

ELECTRONIC ARTS
Q3 FY17 PREPARED COMMENTS
January 31, 2017

CHRIS:

Thank you.

Welcome to EA's third quarter fiscal 2017 earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO.

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar, Blake will be speaking at the Morgan Stanley Conference in San Francisco on Tuesday, February 28 and our Q4 earnings call is scheduled for Tuesday, May 9, 2017.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, January 31, 2017 and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

Now, I'll turn the call over to Andrew.

ANDREW:

Thanks, Chris.

Electronic Arts was the leading console games publisher and the most downloaded mobile games publisher in the world for Q3 FY17, driven by high-performing titles and tremendous engagement from our players. Our net sales and digital sales reached record levels for the quarter, and we exceeded our Q3 guidance for revenue and earnings.

The excellent holiday quarter for EA was a demonstration of the strength of our portfolio, with new titles, new content and new competitive gaming tournaments delivering great entertainment to players worldwide.

To touch on a few highlights:

- ***FIFA 17*** was the top-selling console title in the world for 2016. We grew our *FIFA* player base significantly year-over-year through the addition of a new story mode “The Journey,” Frostbite-powered gameplay, and new experiences in *FIFA Ultimate Team*. More than 10 million fans have played “The Journey,” and FUT players are up nearly 10% year-over-year. It was also an excellent year for FIFA competitive gaming. Our eSports competitions for players at all levels have led to dramatic increases in engagement among competitive players. Through Q3, *FIFA 17* competitors were playing nearly three times more than the rest of the FIFA community, and we expect the excitement will continue as we add more competitions, more broadcasts and more content in the year ahead.
- ***Battlefield 1*** was our biggest Battlefield launch ever, delivering the innovation, creativity and all-out warfare that players were looking for. The team at DICE created a truly groundbreaking experience that is driving massive engagement and growing our global *Battlefield* community. The unique player base of *Battlefield 1* is more than 50% larger than that of *Battlefield 4* in its comparable launch quarter, with more than a third of players being new to the franchise or new to EA. We also have a lot of excitement ahead for our *Battlefield 1* community. *Battlefield 1 Premium* players will have early access to our first expansion pack coming in March, and we will continue to bring more maps, more armies and more amazing content to the game in the months to come.

- ***Titanfall 2*** delivered the next important step in this new franchise we are building with our partners at Respawn – a highly-rated, action-packed experience that has thrilled players in the year’s biggest category. Player satisfaction scores for *Titanfall 2* are among the highest in our portfolio, showing just how much fun players are having with this game. *Titanfall 2* will be played for a long time to come, with new maps, modes and content updates continuing to expand the experience and engage our players. We’re excited about our long-term plans for the *Titanfall* franchise.
- We are building our mobile games today to have a long life with players through outstanding live services and dynamic content updates. For example, ***Star Wars: Galaxy of Heroes*** added ship battles and Rogue One content in Q3, driving average gameplay time per player to an unprecedented total of 155 minutes per day.
- Our EA SPORTS titles on mobile are also great demonstrations of this strategy. ***Madden NFL Mobile*** continues to perform near the top of the iOS App Store charts in its third season. ***NBA LIVE Mobile*** and ***FIFA Mobile*** are also growing thriving communities with strong engagement. The combination of authenticity, great gameplay and live services in these games is igniting the passion of sports fans worldwide, and we will continue growing these communities with more sport-specific and geo-specific experiences.

These examples show our unwavering focus on connecting players to more amazing experiences across more devices and in more geographies. With fans playing the games they love for longer, we are building and supporting deep communities that thrive for many years after launch. Players in *Battlefield 1*, *Titanfall 2* and our EA Mobile titles are just beginning to engage in these long-term experiences.

Moving to Q4, we’re excited to deliver the highly-anticipated ***Mass Effect: Andromeda*** beginning on March 21. This all-new story of exploration in the *Mass Effect* universe will be brought to life in stunning detail using our Frostbite engine, with new characters, new environments, and a whole new set of possibilities to excite players around the world.

Looking further ahead, we would like to provide you with a view of our top titles and plans for FY18:

- We’re thrilled to bring a new ***Star Wars Battlefront*** game to fans worldwide in the 2017 holiday season. In the past two years, Rogue One and The Force Awakens have

opened new storylines and captured the imagination of hundreds of millions of *Star Wars* fans. We've listened closely to our passionate *Star Wars* Battlefront community, and expanded our existing game with more great content and experiences since its launch. As that game continues to thrive, we have also heard our players' desire for even more depth and progression. Our next *Star Wars* Battlefront will be even bigger, taking players into more locations, and allowing them to play with more heroes and characters across multiple *Star Wars* eras. There will be new ways to play, including an all-new single-player campaign, and much, much more that we are excited to share with our players in the months ahead. To build a game of this magnitude, we've brought together three great studios – DICE, Motive, and Criterion – and aligned their areas of expertise to deliver an amazing experience in the next *Star Wars* Battlefront.

