ELECTRONIC ARTS

Q3 FY13 PREPARED COMMENTS

January 30, 2013

ROB:

Thank you.

Welcome to EA's fiscal 2013 third quarter earnings call. With me on the call today are John Riccitiello, our CEO, Blake Jorgensen, CFO, and Peter Moore, our COO. Frank Gibeau, our President of Labels, will be joining us for the Q&A portion of the call.

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, and a transcript.

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 January 30, 2013 and disclaims any duty to update them.

Throughout this call, we will discuss both GAAP and non-GAAP financial measures. The comparable Q3 GAAP measures for certain non-GAAP measures to be discussed are: net revenue of $922 million, digital net revenue of $321 million, gross margin of 53.5%, operating expenses of $532 million, and resulting loss per share of ($0.15).

During this call unless otherwise stated, the financial metrics will be presented on a non-GAAP basis. Our earnings release and the earnings slides provide a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. 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 John Riccitiello. John?

JOHN:

Good afternoon.

In the third quarter of fiscal year 13, EA's non-GAAP revenue was $1.18 billion, below our expectations and guidance. The revenue shortfall was a result primarily of a miss with our *Medal of Honor* title and stronger than expected sector headwinds for console packaged goods.

Our Q3 non-GAAP diluted earnings per share was $0.57 cents – above the mid-point of our guidance. We managed to deliver our Q3 EPS by driving our key brands aggressively, particularly *FIFA, Battlefield* and *Need For Speed*, via good digital growth and aggressive cost controls. The two leaders that did much to deliver the EPS in Q3 are here with me today. Peter and his team drove hard on revenues, while Blake marshaled the troops on the cost side. Blake will explain more about the cost savings shortly while Peter will outline the hits and misses on the revenue side.

At the sector level, we continue to see strong industry growth in most digital areas – mobile, PC and console DLC. The console packaged goods market is a different story. We saw an approximate 20% decline in CY12, and consumers are behaving in a way which reflects a console transition. Overall volumes are down. We're seeing some great unit volumes on a few winning titles. The losers are getting hit hard. Console transitions are difficult, but historically they initiate periods of strong growth. And, for the companies ready to step up, these transitions represent significant opportunity.

Near term, EA will complete the fiscal year with a strong line-up of Q4 titles. These include some of my favorite franchises: *Dead Space 3*, *Crysis 3* from Crytek Studios, the return of an industry classic: *SimCity*… and finally, an incredible game for smartphones and tablets, *Real Racing 3*.

Beyond Q4, we see a bright light at the end of the tunnel. For EA, digital remains a winner, and our investments are generating strong growth. We're also investing in Gen 4 console technologies and content. We've signaled that we're working on the next editions of our two biggest franchises in *Battlefield* and *FIFA*. And, we look forward to discussing these programs and many others with you when we provide our FY14 guidance in May.

With that, I'll hand off to our CFO, Blake Jorgensen.

BLAKE:

Thanks, John.

First, I would like to start with some details of the gaming sector during the quarter. We estimate that the worldwide video game market grew in the mid-single-digit percentages for 2012. The digital market grew more than 25% over the prior year, with the mobile business being a significant contributor. The packaged goods market proved to be more challenging than initially anticipated, contracting about 20% relative to 2011.

We encountered two major challenges this quarter: first, *Medal of Honor* performed well below our expectations. Second, the packaged goods market underperformed in Q3 versus going-in estimates. To counter these issues we took proactive steps to drive revenue on thriving titles like *FIFA*, *Battlefield 3* and *Need for Speed*. We also reduced spending on headcount, variable compensation, contractors, marketing, advertising, and other general and administrative expenses. These actions, combined with a higher than anticipated gross margin resulting from strong digital sales, enabled us to hit the upper end of our non-GAAP EPS guidance range, despite generating revenue below our forecasted non-GAAP revenue range.

