ELECTRONIC ARTS
Q4 FY16 PREPARED COMMENTS
May 10, 2016

Chris:

Thank you.

Welcome to EA's fiscal 2016 fourth quarter earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO.

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

A couple of quick notes on our calendar: we plan to deliver our next earnings report on Tuesday, August 2. And our press conference at EA PLAY will take place at 1pm Pacific Time on Sunday, June 12. Coming up next week, on Tuesday, May 17, is our Investor Day – if you haven't registered already, please contact me so that we can send you an invitation.

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 May 10, 2016 and disclaims any duty to update them.

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 Andrew.

ANDREW:

Thanks, Chris.

FY16 was a phenomenal year for Electronic Arts. Our non-GAAP revenue, earnings and cash flow for the year were all at record levels and exceeded our guidance. It was a year of growth and milestones, demonstrating our unique ability to connect hundreds of millions of players across genres, geographies and platforms to the games they love, and to each other.

To highlight a few examples:

- We kicked off a new generation of *Star Wars* games from Electronic Arts with extraordinarily successful games on console, PC and mobile.
- Nearly 54 million unique players engaged in our EA SPORTS console titles during the year, up 65% from last year.
- Across our portfolio of live services, we launched hundreds of content updates throughout the year, bringing players deeper into their favorite games. Our *Sims 4* player base grew by almost two-thirds throughout the year, and our *Battlefield* franchise saw 9.4 million unique players in Q4 alone.
- In addition, players are spending more time with our new games and ongoing franchises on mobile. Engagement in *Star Wars:* Galaxy of Heroes is exceptional, with players spending nearly two hours per day on average in the game during Q4. *Madden NFL Mobile* continues its strong performance, with engagement up more than 30% in Q4 over last year, and *The Sims FreePlay* has now reached 200 million installs life-to-date.

With all of our games and live services, our focus continues to be on putting players first and delivering unmatched creativity, depth and value. Engagement is critical in today's world where everyone faces such intense competition for time. Combining great franchises, innovative IP and sophisticated services, we continue to build networked, global communities for our games, where players can connect to more great content and to their friends, maximizing the fun every time they play.

As we move into FY17, we're incredibly excited to launch a slate of groundbreaking new games and add to the breadth of live services available to our players.

- Our first new game this fiscal year will be *Mirror's Edge Catalyst* launching on June 7, with fluid movement and combat rendered in stunning beauty by our Frostbite engine.
- The first of our EA SPORTS titles for this year– *Madden NFL 17, NHL 17* and *FIFA 17* – arrive in Q2, each taking a major leap forward in personalization, immersion and competition. We are also working on a new and engaging way to bring players into our *NBA LIVE* franchise on consoles, and we'll share more on that in the quarters ahead.
- In a global livestream last Friday that was watched by more than 2 million people, *Battlefield 1* made its debut. Fans got their first look into the intense, visceral combat and epic scale of this groundbreaking new game from DICE, and the response was immediate and extraordinary. The trailer was viewed more than 21 million times in the first four days, a new record for EA, and it is now our most-liked trailer in history. With Battlefield 1, we've set out to deliver the biggest and most innovative Battlefield game ever, with a deep story and unprecedented variety in the gameplay powered by our Frostbite engine. *Battlefield 1* is now set to launch worldwide on October 21.
- In partnership with the talented team at Respawn Entertainment, *Titanfall 2* will launch in Q3. The first *Titanfall* delivered a fast, fluid experience that invigorated players and ignited the genre. *Titanfall 2* will come to players on PlayStation 4, Xbox One and PC. The excitement from fans since our official announcement of the game has been outstanding, and we can't wait to debut the first gameplay from *Titanfall 2* at EA PLAY on June 12.
- Late in the fourth quarter, *Mass Effect: Andromeda* will bring an all-new story to the critically-acclaimed RPG series from BioWare.
- And throughout the year, mobile players will see launches from some of our biggest brands. Building on the continued success of *Madden NFL Mobile*, we're excited to bring new EA SPORTS experiences from our *NBA LIVE* and *FIFA* franchises to players in FY17. Fans of our PopCap franchises will have new experiences as well, with *Bejeweled Stars* launching today and *Plants vs. Zombies Heroes* set to arrive later this year.