- We will continue to drive innovation and competition in our EA SPORTS franchises. **FIFA 18** will build on the foundation we created with story mode this year, bringing players back to The Journey with Season 2, featuring new characters and new storylines. Our development team in Vancouver is delivering deeply innovative new experiences across this year's game, including in Ultimate Team, and creating the most emotionally immersive and connected FIFA we have ever produced. Our *Madden NFL* franchise will transition to the Frostbite engine with **Madden NFL 18**, unlocking major visual advancements and new gameplay experiences that will excite dedicated Madden players, football fans, and sports fans overall. Our complete roster of EA SPORTS titles in FY18 will also include *NHL 18*, a new chapter of our UFC franchise, and an all-new NBA LIVE game launching in the fall.
- Our focus for EA's **Competitive Gaming Division** is to grow engagement in some of our biggest global franchises. With strong results to date, we will now expand EA competitive gaming even further in FY18, fueled by more competitions, new sponsors and broadcast partners, and original programming. Players will be able to compete in dozens of competitions, from online leagues to massive regional championships like our *FIFA Online 3* Championship in Korea, to our biggest events yet on a global stage, including the FUT Championship Finals and the Madden Championship. We're also very excited to kick off competitive gaming events for *Battlefield* later in the year.
- We're also excited to have a new **Need for Speed** title launching in FY18. We've given this game an extended development cycle to focus on innovation, and the Need for

Speed team is pushing the boundaries of action driving with what we believe is the most exciting and best-looking Need for Speed game we've ever produced.

- We will continue to build our **Mobile** portfolio, expanding on our success to deliver more engaging and fun mobile games in mass-market franchises with global audience appeal. Thriving player bases in our existing live services for *Star Wars: Galaxy of Heroes*, EA SPORTS and more will receive major new content updates throughout the year, and more in-game events will keep the games fresh, engaging and fun.
- We are deeply committed to players in our **Battlefield 1** and **Titanfall 2** communities. Throughout the year ahead, we will continue to launch new content and new experiences to expand these vast and dynamic games.
- And at the end of the fiscal year, our BioWare studio will be delivering an **all-new IP** – a clean-sheet design with new concepts, new gameplay mechanics, and new stories set in a unique new universe. This game has the potential to fundamentally disrupt the way people think about an action title, bringing friends together to play in exhilarating new ways. We're very excited about the future of this new franchise and its ability to attract a large global audience.

Our industry is poised for continued growth. The console market continues to strengthen, mobile continues its expansion, and more companies are entering the space and investing in new platforms. These moves bring more choice to players, and EA is in a unique position of strength. With our Frostbite engine powering more of our portfolio, EA's games are some of the most highly-rated in the industry, engagement in our titles continues to deepen, and our global reach is expanding through competition and new ways to play. We are also making games more personal, leveraging deep learning to build intelligence into our EA Player Network that will help players find their friends and connect with more of the games they want to play.

We look forward to continuing our momentum through Q4 and beyond. Now, I'll turn the call over to Blake.

BLAKE:

Thanks, Andrew.

I'll start by reporting our results on a GAAP basis, then use our new operational measure of net sales to discuss the dynamics of our business. In addition, please reference the tables in our press release as we discuss GAAP results and the GAAP adjustments that may be applied to compare them with our historical non-GAAP results. These can be used in conjunction with the July 19 spreadsheet model we have posted on our investor relations website to calculate measures comparable to our historical results.

We are delighted with our third quarter, which was driven by the blockbuster launch of *Battlefield 1* and continued strong performance from *FIFA 17* and *FIFA 17 Ultimate Team*. In mobile, *Star Wars Galaxy of Heroes* outperformed our expectations. This resulted in record-setting performance for the company, including our first-ever billion-dollar cashflow quarter. I will highlight other records as we go through the details.

EA's GAAP net revenue was \$1.15 billion, compared to \$1.07 billion last year. Net revenue was above our guidance by \$24 million. Year-on-year growth was driven by *Battlefield 1*. If you wish to compare our current results to our historical non-GAAP revenue, you will need to add the change in deferred net revenue of \$921 million to the \$1.15 billion of GAAP revenue.

Our cost of revenue was \$516 million, including acquisition-related expenses of \$18 million.

Gross margin for the quarter was 55.1%, up 6.1 percentage points over last year. The gross margin for our underlying business continues to grow, driven by product mix and the shift to digital.