Total Q3 non-GAAP net revenue was $1.18 billion which was approximately 9% below the midpoint of our guidance. Compared to the same period last year, net revenue was down 28% due to the tough comp of *Battlefield 3* and the launch of *Star Wars: The Old Republic.* Peter will provide more detail on our Q3 revenue and title performance but here are a few highlights. During Q3 we saw strong performances from *FIFA* and *Need for Speed. Madden* was up over last year, and both *NCAA Football* and *NHL* were down – hockey primarily driven by the lock-out. The packaged goods side of our catalog was up over 16% driven by the continued success of *FIFA* and *Battlefield 3*, and we had strong growth on the digital side.

EA's Q3 non-GAAP digital net revenue increased 8% year-over-year to $407 million. The underlying growth is understated because we are deferring the *Battlefield Premium* revenue, and if we included it in this quarter's results, digital revenue growth would have been 15%. The trailing twelve months for digital net revenue was nearly $1.5 billion, representing a year-over-year growth of 37%. Breaking the digital revenue down by type for Q3 shows the following:

- First, full game downloads contributed $44 million, down 57% compared to the same period last year. Full game downloads have typically been driven by PC products, such as *Battlefield* and *Star Wars*, and this quarter we did not have any PC-centric titles. The majority of our Q3 digital revenue came from *FIFA, Medal of Honor* and *Need for Speed*. We do believe that console full game downloads will grow long term.

- Extra content and free-to-play contributed $185 million, up 50% led by *FIFA* and *Madden Ultimate Team* and *Star Wars: The Old Republic.* These revenues relate to businesses on PC or consoles, where consumers pay for additional digital content -- including virtual characters, map packs and micro-transactions associated with browser based games or MMO's – like *Star Wars*. As a reminder, on November 15th we launched our free-to-play option for *Star Wars: The Old Republic*. Very early indications have been positive and we are pleased with the initial results but it is too early to know how successful this will be in the long term.
- Our mobile business, including handhelds, generated close to $100 million for the quarter and was up 18% over the prior year. The major portion of this revenue was driven by smartphones and tablets, which accounted for $79 million, growing 36% year-over-year. Some of this growth was due to the success of *The Simpsons: Tapped Out* on the iOS platform. We are actively developing Android applications for our key brands to address that growing market as well. Based on industry estimates, there are 1 billion smartphones and up to 200 million tablets being used currently. We continue to focus on this segment due to the evolution and sharp growth of the smartphone and tablet markets.
- Subscriptions, advertising, and other digital revenue contributed $79 million, growing 18% over the same period last year. The current year includes a full quarter of *Star Wars* subscriptions, but it was offset by a decline in other licensing digital revenue. As a reminder, the non-GAAP revenue continues to exclude our *Battlefield 3 Premium* subscription service. For the third quarter, *Battlefield 3 Premium* generated $28 million in sales, bringing the total premium revenue for the first three quarters to approximately $108 million. We will recognize these sales as revenue in the fourth quarter when we release the fifth expansion pack, entitled *End Game*, and as another reminder, all of the development and delivery costs have been recognized in the previous quarters.

I would like to point out that all of these digital revenue types have no physical goods costs, and there is no associated price protection. Eliminating these expenses provides greater savings resulting in higher margins. Also, consumers tend to purchase digital content over the course of their gameplay, extending the life of our brands. Lastly, these transactions are direct to consumers, helping us develop and foster our relationship with our gamers. This digital momentum continues to build and we see this as the future.

Moving on to gross margin: our non-GAAP gross margin was up almost 2% over our guidance driven by the growth of our digital revenue. In our continued drive to improve gross margins over time, we are implementing our own digital distribution business, replacing third party vendors. Taking full control of this process, combined with shipping fewer physical discs, has contributed to improved gross margins. We believe this trend will continue into 2014 and beyond.

Operating Expenses for the quarter came in approximately $70 million lower than expectations due to concentrated efforts to reduce spending as discussed earlier. We are being more critical with regards to expenses, concentrating our efforts on the highest value opportunities. In addition, we are focused on greater efficiencies in marketing, and leveraging the power of our brands to reduce the need for incremental spend. We continue to re-evaluate expenses, and cut-back where it makes sense.

The resulting non-GAAP diluted EPS was $0.57 for the quarter, in-line with our guidance and market consensus.