Our excitement for the year extends well beyond our title slate. The gaming industry continues to rapidly evolve and grow, and in each dimension EA is at the leading edge. In addition to being the #1 publisher in the western world on Xbox One and PlayStation 4 in FY16, and the most downloaded mobile game publisher in calendar year 2015, we are investing deeply to pioneer new growth opportunities. Our competitive gaming programs will seek to engage players at all skill levels, with competitions like the *Madden NFL 16* Championship being just the tip of the iceberg. Our unparalleled Frostbite engine will power more of our games this year, including an all-new *Star Wars* Battlefront experience for PlayStation VR. In addition to delivering strong and stable service architectures, our technology platform teams continue to implement a cross-platform, cross-title identity system to help our players stay connected to their games and their friends. Across our studio teams, partners like Respawn Entertainment, and labs groups, we are working on more new ideas, technologies and IP. And this June in Los Angeles and London, EA PLAY will bring players closer than ever to our games, and help them share those experiences with the world.

FY16 was the strongest year in the history of Electronic Arts, and we are just getting started. Looking to FY17 and beyond, we are confident that our trajectory is even stronger.

Now, I'll turn the call over to Blake for a deeper look at our financials.

BLAKE:

Thanks, Andrew.

The end of the year is a good point at which to reflect on the progress we've made. And it has been a great year. Using non-GAAP metrics, fiscal 2016 revenue, at $4.57 billion, was an all-time record. Our operating margin, at just 9.5% four years ago, was 28.5% this year, its highest ever. Gross margin, at 71.4%, and earnings, at over $1 billion, were also all-time records, as was operating cash flow, at $1.2 billion.

We were able to deliver these results despite significant FX headwinds, which impacted our top line by over $300 million.

Digital revenue is now 55% of our business, up from 52% last year. Extra content was a record $1.1 billion. Within that, our *Ultimate Team* business reached $692 million, up 18% at actual FX, and up 26% at constant currency. Our mobile business delivered another record year, at

$570 million in revenue. During the year, we returned over a billion dollars to shareholders through repurchasing stock, again, a record.

Moving to the specifics of the fourth quarter results, **EA's non-GAAP net revenue** was $924 million, which was $49 million above our guidance and $28 million above last year.

The quarter's outperformance was driven by digital, particularly *Ultimate Team* and our mobile live services. *Ultimate Team* continues to thrive, as do our mobile titles, led by *Star Wars: Galaxy of Heroes* and *Madden NFL Mobile*.

EA's Q4 non-GAAP digital net revenue was $712 million. This resulted in full year digital revenue of more than $2.5 billion.

Breaking down Q4's digital revenue into its key components highlights the performance of each business:

- First, extra content and PC free-to-play contributed $310 million, up 26% over the prior year. The key driver was *FIFA Ultimate Team*, which grew 38% in the face of significant FX headwinds. At constant currency, our *FIFA Ultimate Team* business would have been up 48% year on year.

- Second, our mobile business generated $173 million for the quarter, up 15% over prior year. Growth was led by *Star Wars:* Galaxy of Heroes and *Madden NFL Mobile*. The strength of these new mobile live services adds to the broad portfolio of EA Mobile games which deliver a consistent and profitable revenue stream.

- Third, full game downloads added $134 million to the quarter, up 18% year on year.

- And finally, subscriptions, advertising, and other digital revenue totaled $95 million, up $4 million over the same period last year.

Moving on to gross margin: our non-GAAP gross margin for the quarter was 76.9%, 90 basis points above guidance due to the strength of digital, particularly *Ultimate Team* and our mobile business. It was up from 75.4% in Q4 fiscal 15.

Non-GAAP operating expenses for the quarter were $499 million, down $14 million from last year, and $1 million lower than our guidance.

The resulting non-GAAP diluted EPS for the quarter was $0.50 per share, $0.10 above our guidance and $0.11 above the prior year.

One note as you review our GAAP operating expenses relative to our guidance: **GAAP** earnings for fiscal 2016 includes a material income tax credit due to the reversal of the valuation allowance we had against our U.S. deferred tax assets. This credit of $453 million increased our diluted **GAAP** EPS for fiscal 16 by $1.37 per share to $3.50, but it had no effect on non-GAAP earnings or on cash flow.

Net cash provided by operating activities for the quarter was $396 million, compared to $198 million in the prior year, primarily due to *Star Wars* Battlefront. Operating cash flow for the full fiscal year hit its highest level in company history at $1.22 billion, a 15% increase over last year's cash flow of $1.07 billion, and above our raised guidance. We continue to grow cash flow due to the underlying strength of the business and the greater profitability unlocked by our digital transformation. Fiscal year 16 capital expenditures were $93 million, resulting in free cash flow of $1.13 billion.