Operating expenses were \$637 million, up \$82 million or 15% year on year, driven by increased marketing activities around launches this Q3. The \$637 million includes \$48 million in stock-based compensation and \$2 million in acquisition-related expenses.

Moving on to EPS: because the GAAP revenue recognition standards require us to defer most of the revenue out of the quarter but recognize the expense of launching games in the quarter, Q3 is only a breakeven quarter on a GAAP basis. GAAP adjustments to derive a measure

comparable to our historical non-GAAP EPS include: the \$921 million change in deferred net revenue; \$20 million acquisition-related expenses; \$48 million of stock-based compensation; and a management reporting tax rate of 21%. Note that, had we reported a profit, our share count would have been 313 million.

Net cash generated by operating activities for the quarter was \$1.11 billion, a new record for the company, and \$226 million higher than the record set in the same quarter last year. The trailing twelve months' operating cash flow was also a record, at \$1.37 billion. With capital expenditures of \$124 million over the last twelve months, free cash flow was \$1.25 billion in the same period. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 1.5 million shares at a cost of \$127 million**, leaving \$156 million in our two-year \$1 billion buyback program we began in May 2015. The current rate of repurchases keeps us on track to complete the full \$1 billion in that time.

Our cash and short-term investments at the end of the quarter were \$4.22 billion, with 42% of this balance held onshore. This is down slightly from 43% last quarter, the change driven primarily by the share repurchase and greater cash generation offshore.

Now, I'd like to turn to the key drivers of our business this quarter.

Net sales for the quarter were \$2.07 billion, a new record for the company. The outperformance versus our expectations was driven by *Battlefield 1* and *FIFA 17*, offset by *Titanfall 2*. *Battlefield 1* is on course to be our best Battlefield ever. Sell through of *FIFA 17* during Q2 and Q3 was 8% higher than that of *FIFA 16* in the same period last year, and *FIFA Ultimate Team* sales continued to grow strongly. Like *Battlefield 1*, *FIFA 17* is on course to be our best-selling FIFA of all time.

Digital net sales were a record \$1.1 billion, up \$288 million on the year-ago quarter. The increase reflects strong growth in digital downloads, and about \$50 million of digital net sales from the FIFA launch captured this quarter, rather than in Q2 as was the case in fiscal 2016. Digital sales now represent about 60% of our business on a trailing twelve-month basis. Looking at each of the components of this quarter's digital sales in turn:

- **Extra content and freemium** net sales were up 28% year on year, to \$462 million. As mentioned last quarter, this includes launch sales of FIFA Ultimate Team that were not captured in the same quarter a year ago. Using Q2 plus Q3 as the measurement period, *FIFA 17 Ultimate Team* grew 22% over *FIFA 16 Ultimate Team*, despite ongoing currency headwinds. At constant currency, year-on-year growth would have been 30%. This extraordinary growth in a major business is driven by innovations such as the story mode we added to FIFA and by enthusiasm for the competitive gaming mode, “FUT Champions”.

In China, *FIFA Online 3*, our PC free-to-play game, continues to benefit from the growing interest and investment in soccer there.

- In **Mobile**, we had a record quarter. Net sales were \$174 million, up 7% year on year, with growth again led by *Star Wars: Galaxy of Heroes*. *Madden NFL Mobile*, *SimCity BuildIt!* and *The Sims FreePlay* also made strong contributions to the quarter. *NBA LIVE Mobile* and *FIFA Mobile* are delivering strong installs and engagement, which we believe we can translate into greater monetization over time.
- Net sales of **full game PC and console downloads** were \$355 million, another record, and 82% higher than last year. As anticipated, digital downloads for *Battlefield 1* were much stronger than for *Star Wars Battlefront* in the year-ago quarter. 32% of our unit sales are now digital rather than physical, measured on current-generation consoles over the last twelve months. This is ahead of our fiscal-year target of 29%, and is likely to be driven slightly higher again by the fourth quarter, which is dominated by catalog sales.
- **Subscriptions, advertising, and other digital** purchases contributed \$104 million to net sales, up 16% year on year. EA Access and Origin Access continue to grow.

Turning to guidance, we are raising our full year guidance to \$4.800 billion in net revenue, and a \$125 million increase in deferred net revenue. We anticipate cost of revenue to be \$1.338 billion, including \$43 million of acquisition-related costs and \$2 million of stock-based compensation. Operating expenses are expected to be \$2.306 billion, including \$192 million in stock-based compensation and \$6 million in acquisition-related costs. Our investment in future revenue continues, through development of new IP, including building our Motive studio in Montreal, building our Player Network infrastructure and expanding our eSports footprint.