Our cash, short-term investments and marketable securities at the end of the quarter were $1.5 billion or approximately 5 dollars per share. Roughly 60% of this cash is held outside of the U.S..

Net cash provided by operating activities for the quarter was $363 million, and on a trailing twelve month basis operating cash flow was $378 million. Obviously cash flow was impacted by lower revenues.

During Q3, we repurchased 12.2 million shares at a cost of $157 million, bringing the total shares repurchased under the current program to 20.6 million shares at a total cost of $265 million. As a reminder, the $500 million share repurchase program was initiated in August, and we continue to repurchase shares under this program.

In summary, for Q3 we delivered non-GAAP EPS in line with our guidance, despite the revenue challenges. We were able to achieve this through favorable gross margins, and focused efforts on reducing operating expenses.

Turning to Guidance:

Q4 has some encouraging elements that we can see. First, we will finally get to recognize a full year of *Battlefield Premium*. Second, we have strong momentum on the digital side of the business, with *FIFA Ultimate Team* and mobile leading the way. Finally, our biggest three titles shipping in the quarter, *Dead Space 3, Crysis 3 and SimCity*, are all finishing strong.

However, there's a high level of uncertainty and challenges surrounding the upcoming quarter because of the softness we just experienced in the holiday quarter. Additionally, we are anticipating significant volatility that accompanies a perceived console transition. Also, our first key launch for the quarter will be next week with *Dead Space 3,* and there have been no other major releases since December that could reveal any specific trends or developments in the market. And lastly, we have decided to move the launch of *FUSE* to Q1 of fiscal 2014

These factors are causing us to be more conservative, and therefore we are widening and adjusting down our guidance for the quarter, and consequently for the year.

GAAP revenue for the fourth quarter is expected to be between $1.115 billion and $1.215 billion, as compared to $1.368 billion in the prior year.

GAAP diluted EPS for the fourth quarter is expected to be between $0.92 and $1.12 per share, as compared to $1.20 per share in the prior year.

Non-GAAP revenue for the quarter is expected to be between $1.025 billion and $1.125 billion, an increase over last year's $977 million. Gross margin for the quarter will benefit from the very high-margin *Battlefield Premium* revenue that has been deferred.

Regarding **operating expenses,** we expect our total non-GAAP operating expenses to be less than $525 million for the quarter.

For the quarter, we expect non-GAAP diluted EPS to be between $0.57 and $0.72 per share, as compared to $0.17 last year.

For the full year:

GAAP revenue for the fiscal year is expected to be between $3.703 billion and $3.803 billion, and **GAAP diluted EPS** is expected to be between $0.18 per share and $0.38 per share.

Non-GAAP revenue for the fiscal year is expected to be between $3.778 billion and $3.878 billion, and **non-GAAP diluted EPS** is expected to be between $0.86 per share and $1.00 per share.

Cash Flow for the Fiscal Year: We reconfirm our fiscal 13 capital expense projections of approximately $100 million, but we are adjusting our operating cash flow estimates to $350 million reflective of the lower guidance range. This implies an expected free cash flow generation of $250 million, more than double what we generated in fiscal 12.

Regarding next fiscal year, our plan is to provide fiscal 2014 guidance during our Q4 earnings call, when we will be in a better position to share our insights.

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

<u>PETER:</u>

Thanks Blake. Today, I'm going to offer an overview on the sector; some color on EA's Q3 performance, and an update on the games and services we're offering in the current quarter.

I'll start with the sector overview. The most obvious trend is the distinction between the performance of high-definition consoles (the PS3 and Xbox360) versus standard-definition consoles (that is, earlier generations and the Nintendo Wii). Both are trending down but standard definition is down 46 percent year-over-year in 2012, versus a 13 percent decline in our HD titles. That's an important distinction as EA's console titles are singularly focused on that HD audience.

The next trend is the concentration of consumer dollars behind chart-topping hits in the packaged goods sector. In the holiday quarter of 2011, the top ten titles accounted for approximately 40 percent of Western World industry revenue. In 2012, the Top 10 captured nearly 50 percent. EA had two of the Top Five in 2012 – *FIFA 13* and *Madden NFL 13.* We also had more Top 20 hits – six in 2012 versus four the year prior.