During the quarter, we raised $1 billion in the form of five- and ten-year investment-grade senior notes. In connection with this, we also announced a $500 million stock repurchase program, over and above the two-year, $1 billion program we already have in place. We completed this new program in the quarter, and continued our steady progress on the ongoing program, resulting in a total repurchase this quarter of 9.9 million shares of common stock at an average price of $63.70 per share. This leaves $539 million from the two-year program available for repurchases.

For the fiscal year, we returned over $1 billion to shareholders through the repurchase of 15.7 million shares, approximately 5% of shares outstanding. As a result, we estimate that our fiscal 17 non-GAAP diluted share count will be 319 million.

During Q4, we **settled $177 million in early conversions** of our convertible notes. Through March 31, we have redeemed $470 million of the $633 million total and as of yesterday we've received notices of an additional $27 million to settle in Q1. Dilution from these redemptions, the warrants, and future redemptions are already accounted for in our non-GAAP diluted share count.

Our cash and short-term investments at the end of the quarter were $3.83 billion, or $12.74 per share. Approximately 47% of this was held in the U.S.

On to fiscal 2017 guidance.

With regards to the market, we expect sales of current-generation consoles to continue at a rapid pace, with another 25 million units to be sold this calendar year, adding to the 55 million units in place at the end of calendar 2015.

In addition to the console growth, we expect our mobile franchises to benefit from the continued expansion of iOS and Android, and we're continuing to see strength in PC gaming.

We expect **non-GAAP revenue** to increase approximately 7 percent to $4.9 billion. The anticipated strength is broad-based, primarily driven by the launches of *Battlefield 1, Titanfall 2 and Mass Effect: Andromeda*. Other important drivers include the continued growth of our core sports titles and associated live services, and the expansion of our mobile business.

The expected phasing of our revenue is disclosed in the earnings presentation posted to our website.

Non-GAAP gross margin is expected to rise about 110 basis points, to 72.5%, driven by the increase in digital revenue and improved product mix. The margin benefits from the wholly-owned IP of *Battlefield 1* and *Mass Effect Andromeda* are partially offset by the royalty fee associated with *Titanfall 2*.

We expect non-GAAP operating expense of $2.1 billion, up almost $140 million from fiscal 16. The increase is driven by: R&D investments in new franchises, particularly in the action genre;

an extension of our partnership with Respawn; our digital player platform; competitive gaming; and new mobile games. These are offset somewhat by FX.

This would deliver an **operating margin** of 29.7% and **non-GAAP EPS** of $3.50, up 11% year on year. This includes the addition of $41 million in new interest expense for our recent debt offering, but is partially offset by a reduction in our non-GAAP tax rate from 22% to 21% and the reduction in our share count to 319 million.

The change in tax rate is due to the growth of our business outside of the United States and the interest on our debt. The change in share count was driven by the additional $500 million repurchase we completed in the quarter. With regards to our forecasted share count, note that our standard practice is to include an estimate of dilution from our employee equity programs, but not to factor in any potential reduction from our on-going buyback program.

The earnings presentation on our investor website contains more information about our exchange rate assumptions for the year.

Segmenting the sales provides further insight into key drivers of our full year non-GAAP revenue guidance.

- Packaged goods and other revenue is forecasted to be approximately $2.0 billion, down slightly, driven by the continued shift to digital delivery and offset by growth in sales.

- Digital revenue is forecasted to be $2.9 billion, up 15%. Breaking down our digital revenue into its four primary categories we see the contributions from each group:

    - Our mobile business is expected to grow approximately 15% as we add new titles to our diverse and successful base of live services. As part of this, we'll leverage the learnings from the success of Madden NFL Mobile to our other sports titles.

    - Revenue from full game downloads is anticipated to grow 25%.

We saw strong growth in digital downloads in fiscal 16. For example, downloads of Madden for all consoles are up 50% year on year, and we expect this trend to continue.

- Extra content and free-to-download is expected to grow approximately 10% this year, driven by premium offerings for *Star Wars* Battlefront and by *Ultimate Team*. Battlefront extra content started to contribute in Q4, and we're expecting an attach rate for Season Pass of around 10%.

- Lastly, subscription revenue is expected to grow approximately 10% this year, driven by growth in *Origin Access* and *EA Access*, and partially offset by a falloff in *Battlefield 4 Premium* revenue.

