OVERVIEW:

Co. reported FY17 net revenue of $4.8b and operating income of $1.2b. Expects 1Q18 net sales to be $750m and GAAP EPS to be $1.93.
Presented by:

**CORPORATE PARTICIPANTS**

- Andrew Wilson *Electronic Arts Inc.* - CEO and Director
- Blake J. Jorgensen *Electronic Arts Inc.* - CFO and EVP
- Chris Evenden *Electronic Arts Inc.* - VP of IR

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- Timothy Larkin O’Shea *Jefferies LLC, Research Division* - Equity Analyst

**PRESENTATION**

**Operator**

Good afternoon. My name is Doris, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q4 2017 Earnings Conference Call. (Operator Instructions) I will now turn the call over to our host, Chris Evenden, VP of Investor Relations. Sir, please go ahead.

**Chris Evenden - Electronic Arts Inc. - VP of IR**

Thank you, Doris. Welcome to EA’s Fourth 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 and our financial model to accompany our prepared remarks. After the call, we will post our prepared remarks, an audio replay of this call and a transcript.

Note that this quarter we have added new tabs to our financial model, the list of GAAP results and the GAAP adjustments that can be used to compare them with our historical non-GAAP results. We’ve included tabs for fourth quarter and fiscal year results and for the guidance quarter and fiscal year. With regard to our calendar, Q1 fiscal ‘18 earnings call is scheduled for Thursday, July 27, 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, May 9, 2017, and disclaims any duty to update them.

During this call, the financial metrics, except for free cash flow, will be presented on a GAAP basis. All comparisons made during this call are against the same period and the prior year unless otherwise stated.

Now I’ll turn the call over to Andrew.

Andrew Wilson - Electronic Arts Inc. - CEO and Director

Thanks, Chris. Our fourth quarter of FY ‘17 was an excellent finish to a record-breaking year for Electronic Arts. Revenue, gross margin, earnings and cash flow were all above our guidance for the fiscal year driven by strong and continuing player engagement across our portfolio of top-quality titles for console, mobile and PC. EA’s games today are live services, amazing experiences that we update and evolve to deliver ongoing fun that keeps players engaged, connects them to their friends, brings them more content and grows our network. This strategy has been at the core of our digital transformation and today, our live services are some of the strongest and most vibrant in the industry.

Battlefield 1 continued its outstanding start with more than 19 million players joining the game through the end of FY ‘17, a 50% increase over Battlefield 4 in the same period from launch. Our community of Battlefield fans is growing as new players join loyal franchise fans, driving engagement and player satisfaction levels to be among the highest in our portfolio. Our in-game Battlefield network now helps players move seamlessly from game to game in the franchise, finding their friends and connecting with the content to maximize the experience every time they play.

FIFA 17 expanded the reach of the world’s biggest sports gaming franchise with more than 21 million players jumping into the game through the end of FY ‘17. Our creative teams, with the benefit of data and analytics from our network, delivered The Journey, a new story mode in FIFA 17 that has engaged more than 12 million players to date. With story mode having brought in many new players, we also saw more of our prayers go deeper. Our FIFA Ultimate Team player base grew 13% year-over-year through the end of Q4. Ultimate Team is also the gateway to our eSports competition for both Madden NFL and FIFA. Within the broad Ultimate Team communities, more than 10 million players participated in competitive matches in the first year of our tournaments, and our global spectator audience continues to grow.

On mobile, Star Wars: Galaxy of Heroes continues to tap into the passionate Star Wars fan base, maintaining one of the most engaged player communities across our entire network. With a constant cadence of in-game events and new content drops, including new Rogue One characters, the average time played per day increased to a record 162 minutes in Q4, and player satisfaction levels are reaching new highs. Across our top mobile titles, we are driving thousands of Live Events per quarter, deepening the experiences and connecting players through guilds, challenges and content to fuel their passions.

Our Sims franchise continue to expand one of the broadest and most demographically diverse player bases in our portfolio. The Sims 4, now 2.5 years since launch, saw monthly active players increased 33% year-over-year in Q4. With a total of 7 downloadable content packs delivered throughout the year as well as game updates that offered more choice and fan-requested features, the Sims 4 community is thriving.

Games as a service are reshaping our industry, and EA is positioned to lead. Our investment in EA digital platform that connects players across games, franchise and devices also provides more data from our games than ever before. With the data and capabilities of our platform, we’re able to do things differently, move faster and innovate for our player communities. Amazingly created games, combined with services like Ultimate Team, our Battlefield network, multiplatform experiences and subscription programs like EA Access are the future of this industry. With every player that joins our games, every game session and every engagement in our live services, we are adding strength to EA’s player network.

In FY ‘18, we’ll deliver more thrilling experiences that broaden the reach of our major franchises and drive [deeper] engagement through more ways to play. Our EA SPORTS portfolio continues to have the biggest player community in sports games, and this year we’ll add new experiences to grow that audience. Madden NFL 18 is set to be the most innovative Madden title in more than a decade, using the full Frostbite stack to deliver new modes that bring the sport to life in unprecedented ways.
FIFA 18 will expand on The Journey and Ultimate Team and will connect more -- to more soccer fans with FIFA as our first title on Nintendo Switch. With new NHL, NBA Live and UFC console games as well as more Live Events and content for our growing EA SPORTS player base on mobile, our multiplatform EA SPORTS portfolio is set to reach more fans around the world in FY '18.

