

ELECTRONIC ARTS
Q4 FY17 PREPARED COMMENTS
May 9, 2017

CHRIS:

Thank you.

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 the financial model that list the GAAP results and the GAAP adjustments that can be used to compare them with our historical non-GAAP results. We have included tabs for fourth quarter and fiscal year results, and for the guidance quarter and fiscal year.

With regards 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 in the prior year unless otherwise stated.

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

ANDREW:

Our fourth quarter of FY17 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 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 FY17, 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 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 in to the game through the end of FY17. Our creative teams, with the benefit of data and analytics from our network, delivered The Journey – our 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 players 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 competitions for both *Madden NFL* and *FIFA*. Within the broader 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 heights. 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 continues to expand one of the broadest and most demographically diverse player bases in our portfolio. *The Sims 4*, now two and a half years since launch, saw monthly active players increase 33% year-over-year in Q4. With a total of seven 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's digital platform that connects players across games, franchises and devices, also provides more data from our games than ever before. With the data and capabilities of our platform, we are able to do things differently, move faster, and innovate for our player communities.

Amazingly creative games combined with services like Ultimate Team, our Battlefield network, multi-platform 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 FY18, we will 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 we'll connect 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 multi-platform EA SPORTS portfolio is set to reach more fans around the world in FY18.

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 three 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 will have more than three times 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 and 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 three more expansion packs 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 multi-platform 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 FY18 as we expand the ways that fans can play and watch. Year two 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* competitions, unlocking the competitive spirit that runs deep in our *Battlefield* community. We are 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 will broadcast our tournaments and additional programming through more major network partnerships including ESPN, BT Sport, Univision and more.

Looking forward, we will continue our aggressive pace of innovation through experiences that capitalize on 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. This game is built around a live service, and through our

creative process we have 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 FY19.

Through FY19 and beyond, our portfolio will continue to grow. There will 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 will continue to break barriers and lead 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 patterns 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 continues 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, A.I. 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.

BLAKE:

Thanks, Andrew.

I'll start by reporting our results on a GAAP basis, then use our operational 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 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** \$1.2 billion. Most importantly, these results enabled us to deliver record **operating cashflow** of almost \$1.4 billion. We also returned **over half a billion dollars 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 expectations, driven by an advance write-off of a licensing agreement.

This resulted in **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. 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, two-year buyback program we began in May 2015 with an additional \$30.8 million of repurchases. Average cost per share over the two years of the program was \$72.66. Looking forward, we announced today a new \$1.2 billion, two-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 about \$53 million of net sales relating to premium editions of *Mass Effect Andromeda* that we had originally expected 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 continues to drive strong growth and deliver dependable on-going sales.
- Our **mobile business** delivered \$175 million in net sales, flat year on year. Key mobile games driving 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 its launch in October.
- **Full-game downloads** 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 had forecast and up 9 percentage points 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, **subscriptions, 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 services revenue streams.

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 the PC gaming market 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** \$1.3 billion and **GAAP EPS** of \$3.57. We expect underlying profitability to be up slightly, driven by the long-term shift to digital, offset by the fact that our marquee holiday title, *Star Wars Battlefront II*, carries a royalty, unlike last year's *Battlefield 1*.

With regards to **cashflow**, starting in Q1 fiscal 2018, we will adopt new FASB rules related to stock-based compensation. These require us to change how we report the cash effects of stock-based compensation 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 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 5% to 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 less digital than *Battlefield* due to holiday gifting.
 - Note that, starting in Q1 we will merge two of the digital net sales categories, “Extra Content” and “Subscriptions, Advertising and Other”, and report the combined amount as “**Live Services**”. This reflects our goal to enrich almost every franchise in our portfolio with our live services engagement models. In such a world, the distinction between sales from microtransactions, downloadable content, subscriptions, esports and other live services becomes blurred. What matters from a strategic perspective is how successful live services are in a given franchise. In fiscal 2018, we expect net sales of live services to grow 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 the opportunity for this new franchise and we want to further develop the live services component.

Focusing on Q1: we are expecting GAAP net revenue of \$1.425 billion, GAAP cost of revenue \$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 a framework for the very specific 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 build deeper player engagement, grow digital revenue and deliver a more profitable and stable business.

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

ANDREW CLOSING:

Thanks, Blake.

We are 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 and 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, combined with the immense capabilities of our Frostbite engine to create unprecedented new experiences. This is how we can combine the expertise of multiple studios to deliver the massive new *Star Wars* Battlefront II. It powers our ability to continually deliver more fun and new content to deepen player engagement in *The Sims 4*. It enables us to launch more major franchises and build communities in mobile. And it will position us to lead new opportunities with AR & VR 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 continual 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 are 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 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 are looking forward to another year of growth and leadership for Electronic Arts. 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 2018 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 service and support digital product offerings, including managing online security and privacy; 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 develop and implement new technology; foreign currency exchange rate fluctuations; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2016.

These forward-looking statements are current as of May 9, 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2017. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2017.