This results in **earnings per share** of \$2.91 for the year, a \$0.22 increase from prior guidance. GAAP adjustments to derive a measure comparable to our historical non-GAAP EPS include: the \$125 million change in deferred net revenue; \$194 million of stock-based compensation attributed to operating expenses and cost of revenue; \$49 million in acquisition-related costs; \$2 million in debt-related expenses; and a reduction of 1 million shares for the convertible bond hedge.

Regarding cash flow for the full fiscal year, we are raising our operating cash flow guidance to approximately \$1.35 billion. Our capital expense forecast remains approximately \$110 million, resulting in a free cash flow forecast of approximately \$1.25 billion. We expect fiscal 2017 to be our biggest cashflow year ever.

We continue to anticipate **net sales for the year** to be approximately \$4.925 billion. However, the underlying profitability is up significantly, due particularly to the success of *Battlefield 1* and *FIFA 17 Ultimate Team*.

Guidance for the fourth quarter is for net revenue of \$1.482 billion, including the recognition of \$407 million in deferred net revenue. We anticipate **cost of revenue** to be \$242 million. **Operating expenses** are expected to be \$591 million, including \$50 million in stock-based compensation and \$1 million in acquisition-related costs. Expenses are up year on year, chiefly driven by increased investment in new franchises and our Player Network.

This results in **earnings per share** of \$1.64 for the quarter. GAAP adjustments to derive a measure comparable to our historical non-GAAP EPS include: the \$407 million change in deferred net revenue; \$50 million of stock-based compensation attributed to operating expenses; and \$1 million in acquisition-related expenses.

We anticipate **net sales for the quarter** to be \$1.075 billion. This is up 16% year-on-year, driven by *Battlefield 1* and *Mass Effect Andromeda*. FX continues to be a drag on year-on-year comparisons. Although our hedging program mitigates the effects of short-term movements in exchange rates, no hedging program can wholly protect a company from long-term, structural changes in exchange rates. So that builds in a headwind to the fiscal 2017 versus fiscal 2016 comparison, and it looks like we'll face an even greater headwind in fiscal 18.

In conclusion, we had our best-ever holiday quarter, driven by record performances from our two largest franchises, Battlefield and FIFA. This was supported by a record quarter in Mobile, led by *Star Wars: Galaxy of Heroes*. All three of these titles have strong Live Services components, and these position us well going into fiscal 2018. Andrew introduced our fiscal 2018 slate today, and we will provide you with detailed financial guidance in May. Our results demonstrate the cash and earnings power of our business model, and we look forward to an exciting 2018 and beyond.

Now, I'll turn the call back to Andrew.

ANDREW CLOSING:

Thanks, Blake.

FY17 has been an extraordinary year to date. EA has delivered some of the top games in the industry, we've grown engagement, and continued to exceed our guidance. Now, we have more exciting plans ahead.

Creating amazing games and pioneering new ways to play will always be at our core. As games continue to touch the lives of more and more people around the world, through more devices and more platforms, the deep engagement that games uniquely deliver becomes increasingly valuable. Maintaining that engagement in a crowded world where players are continually challenged for time requires solving fundamental challenges to remove friction in a digital, networked world.

Our EA Player Network is designed for those challenges – to help players stay connected to their friends and their favorite games, whenever and wherever they are ready to play. It redefines the player value proposition from one that depends on each player building a network inside every new game, to one that moves seamlessly from experience to experience, across devices, with their friends, and with their achievements.

The EA Player Network is coming to life today. Our Battlefield games now have a central user interface that dynamically solves for the needs of our players. It will recommend experiences relevant to them based on the modes they're playing – new community challenges, new events, or content to help them improve their skills. More powerfully, the interface helps players find

their friends faster and jump into games together – an essential service for multiplayer games. This is the true power of the Player Network – keeping players connected with their friends and the games they love, and applying deep learning to bring layers of personalization that will make every experience meaningful. It enables us to help our players move fluidly across different games, genres and platforms, all inside our network.

With great titles like *Battlefield 1*, *Titanfall 2*, and our EA SPORTS experiences on console and mobile, we are connecting with more players around the world. Through our live services like Ultimate Team, and global Competitive Gaming tournaments and events, we are giving them deep and dynamic ways to engage. Through subscription services like EA Access and Origin Access, we are giving players more choice and great value. The Player Network becomes the consistent thread through all of these experiences and more, helping our players navigate a crowded world, and helping us to deliver a truly connected future of play.

We're looking forward to finishing FY17 with a strong fourth quarter, and delivering more great entertainment to our global network of players. Now Blake and I are here for your questions.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2017 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's

ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016.

These forward-looking statements are current as of January 31, 2017. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2016. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended December 31, 2016.