We're also incredibly excited to bring Star Wars Battlefront II to the massive Star Wars community later this year. This game is made possible by the collaboration of 3 incredibly talented studios: DICE, Motive and Criterion, bringing together their individual strengths and building on the feedback from our passionate fans.

Star Wars Battlefront II have more than 3x the content of the previous game at launch with a brand-new story, a new single-player campaign, new modes, characters, vehicles and planets from all eras in the Star Wars universe as well as a live service plan that will continue to add even more fun for the global community. Our Star Wars Battlefront II debut trailer has generated more than 16 million views across YouTube and other social platforms, and we'll have much more to share about this game in the weeks and months to come.

This will be a year of pioneering creativity across many of EA's top franchises. Every Battlefield 1 player will have more ways to play throughout the year with continual game updates, new maps and 3 more expansion packs arriving, adding new armies, regions and battlegrounds available to the whole community. We're just getting started with our live service plans for this massive game and later this year, we'll introduce new ways for players to get an even bigger Battlefield 1 experience.

Two of our other genre-leading franchises will also see new titles this year. The industry's biggest multiplatform racing franchise, Need for Speed, returns to console and PC with a brand-new title that will give racers vast customization and more freedom to race wherever they want. And on mobile, our Sims franchise has been a genre leader since launch. And this year, we're going to deliver a brand-new, deeply social experience for this wide-reaching global community.

Competitive Gaming and eSports will be a key growth vector for us throughout FY '18 as we expand the ways that fans can play and watch. Year 2 of our FIFA and Madden NFL championships will kick off this fall, featuring millions of competitive games through Ultimate Team, deeper partnerships with leagues and teams that add new dimensions to the tournaments and new venues for our major global championships.

Later this year we'll launch our first Battlefield 1 competition, unlocking the competitive spirit that runs deep in our Battlefield community. We're also continuing to expand our broadcast reach and content portfolio for our growing spectator audience. There is global excitement for our competitions, and this year, we'll introduce our tournaments and add additional programming through more major network partnerships, including ESPN, BT Sport, Univision and more.

Looking forward, we'll continue our aggressive pace of innovation through experiences that capitalize in our technology, network and creativity. We are very pleased with the progress of our new action IP from BioWare. The design is stunning, Gameplay mechanics are excellent and the action will be exhilarating. The game is built around a live service, and through our creative process, we've decided to add more to the disruptive new social designs for our players. To accommodate that, we are moving the launch date for this project into fiscal year '19.

Through FY '19 and beyond, our portfolio will continue to grow. There'll be more new experiences for our Battlefield fans. Our Star Wars action-adventure IP from Visceral will make its debut. And farther out, we'll have a new Star Wars title from our partners at Respawn. We continue to invest deeply in new IP, including the new game from BioWare and another project from our Motive studio. With Frostbite powering more of our EA SPORTS games, we'll continue to break barriers and reach sports across all platforms. And on mobile, we have titles from more of our major IP in development.

Electronic Arts is leading the industry with some of the most creative, sophisticated and engaging entertainment available anywhere in the world, yet we are building towards a far more powerful and connected future. As engagement and consumption patents across platforms and business models continue to evolve, we are investing in our network to keep players connected to each other and the games they love.

Our focus on eSports continue to draw more players and spectators to the excitement of competition in our games. Our subscription services like EA Access are providing more fun and tremendous value. And with the unification of our engine and our platform as well as major advancements
in deep learning, AI and social layers, we are unlocking new ways to connect players and personalize their experiences at scale. This is the future of play that we see at Electronic Arts and that we are ready to lead.

Now I’ll hand the call over to Blake.

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**Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP**

Thanks, Andrew. I'll start by reporting our results on a GAAP basis then use our operating measure of net sales to discuss the dynamics of our business.

At the beginning of fiscal 2017 at our Investor Day, we outlined to you the long-term trajectory of our business. We said we would invest in our player network, advance our live services, grow our digital revenue and deliver a more profitable and stable business than ever before. I’m delighted to say we’re delivering on all of those commitments, and we are making the right investments to continue along this trajectory.

Net revenue for the year was $4.8 billion; cost of revenue, $1.3 billion; and operating income of $1.2 billion. Most importantly, these results enabled us to deliver record operating cash flow of almost $1.4 billion. We also returned over $0.5 billion to shareholders through our repurchase program in fiscal 2017. Total net sales for the year were $4.9 billion, a record. Digital net sales accounted for 61% of this, up 6 percentage points year-on-year. Extra content was a record $1.3 billion, with Ultimate Team contributing $832 million.

Moving on to the details of our fourth quarter. GAAP net revenue was $1.5 billion compared to $1.3 billion a year ago. Cost of revenue was $202 million, down from $226 million last year, a significant improvement on our guidance of $242 million. Operating expenses were $608 million, $17 million above our expectation, driven by an advanced writeoff of a licensing agreement. This resulted in an earnings per share of $1.81. As Chris mentioned, to compare this year’s results to historically reported non-GAAP measures, please see the new tabs in the downloadable model.

Net cash provided by operating activities was $407 million. Operating cash flow for the full fiscal year was $1.38 billion, the highest in company history and 13% greater than last year's. Fiscal year 2017 capital expenditures were $123 million, resulting in free cash flow of $1.26 billion. Please see our earnings slides for further cash flow information. Our cash and short-term investments at the end of the quarter were $4.53 billion with 37% of this balance held onshore.

