state to your P&L, but in aggregate investment, over how many years do you think it takes for this to become positive ROIC?

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

In terms of the cash payback period, it's multiple years. Obviously it depends on the subscriber level. We will get a more rapid payback at a steady-state 1.5 million subs. A lot of the return is actually front-end loaded because the way the game starts out, for any gamers, they each pay \$60 for the package good. It's a PC product. We can digitally deliver it, and so that yields, per my earlier comments, some very good net margin.

So we'll actually get a good -- from a return analysis perspective, a very good lift in the first, say, two to three months. But again, in terms of total cash, cash payback, it is a multiyear process.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible) how many years do you (inaudible) vehicles?

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

We have not tied cash payback to the 500,000, 1 million, and 1.5 million subs.

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**Brian Pitz - UBS - Analyst**

Real quick one right here. Great, well Eric thank you so much. That was a wonderful presentation. Good Q&A, and we look forward to seeing you soon.

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**Eric Brown - Electronic Arts Inc. - EVP and CFO**

Okay. Thank you very much.

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