But as John mentioned a moment ago, this market dynamic results in a clear distinction between winners and losers – and in Q3, EA had both.

The digital trends are extremely positive. We estimate that the global revenue from digital games and services grew by more than 25 percent year-over-year. Mobile game revenues on iOS and Android doubled in size in 2012.

Digital revenue related to PC games including full game downloads, PDLC, social gaming and subscriptions grew at approximately 20%, as did the digital revenue related to console games.

Turning to EA in the holiday quarter, we struggled with two challenges: the slowdown that impacted the entire sector and poor critical and commercial reception for *Medal of Honor: Warfighter.*

Medal of Honor was an obvious miss. The game was solid but the focus on combat authenticity did not resonate with consumers. Critics were polarized and gave the game scores which were, frankly, lower than it deserved. This one is behind us now. We are taking *Medal of Honor* out of the rotation, and have a plan to bring year-over-year continuity to our shooter offerings.

To address the revenue gap, our global publishing organization moved quickly to align behind blockbuster brands with solid revenue streams -- namely *FIFA*, *Battlefield*, *Need for Speed,* and *Madden*.

I'll start with *FIFA*, an EA franchise that has emerged as one of the world's top two or three games. The EA SPORTS team in Vancouver is absolutely crushing it on every format and in every market. Since *FIFA 13* launched in September, we've sold through more than 12 million units, and in Europe, *FIFA 13* was the number one title in 2012, outselling all other games including *Call of Duty*.

The digital performance for this franchise is particularly impressive. The number of gamers that actually played *FIFA Ultimate Team* grew 61 percent over last year's offering.   Additionally, the average revenue per paying user increased by approximately 30%. Both of these increases contributed to *FIFA Ultimate Team* revenue being up 136 percent year-over-year and the holiday delivered the largest revenue day in the history of the service.

Moving to Asia, *FIFA World Class Soccer* in Japan has delivered lifetime revenue of $80 million. And we are extremely optimistic about the early read on *FIFA Online 3* which we have debuted in Korea in partnership with Nexon. After two successful closed trials, we went to open beta on December 17th and registered more than 2.4 million players in the first four weeks – a record for Nexon. Average daily users reached 440,000 – 10 percent above our target. This one is tracking well.

Another Q3 success story was *Need For Speed Most Wanted.* Sell through was up over 30 percent year-over-year and outperformed the industry's other Triple-A racing titles. In this market, consumers are concentrating their choices – they don't buy two driving titles, but they will buy the best one. *Need For Speed* is back in position as an annualized blockbuster.

Next up, *Battlefield 3* -- the core game launched 15 months ago and has captured more than 20 million players. Following the release of *Aftermath* in December -- our fourth expansion pack -- the *Battlefield Premium* service added over half a million subscribers to exit Q3 with total subs of 2.7 million. This is a shooter franchise with an unmatched ability to engage consumers -- millions of fans who want more missions, more maps, and more fun.

Battlefield, along with *FIFA*, is now in position to become one of the top two or three game franchises in the industry.

And, no review of our blockbusters would be complete without mentioning *Madden NFL*. This year's game performed well this quarter, with year-over-year increases in both unit sales and revenue. This year's key innovation is real physics that drive incredibly fluid animations and fundamentally improve the game experience in *Madden NFL 13*.

Beyond the Triple-A blockbusters, our mobile titles continue to perform well. *The Simpsons: Tapped Out* hit #1 Top Grossing app in the U.S. during the holiday period, climbing to 3.2 million Daily Active Users. Both *The Simpsons* and *Bejeweled Blitz* have been charting well in the Apple App store for several months. Both will debut on Android later this quarter.

In December, EA was once again the #1 iOS publisher worldwide, and December was the highest revenue generating month of 2012 for the App Store.