During the quarter, we repurchased 1.5 million shares at a cost of $125 million. Subsequent to quarter end, we completed the $1 billion 2-year buyback program we began in May 2015 with an additional $30.8 million of repurchases. Average cost per share over the 2 years of the program was $72.66. Looking forward, we announced today a new $1.2 billion 2-year stock repurchase program.

Now turning to net sales to discuss our business drivers for the quarter. Net sales were $1.09 billion, above our guidance of $1.075 billion and 18% higher than last year. This excludes $53 million of net sales related to premium additions of Mass Effect: Andromeda that we had originally expected to capture in -- to be captured in Q4. They will now be captured in Q1.

Digital delivered $885 million of the $1.09 billion in net sales, up from $712 million last year. This growth is driven by the ongoing digital transition as more players choose digital purchases over physical as well as by our ongoing success with event-driven live services, such as FIFA Ultimate Team.

Diving into digital net sales. Extra content and PC free-to-play contributed $405 million, up 31% over the prior year. The key element remains Ultimate Team, which grew 23% year-on-year or 29% at constant currency. Expansion packs for The Sims 4 also made a strong contribution. Our ability to engage players through live services and events continue to drive strong growth and deliver dependable ongoing sales.

Our mobile business delivered $175 million in net sales, flat year-on-year. Key mobile games driving the sales in the quarter were Star Wars: Galaxy of Heroes, FIFA Online 3 mobile, NBA Live mobile and FIFA Mobile. The growth in these games was offset by a slowdown in some of our legacy titles. We’re doubling down on live services and events across the mobile portfolio, and the strategy is paying off. For example, FIFA Mobile just had its best ever month since launch in October.
Full game download added $192 million in net sales for the quarter, up 43% year-on-year. For fiscal 2017, for the current generation of consoles, full game downloads accounted for 33% of unit sales to consumers, considerably ahead of the 29% we have forecast and 9 percentage points up year-on-year. The chief driver was the continuing evolution of consumer behavior, but some of the outperformance was driven by the shift from Star Wars Battlefront to Battlefield 1 as well as the digital performance of our catalog. As a result, we continue to believe the underlying trend is closer to 5 percentage points per year.

Finally, subscription, advertising and other digital net sales totaled $113 million, up 19% over the same period last year. EA Access and Origin Access continue to grow strongly. In conclusion, for Q4, we were able to exceed our expectations for revenue, earnings and cash flow, demonstrating the power of multiple live service revenue streams.

Now turning to our expectations for fiscal 2018. We expect sales of current generation consoles to continue to be strong with the installed base growing to 105 million consoles by the end of calendar 2017, up from 79 million the prior year. We expect PC gaming to decline slightly and the mobile market to grow in the high teens in calendar 2017.

Guidance for fiscal 2018 is for GAAP net revenue of $5.1 billion, cost of revenue of $1.3 billion and

(technical difficulty)

in our statement of cash flow. They do not impact our total cash and cash flow, but they do increase our operating cash flow and decrease our cash flow from financing activities. For fiscal 2017, applying the new rules would increase reported operating cash flow by $195 million and decrease financing cash flow by the same amount. A table presenting the impact is included in our earnings release.

For fiscal 2018, applying the new rules, we expect operating cash flow to be approximately $1.6 billion. We anticipate capital expenditures to be around $120 million, which would deliver free cash flow of about $1.5 billion.

Turning to business drivers. We anticipate net sales for the year to be $5.1 billion, up 3% year-on-year. This is driven by growth in Ultimate Team, mobile and Star Wars Battlefront II. It is offset by the success of Battlefield 1 last year and by FX. The stronger dollar represents a headwind of around $110 million to fiscal year-end net sales. Our currency assumptions are disclosed in our earnings presentation on our website.

Segmenting the sales provides further insight into key drivers of our full year net sales guidance. Net sales of packaged goods and other is forecasted to be approximately $1.7 billion, down 10% year-on-year, driven by the shift to digital. Digital net sales are expected to contribute $3.4 billion, up 11% year-on-year.

Breaking down digital sales further. Our mobile business is expected to grow between 5% and 10% led by the new Sims experience and continued growth from FIFA Mobile, NBA Live Mobile and Star Wars: Galaxy of Heroes. Net sales from full game downloads are expected to grow 10% to 15% driven by the underlying change in consumer behavior, offset by the fact that Star Wars Battlefront may skew slightly less digital

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services are in a given franchise. In fiscal 2018, we expect to see net sales of live services to grow between 10% to 15%, led by Ultimate Team and Battlefield 1.

As Andrew mentioned, we have made the decision to move our new BioWare action title out of fiscal 2018 and into fiscal 2019. We are very excited about this opportunity for new franchise, and we want to further develop the live service component.

Focusing on Q1, we're expecting GAAP net revenue of $1.425 billion, GAAP cost of revenue of $157 million and GAAP EPS of $1.93. We expect Q1 net sales to be $750 million, up 10% year-on-year driven by Mass Effect: Andromeda, Battlefield 1 and Ultimate Team.
At the beginning of our year, at our Investor Day, we shared our long-term vision for the company. It provided context and framework for a very specific set of near-term goals we gave you in our annual guidance. Our fiscal 2017 performance demonstrated how our vision generates excellent financial results and supports growing our cash return to investors. But we are only just beginning to leverage the potential of our player network and event-driven live services. As we continue to do so, we will build a deeper player base and engagement, grow digital revenue and deliver a more profitable and stable business.