On a **GAAP basis**, guidance is for net revenue of $4.75 billion, gross margin of 71.0%, operating expenses of around $2.31 billion, and EPS of $2.53.

Finally, cash flow will continue to be a key metric for us going forward. In fiscal year 2017, we are forecasting operating cash flow of approximately $1.3 billion, and capital expenses to be approximately $110 million, resulting in free cash flow of approximately $1.2 billion, up from $1.1 billion in fiscal 2016. The anticipated increase in capex is primarily due to upgrades to our platform infrastructure and facilities.

Focusing on Q1:

Non-GAAP revenue for the quarter is expected to be $640 million, an 8% decrease compared to last year's $693 million. The year-ago quarter benefited from more favorable exchange rates, *Battlefield Hardline* catalog, a one-off recognition of revenue from *FIFA Online 3* in China and the fact that it was a 14-week quarter versus 13 weeks this year.

Non-GAAP gross margin is forecasted to be approximately 74.5%.

Non-GAAP operating expenses are expected to be $485 million, $13 million higher than last year, driven by investment in future products, offset by the fact that it's a shorter quarter and by a stronger dollar.

For the quarter, we expect a non-GAAP loss of $(0.05) per share, as compared to earnings of $0.15 per diluted share last year.

GAAP revenue is expected to be $1.25 billion, as compared to $1.2 billion in the prior year.

GAAP diluted EPS is expected to be $1.30, as compared to $1.32 per share in the prior year.

As you look forward to Q2, please note that FIFA 16 launched two weeks ahead of the end of Q2 fiscal 16, rather than the usual one week. The extra week enabled us to capture an extra week of FIFA sales. This was primarily high-margin Ultimate Team and digital revenue, and boosted the quarter by approximately $75 million. This year, we'll see a return to more a typical pattern, with a much greater concentration of operating income in Q3 and Q4.

In conclusion: this was a great year for EA, with financial and engagement records set across the board. Looking forward, we're embracing digital to continue to drive the business.

We expect these trends, along with growing sales of our existing titles and new franchises under development, to continue to drive strong revenue, EPS and cash flow growth into the future.

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

ANDREW CLOSING:

Thanks, Blake.

Our industry continues to grow. Across the world, more players are engaging in games on more platforms, across more geographies and business models. Yet as our audience expands, it is evolving as well. The competition for time means there is no room for transient experiences – players today expect more from the games they play, and in return they will spend more time with the games they love. In a world where discovery is increasingly difficult and engagement decisions are made every second, connecting players with the right experience when and where they want to play is critical.

In this transforming world, our focus continues to be on meeting our players' needs through direct relationships that add value at every turn. Today, Electronic Arts engages hundreds of millions of players – and in the future potentially billons – through great games and live services in our powerful brands like *Battlefield, FIFA, Star Wars, The Sims, Plants vs. Zombies, Mass Effect* and more. This portfolio of IP, combined with great talent and robust technology in our underlying platform, differentiates EA in our ability to connect players to more games, to more friends and more ways to engage in a global network of play.

It always begins with great games, and in FY17 we will deliver some of the most creative, engaging and biggest experiences to date from Electronic Arts. We also continue to foster and grow thriving communities across our portfolio of live services. Our teams are leveraging technologies like Frostbite to deliver new experiences across more devices. As we evolve our core platform, we are learning more about our players and adding capabilities to unlock greater value for them. New programs, including competitive gaming, will help us reach and connect more players around the world. These are the dimensions of connected play that today's players seek, and that Electronic Arts is positioned to lead.

These are foundational times for the future of games and how we play them. We're excited for FY17 and beyond, and look forward to sharing more with you in the quarters ahead.

With that, Blake and I are here for 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 non-GAAP diluted earnings (loss) per share and non-GAAP diluted shares. These non-GAAP financial measures are adjusted for the items referenced below, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations. The adjustments to the non-GAAP financial measures exclude the following items (other than shares from the Convertible Bond Hedge, which are included):

- Acquisition-related expenses
- Amortization of debt discount
- Change in deferred net revenue (online-enabled games)
- College football settlement expenses
- Income tax adjustments
- Loss on licensed intellectual property commitment
- Shares from the convertible bond hedge
- 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 May 10, 2016, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to the non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2016 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015.

These forward-looking statements are current as of May 10, 2016. 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, 2016. 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, 2016.