Turning to Q4 – We have three top titles and one highly anticipated mobile game to finish out our fiscal year:

- First, ***Dead Space 3*** -- a proven Sci-Fi Horror franchise with a strong consumer base – will launch in the first week of February. This is our biggest and best *Dead Space* in the series, with a terrifying single player campaign and an entirely new to the series co-op gameplay mode. Thirty media outlets listed *Dead Space 3* on their Best of 2013 lists. The *Dead Space 3* demo we released earlier this month on Xbox 360 has generated 44% more downloads than the demo for *Dead Space 2*, and the PlayStation 3 demo launched last week. We're feeling good about this one.
- Second, ***Crysis 3***, from our partners at Crytek Studios will ship on PC and consoles February 19th in North America and February 22nd in Europe. Pre-orders are tracking roughly 40 percent ahead of *Crysis 2*. We opened the multi-player beta last weekend and we're getting a great response from gamers.
- Third, ***SimCity*** – a completely new version of the treasured classic, includes deep online features. More than a hundred-thousand people played the *SimCity* beta last weekend,

giving us a nice bump in pre-orders and the critical reception is shaping up well. Watch for *SimCity* on March 5th in North America and March 8th in Europe.

- And finally, ***Real Racing 3*** is a stunning driving game for iPhone, iPad and Android devices. Our Fire Monkeys Studio did an awesome job with this one – bringing console-quality graphics and fluidity, to a mobile title. *Real Racing 3* will ramp up to a full launch in North America on February 28th.

Three more shout outs for games scheduled for release this Spring:

- First, ***Tiger Woods PGA Tour 14*** will be released on consoles on March 26th in the US and on the 28th worldwide.
- Secondly, ***Army of Two: The Devil's Cartel*** will be available on consoles on March 26th in the US and in Europe on March 29th.
- And finally, Ted Price and the Insomniac Studio are putting a lot of polish into their new game ***FUSE***. The extra work delivers a big payout for players and *FUSE* will be released in Q1, our Spring quarter.

I'll finish with a note on **Origin**. Our online portal for digital games and services continues to scale. Origin now boasts more than 39 million registered users – with over two million new registrations in January alone. And the team is preparing to launch Origin for the Mac next month, extending Origin to tens of millions of new gamers.

Now back to John.

JOHN:

Thanks Peter.
Here's a quick summary of what we've told you today.

First, Q3 was a disappointment on the revenue side. *Medal of Honor* didn't deliver and we underestimated the overall softness in the console packaged goods sector. Helping to offset these challenges was the stellar performance on our two biggest franchises: *FIFA* delivered on packaged goods and digital, in Western markets and in Asia. And *Battlefield* 3 contributed strong packaged goods sales in Q1 thru Q3, and *Battlefield 3 Premium* is providing a big digital revenue positive in Q4.

Second -- Our Q3 EPS performance was solid and at the upper end of our guidance.

Looking forward, we feel we are in position to capture and lead the next period of industry growth. We think we're perfectly positioned to take advantage of the trends we see coming, in digital and mobile, as well as on the console side of the business. In each of these growth opportunities, we are investing in the next generation of technology and content.

We have the biggest **brands.** *FIFA* and *Battlefield* are proven blockbusters – they just keep growing and getting better. I believe that in the next four years, both will be among the top franchises that define the industry across all platforms and geographies. And we have several more blockbuster franchises right behind *Battlefield* and *FIFA*.

We are building a digital **platform** for servicing our global network of more than 275 million users. The platform enables profitable growth in digital with efficient cost structure.

And we've got the best **talent** in the industry. EA is the rare company that can build global brands….we can nail it on console, nail it on mobile and we've built a team that can turn the complexity of a digital platform into a competitive advantage for Electronic Arts.

We expect FY14 to be a point of departure -- the starting point for a new era of gaming and a growth period for the best game companies. We're confident that EA's Brands, Platform and Talent will separate us from our competition and allow us to lead in this new era.
With that, Blake, Peter, Frank and I will take your questions.

Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss) and historical and estimated non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount
- Certain non-recurring litigation expenses
- Change in deferred net revenue (packaged goods and digital content)
- Loss (gain) on strategic investments
- Restructuring charges
- Stock-based compensation
- Income tax adjustments

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods.

In its earnings press release dated January 30, 2013, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2013 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 including the PopCap acquisition; 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, 2012.

These forward-looking statements are current as of January 30, 2013. 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, 2012. 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, 2012.