Now I'll turn the call back to Andrew.

**Andrew Wilson - Electronic Arts Inc. - CEO and Director**

Thanks, Blake. We're at a powerful point in EA's journey. The investments we've made in our IP, our technology platform and our live service strategy uniquely position EA to lead in a networked world that spans more players, platforms and geographies than ever before.

At our core, we are a creative company. We are game-makers that love to capture the imagination and make extraordinary entertainment possible for our players. We are also unique in that we have a unified, world-class technology platform, an engine that provide the backbone of our network. Our studio teams are leveraging more sophisticated data and insights, secure and scalable infrastructure and new game services and streaming in the future.

With every experience, we are working to bring our players even closer. Constant community input is part of our creative process today, from developer feedback sessions and continuing dialogue with community influencers, to the gameplay data that helps us tune and optimize, to Community Test Environments where we can share our latest innovations. Putting our games into the hands of our players, like we will at EA PLAY in Hollywood in June, helps to keep us moving, evolving and constantly pushing for more breakthroughs. We're continually engaging, expanding and strengthening our network by keeping players at the center of everything we do at Electronic Arts.

As we deliver more groundbreaking experiences and deepen the engagement of our global player base, the EA player network is how we create greater value through a connected world of play. Every day, the global community of gaming is expanding through more devices, more games and more ways to play. Our EA Player Network will enable players to navigate, to find their friends and engage in more of the experiences that matter to them most. Through persistent experiences and user interfaces like our Battlefield network, to playing and viewing eSports competitions, to discovery of new content that adds to the fun, the EA Player Network is already helping to deliver a more personal and connected gaming world for our players, and we're just getting started.

We're looking forward to another year of growth and leadership for Electronic Arts. Now Blake and I are here for your questions.

**Chris Evenden - Electronic Arts Inc. - VP of IR**

Operator, if we could open for questions now, please.

**QUESTIONS AND ANSWERS**

(Operator Instructions) Our first question is from the line of Justin Post of Bank of America.
Blake, in your guidance you talked about gross margins looks like being up. Can you talk about the Star Wars impact there, and then maybe also how the other digital content is kind of helping the margins in the year? So kind of frame those 2 inputs this year into the gross margin outlook.

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

Yes, sure, Justin. Before I do that, I wanted to make just a quick announcement about our IR team. Carolyn, who almost all of you, I think, have met or know, has been with us for 3 years and is moving to our corporate FP&A team, which is a great move for her. And we thank Carolyn for an amazing 3 years of support to all the investors and sell-side analysts. We have a new person joining the team, [Erin]. You'll get a chance to meet her in the coming months, and we look forward to having her on our team. But thanks to Carolyn. So to your question, Justin. First, if you look back to the difference between the year before, the first Star Wars, fiscal '15 and then fiscal '16, you saw a fairly muted growth in gross margin, up about half -- 50 basis points roughly. We expect a similar effect this year because of the impact of the royalty on a very large title, as we saw last time. And the comparison was, remember this year, a pretty tough comp because our gross margin was actually higher than we had originally anticipated because we sold more Battlefield than we anticipated and less Titanfall than we anticipated. Titanfall obviously has a royalty to Respawn, and we expected that, but we'd gotten a little bit more bump in gross margin. We will see gross improvement as we continue to grow the live service part of our business, Ultimate Team and other similar live services on top of existing games. But for now we're only expecting less -- a little less than 100 basis points or around 50 basis points because of that, primarily that impact on Star Wars Battlefront II.

Operator

Our next question is from the line of Brian Nowak with Morgan Stanley.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

I have 2. The first one, Blake, can you just talk a little bit about your view on eSports and kind of your eSports strategy? There are some FIFA leagues going on. How do you think about monetizing eSports the next couple of years? And then secondly, can you just talk a little bit about your expectations and guidance for FIFA Ultimate Team off of the pretty tough comps and a great performance from last year?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

Sure. I'll let Andrew address the broader eSports strategy. I think the thing to remember is it's built around Ultimate Team for our core sports games, and we'll most likely build it around in a similar style live service for non-sports games in the future, but I'll let Andrew talk a little bit about that. I'll come back on the Ultimate Team question.

Andrew Wilson - Electronic Arts Inc. - CEO and Director

Yes, we're very excited about our eSports strategy and what we're doing. And what we saw this year in both FIFA and Madden was significantly higher engagement and monetization inside of Ultimate Team for those competing in eSports tournaments. And again, this isn't just about the big championship tournaments. We run a whole series of events at a grassroots level, all the way up to the elite level of tournaments. And so we think about this in a similar way that we think about all sports, which is we want to make stars of all of our players, the novice player as well as the professional player. And while there will almost certainly be solid revenue generation from broadcast rights, from sponsorship, from advertising, from players and teams and the monetization of those things, the lion's share of the revenue will always be the digital transaction that exists in the ecosystem. We see that in leading eSports tournaments and leading eSports games already. And what we have seen in FIFA Ultimate Team and Madden Ultimate Team over the past 12 months confirms what our original strategy was, which was we will drive those other things, we will benefit from those other things, the lion's share of return will come from the ongoing engagement and live service component [at these] things like
Ultimate Team. And you should expect as we launch other eSports games that they will also revolve around a very robust and rich digital ecosystem similar to Ultimate Team.

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP
And in terms of guidance relative to Ultimate Team, the thing to remember that was a major driver -- 2 major drivers in FIFA this year were, first, the addition of a story mode in the game. The Journey brought new people into the game and brought those people from the game into Ultimate Team. So it grew the overall base of people playing in Ultimate Team. The second is the addition of the competitive gaming mode inside of FIFA, which as Andrew mentioned drove massive engagement in the -- around tournaments and around practicing for tournaments. Both of those styles of change we're going to try to adapt into Madden in one way or another. You'll see more of that coming in the coming months. But you can assume we've learned a lot of great lessons from FIFA. We'll try to drive Madden Ultimate Team and Madden Competitive Gaming off of similar modes. But FIFA doesn't sit still. It continues to find new ways to engage people in new modes and new excitement. And as Andrew said, we'll be evolving The Journey in FIFA, which continue to bring new people into the game, we believe. That's the core. Now our guidance doesn't anticipate anywhere near the level of growth that we actually achieved this year. We tend to do that each year with FIFA because while it's very predictable based around events, we've continued to surprise ourself on the upside. So you should trust that it's a rational number in terms of our guidance, but there is growth in there.

Operator
Our next question is from the line of Stephen Ju with Credit Suisse.

Stephen D. Ju - Crédit Suisse AG, Research Division - Director
So Andrew, I think the decision to add The Journey to FIFA was based on user feedback, and that seems to be yielding dividends. So what kind of user feedback have you gathered in the first iteration of Battlefront that you will be looking to add to Battlefront II? And Blake, will you give us a sense of what percent of your mobile bookings are growing with the new games and what percent of your bookings are from the legacy games that are now in decline? So wondering when we'll mathematically see a change in the growth trajectory as the mix changes.

Andrew Wilson - Electronic Arts Inc. - CEO and Director
Yes, so thank you. As we -- as you know, Battlefront I was a great game and widely regarded as the best way to fulfill your Star Wars fantasies. Frostbite really brought the Star Wars universe to life, but there were some things that a number of players asked for. A single-player campaign was probably the #1 thing that players ask for, and you heard that we'll be doing that and I'm very excited by what we're seeing there. The Motive Studio, who has a -- is a collection of developers who have a tremendous track record in building action, adventure and single-play campaigns is putting that together. They wanted things like space battles and more vehicles and more heroes and more eras and more planets. And what you heard from us is that it will have all of those things. We took the feedback very, very seriously. We've invested in a very meaningful way. And when we say we believe the game is 3x the size in terms of content, we're very serious about that. And our expectation is that the fans -- the large, engaged, passionate fan base of Star Wars fans around the world are going to love everything that we're doing.

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP
And in terms of mobile, our net sales for the year were up 10% year-on-year. We're not happy with that. We think we can continue to grow that more. But I remind people that we didn't bring out NBA Live -- our NBA Mobile or our FIFA Mobile until the back half of the year, October, essentially. And we've continued to learn and tune those games around the world, so we should continue to see more growth out of those. We always -- I mean, we've had some amazing performers like The Simpsons: Tapped Out or Real Racing or Sims FreePlay that are in year 4, year 5 of their lives, and the fact that they're still going is pretty impressive relative to many mobile games. But we will see a natural decline in some of those as we add less content and move to players to new, more exciting games or new versions of those games. And so I don't know when you're going to see a
more dramatic growth level. We guided to around 5% to 10% of growth for the year, but we certainly are focused on trying to drive the new Sims
title, as Andrew mentioned, as well as the sports titles because we feel that, that’s a fabulous formula that we’ve been able to develop and leverage
both on the console and PC world as well as now in the mobile world.

Operator
Our next question is from the line of Tom O'Shea (sic) [Tim O'Shea] with Jefferies.

Timothy Larkin O'Shea - Jefferies LLC, Research Division - Equity Analyst
Just a few more on Star Wars Battlefront II. So the first installment sold around 13 million units in its launch window. Obviously, a very big number.
Is this the right framework to use as we think about how to model Battlefront II? And then there's been a bit of confusion on how you intend to
support the game post launch, and I just was hoping you might clarify what we should expect in terms of Season Pass or DLC? And then just broadly
speaking at a higher level, how is anticipation for that game shaping up? What's the feedback you're seeing around the announcement of the
single-player campaign and the trailer?

Andrew Wilson - Electronic Arts Inc. - CEO and Director
So again, in terms of -- we'll start from the back. The fan anticipation has been very, very strong, 16 million organic views. That's not us kind of
paying to get viewers. That is fans kind of seeking out the content. I would say the feedback has been almost entirely positive. The inclusion of a
single-player campaign, the inclusion of a new heroine in Iden, space battles, new content, new heroes, new worlds, new planets, I think the
feedback of that is very, very strong. As we think about the live services, nothing -- we're not talking in great deal about it now other than the game
is going to be 3x the size of the original game at launch. And we also have a very, very robust live services plan that we're going to be talking about
in the coming weeks and months, particularly around EA PLAY and E3 in just a few weeks time. And Blake...

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP
Yes, and I think on the unit forecast, we sold 14 million units of Battlefield -- Battlefront I in the year. It was shipped and built into our guidance as
essentially the same number. Our aspirations are clearly to sell more. We think this will appeal to not just the broad Star Wars fan base, but also to
the deep, heavily engaged Battlefield fan base and Battlefront fan base. And we see that as a critical part of the success of this game going forward.
And as Andrew mentioned, we've got the depth and the breadth in the game that will help that.

Operator
Our next question is from the line of Eric Sheridan with UBS.

Eric James Sheridan - UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst
Maybe 2 on mobile. Wanted to know if we could tease out a little bit about where you saw strength in mobile versus some of the legacy titles that
might have been a drag on mobile, just so we could tease out some of the headwinds and tailwinds in the mobile business. And then second, any
sense of marketing and how it's being impacted in terms of trying to drive mobile engagement? Is there any change there? Or you're actually
leaning in, again, some of the key titles on the mobile engagement front?
Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

Yes, thanks, Eric. The core product portfolio that’s been there for 4 or 5 years like The Simpsons, I mentioned, have actually shrunk. Games like Sims Freeplay have stayed fairly consistent but not grown dramatically. And then things like FIFA, NBA and particularly, Galaxy of Heroes, have grown dramatically. And so I think what you’ll see is as we layer in games like the new Sims game and sports games continue to grow, you’ll continue to see that hopefully offset any of the shrinkage in the older portfolio. Those numbers for the older portfolios are starting to get fairly small and stable, and so I don’t think you’d see a lot of headwind from that. In terms of marketing, we’re continuing a very ROI-driven marketing approach. That’s got a lot of discipline around it. We have a whole team led by our Chief Marketing Officer that focuses not just on our console and PC marketing, but very much on the mobile marketing. And they’re driving decisions almost daily as to how to support the products. That’s the beauty of the business is when something’s working well, you can tune up, the daily marketing. When it’s not, you can tune it down. I would say though that we remain very focused on leveraging known IP that we own or license to try to offset some of the cost of marketing, and it’s allowed us to run our mobile business at a level of profitability we believe higher than most as well as driven by the fact we’re spending less on ROI-driven marketing.

Operator

Our next question is from the line of Drew Crum with Stifel.

Andrew E. Crum - Stifel, Nicolaus & Company, Incorporated, Research Division - VP

So I wonder if you guys could comment on your experience with Battlefield 1, DLC, what the conversion rate was in the March quarter and what your expectations are for fiscal ’18. I believe you guys have 4 maps launching this fiscal period. And then second question is more a clarification. Your commentary on full game downloads being 9% last year, but moving back to 5%. Is that a number for the company or something you expect the industry to trend at? And if it’s not for you, where would you expect it to be given the solid quarters versus Battlefield dynamic?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

Yes, so thanks, Drew. The first question on Battlefield 1. We’re not going to disclose the attach rates because they’re becoming more -- or less and less meaningful, particularly in the world of live services. And you’ll see some changes to our approach, particularly with Battlefield and Battlefront over time that makes those DLCs less important because it’s ongoing content that’s being delivered. I will say, you’ll also see a lot of content delivered to the broad community for Battlefield, not just for the DLC owners, going forward, which I think will continue to make those numbers a little less meaningful. We’re very pleased with the engagement levels on Battlefield as well as the ongoing sales of Battlefield 1, and we think that will continue on. And I guess what I would say is based on having seen some of the DLCs, I would never refer to them as a map. We’ve got a lot of exciting stuff coming and a lot of interesting things about World War I that have yet to be even seen. In terms of full game downloads, the number surprised us because we had thought that it’d be around the 5% year-over-year growth. Some of that may simply be the consumer is shifting faster than we know or we expected. The trends can sometimes jump in dramatic ways and maybe we’re starting to see that overall shift. And some of it could be product related. We do think the industry will end calendar year ’17 probably above 40%. We will most likely lag that as we have historically because FIFA is such a large product and it is so global that we are operating in markets where either the ability to purchase digitally or the ability to download based on bandwidth speeds are compromised. And thus, we tend to skew a little lower on FIFA than we do on the rest of our portfolio. So we’ve always lagged the industry slightly, but we are excited about the potential that you’re seeing the consumer possibly shift quicker to digital than we’d originally anticipated.

Operator

Our next question is from the line of Andrew Uerkwitz with Oppenheimer & Co.
Andrew Paul Uerkwitz - Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst

I just got 2 quick ones. Around Battlefield 1, it seems like the excitement around the game is a little bit better than you expected. Has that changed your view on the intensity or the strategy around extra content for this fiscal year? And then could we see more in the following fiscal year to support Battlefield 1?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

I would say it hasn’t really changed our overall approach for this coming -- or this fiscal year. You may see some things you didn’t actually anticipate as it evolves. But the general strategy is still based around quarterly or monthly DLCs that we put out. I do think you’ll start to see that evolve next year as we get into more Competitive Gaming. And it will clearly evolve, as Andrew mentioned, around Battlefront II property that we start to evolve the services associated with DLC to make them more live service, event-driven style gameplay versus purely an additional piece of content.

Andrew Paul Uerkwitz - Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst

On that particular comment, if I may, did it -- are you kind of leaning towards kind of...

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

You cut out.

(technical difficulty)

Operator

(Operator Instructions) Our next question is from the line of Doug Creutz with Cowen and Company.

Douglas Lippl Creutz - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

I think your revenue deferred gross -- adjusted gross margin this quarter was a bit over 81%, which is I think more than 400 basis points higher than your previous high in any quarter you reported. Obviously, you had a big digital mix this quarter, but there’s been other quarters in the last couple years that you’ve had similar digital mix and the gross margins have been in the kind of mid-70% range. So wonder if you could talk about was there anything kind of special in this quarter that drove that gross margin so high, mix of business or anything like that.

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

Yes, I think primarily, the biggest driver I would say is the mix, lower royalty-bearing titles this year versus last year: Battlefield catalog, for example, versus Battlefront catalog last year. There was also -- the one thing to remember is our technology team led by Ken Moss has done an amazing job making our back-office ability to deliver digital much more efficient. We don’t talk about it a lot, but it’s become a continued help in our gross margin as we expand and we’ll continue to drive that. That’s lower cost storage, lower costs delivery, more efficient network and platform that we’ve built it on. It’s all pretty powerful, and that continues to help us as well. And then obviously continued digital, as we’ve said, is also a major driver in the business, which has helped us in the quarter.

Operator

Our next question is from the line of San Phan with Mizuho.
San Q. Phan - Mizuho Securities USA Inc., Research Division - Analyst

Two questions on my end. How far along are you in building, in stacking out Motive Studio in Canada? And how should we think about that impact to the trajectory and R&D expenses over the next few years? And then secondly, can we just get your current thoughts on what areas are most interesting to you in the industry in regards to potential M&A?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

So what was -- I'm sorry, Sam. I didn't catch the first part of your first question. Can you repeat the question?

San Q. Phan - Mizuho Securities USA Inc., Research Division - Analyst

Sure. It's just how far along are you in building out, in stacking out the Motive Studio in Canada and basically what the impact to the trajectory in R&D?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

Yes, it's a good question. Thanks. We're well along the way. We've hired close to 100 people for that studio, some of the most fabulous talent I've met in many, many years. It's very exciting for us to assemble a brand-new team. We're finalizing our new office space there, which it will have both Motive people as well as the BioWare Montréal team in that same office. We still have some hiring to go, but I think for now it will be at a more gradual pace over the next couple of years as we move probably from, say, 100 to 150 or so as we go forward. So -- but it's been exciting to be able to build such a great new team. And in terms of the second piece on M&A, I think there are few large companies out there. Most of the companies are small. Many of the companies we've looked at we passed on because the valuations have been so high. But we're continuing to keep our eyes and ears open, particularly for things that can add to either games that don't have live services and we can layer live services into them, or games that could leverage our network and our scale the we don't have. And those will be big themes for us. But unfortunately, there's a -- it's not a long list of companies that are out there of scale that we can go after.

Operator

Our next question is from the line of Mike Olson with Piper Jaffray.

Michael Joseph Olson - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Couple quick ones here. Despite moving out an entire title guidance, it's quite solid on a tough comp, and then your digital guidance is up nicely even with Star Wars, which last time was a bit of a drag on digital. So would you say that the biggest component of the favorable overall guide and digital guide is mostly result of strength of Battlefield 1 live services? Or would you attribute it to something else?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

I would probably attribute it to live services in general. So not just Battlefield but the overall portfolio, both mobile and nonmobile, where we're trying to layer more live service events and seeing success. We're seeing -- obviously, we have expectations for growth across the sports portfolio, both in HD and in mobile. We do have a new UFC game, which I think as everyone knows, next spring. And we have the Need for Speed game coming in. So all of those add to the growth in the year despite the fact that we have a tough comp to try to beat between Battlefield, Titanfall and the strength of FIFA this past year. So we see it as kind of growth across the whole portfolio versus dominated by 1 product or 1 new product. And we do have the new Sims game that Andrew mentioned that's coming out during the year on mobile. We don't know exactly what time of the year that will come out, but we've -- so we don't have a giant expectation in the guidance, but that's clearly in there as well.
Our next question is from the line of Mike Hickey with Benchmark.

Michael Hickey - The Benchmark Company, LLC, Research Division - Research Analyst

Just 2 for me as well. Curious if you could give us a deeper perspective, I guess, on what's happening within BioWare. Mass Effect, I think from a quality perspective, didn't exactly hit the mark. It looks like you've now delayed the anticipated new IP, which sometimes is also tied to quality. So curious if there's any change of leadership or developer turnover (inaudible) happened internally within BioWare. And then second question, PopCap. It looks like you have some layoffs in that studio. Obviously, the studio has good IP, used to, as well as (inaudible). Curious how you see the future of PopCap, and also if you're tinkering with headcount over -- on the overall firm or any trends there we should think about through fiscal '18.

Andrew Wilson - Electronic Arts Inc. - CEO and Director

So let me just make sure that was only 2 questions and not 3 or 4. The first one is what's going on with BioWare and should we read anything in from Mass Effect to the new title. So that collection of questions. The second one was what's going on at PopCap and should we read anything in there. Was there a third question about headcount overall, or is that just headcount related to PopCap?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

We lost Mike now.

(technical difficulty)

Andrew Wilson - Electronic Arts Inc. - CEO and Director

Okay. Well, I'll answer the first 2 and we'll go from there. The first thing is Mass Effect is an interesting title. It was in development for a really long time and represented a lot of the great things that BioWare is known for: story, size, depth, breadth, imagination. And while overall the aggregate review scores were lower than we would have liked, we did have over 100 reviewers scored the game at 80 or higher. So it represents a fan base that's very passionate, looking for very particular things and many players found exactly what they're looking for and some players did not. With that said, we believe Mass Effect: Andromeda delivers a rich, deep experience, which celebrate what makes the franchise great: wonderful, beautiful, deep, rich world, amazing combat and engaging fast-paced multiplayer. New multiplayer content is continued to be released, and new content kind of arriving overall more regularly. So we're very happy with kind of how BioWare is doing, how BioWare is treating Mass Effect. And our expectations for Mass Effect are still strong for the future and the franchise overall. In terms of the new IP, the choice to move the new IP and what happened with Mass Effect are completely unrelated. The reality is, is we have a creative process. As a company, creativity and pioneering is really important for us. Now -- innovation in games is important more now than ever. And as a leader in the industry, we see it as our responsibility to innovate. And as part of that creative process, and I get to be involved in that creative process, we recognize that there was so much more opportunity in a connected network, social world to do some things in the new BioWare game that had never been done before and we don't think anyone is going to do any time soon. But by virtue of our network, our cross-platform presence and our scale, we think we can do that. And we chose to give the team some more time to deliver against that innovation because we believe players are looking for the kinds of things that we plan to put into that game. And so we're very happy with BioWare. BioWare has continued to support Mass Effect, and the new team is doing some amazing things
and you'll hear more about that in the months to come. In terms of PopCap, again, I think there's a couple of different presences for PopCap. We have an amazing PopCap team in Vancouver that built Garden Warfare 2 -- 1 and 2 on console. That game continues to do extremely well, high critical acclaim, strong engagement and strong sales over its life. So we're very happy with that team. The team's building against mobile games out of Seattle recognize that the market continues to change, that brands are really important in the mobile space, but so is focus. The notion of building lots of small things really doesn't pay out the way it does in mobile like it did just a few years ago, and their decision was to refocus and really energize around a few core PopCap IP and that drove a slight change in structure there. But you shouldn't read into anything other than we are very, very committed to PopCap and very committed to PopCap IP and very committed to bringing that wonderful IP to players across devices in the future.

Operator

Our next question is from the line of Evan Wingren with Pacific Crest Securities.

Evan Todd Wingren - Pacific Crest Securities, Inc., Research Division - Research Analyst, Media and Internet

So what are your expectations for this next addition of Madden as it moves to Frostbite? And are there any potential synergies that you guys are thinking about for moving the game to that engine?

Blake J. Jorgensen - Electronic Arts Inc. - CFO and EVP

What Frostbite allows us to do, as you can see with -- it's allowed on FIFA is to have a much deeper experience, much better graphics, doing things inside the game that you couldn't do on the sports engine. So if you were to look at the FIFA and say, how does FIFA change year-over-year, you'll probably see similar aspects of that in Madden and we're pretty excited about it. It looks fantastic so far.

Evan Todd Wingren - Pacific Crest Securities, Inc., Research Division - Research Analyst, Media and Internet

And then Andrew, in your remarks you called out AI, and I'm just wondering how are you utilizing it now. And I use that term broadly. And how do you see it evolving over the next couple of years?

Andrew Wilson - Electronic Arts Inc. - CEO and Director

We see kind of on 3 core vectors. Again, we make artificial humans inside of video games, and have been doing that for many decades. And the sophistication of those human beings inside of our games continues to grow. And so we have a lot of energy about how do we improve the AI of our characters inside games so that their performance is far more believable and far more human. A second vector is just how we think about pathing and difficulty inside of our games. So with the growing population of players across devices, the notion that one size fits all with respect to experience no -- is no longer relevant. And so we have a lot of work going into how we think about a dynamic experience, a dynamic and personalized experience for every single player in our network even if they play the same games with their friends on similar devices. And it’s really about how do we change difficulty level, how do we change pathing, how do we provide the tools and feedback that those players need so that they can get the single best experience and ultimately engage with the game longer. And then the third vector, of course, is just how we think about recommendations and presentation of content and merchandising of content and marketing of the content that we produce to a global player base. We have deep investment going on, on all 3 vectors. We think we're leading in a number of categories. A lot of that will start to manifest itself inside of our EA Player Network. You're already seeing some of that in Ultimate Team, in our Sims games, in our Battlefield network that move you amongst experiences. And we believe that in the not-too-distant future, that's going to be a meaningful vector of growth for our business.
Our last question is from the line of Ray Stochel with Consumer Edge Research.

**Raymond Leonard Stochel** - Consumer Edge Research, LLC - Analyst, Video Game Publishers

How are you guys thinking now about the Nintendo Switch post launch? And is this in your new gen console installed base forecasts?

**Andrew Wilson** - Electronic Arts Inc. - CEO and Director

So we feel really good about it. Again, we came out early and said that we'll be supporting the Nintendo Switch with our biggest title in FIFA. We have a tremendous relationship with Nintendo and have done for many, many years and are excited by the fact that they have come out very strong and are bringing in a whole new player base into the ecosystem. We continue to be bullish on it and are looking at other titles that we might bring to the Switch. Our console number that we quoted does not include the Switch at this point. So anything that Nintendo does is additive to that number.

**Blake J. Jorgensen** - Electronic Arts Inc. - CFO and EVP

Great. Thank you, everyone. We'll see you in the coming months and talk to you next quarter. Appreciate the intention and (inaudible). Thank you.

**Operator**

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.