

ELECTRONIC ARTS

Q2 FY13 PREPARED COMMENTS

October 30, 2012

Rob Sison:

Thank you.

Welcome to EA's fiscal 2013 second quarter earnings call. With me on the call today are John Riccitiello, our CEO, Blake Jorgensen, CFO, and Frank Gibeau, President of Labels. Peter Moore, our COO, 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 October 30th, 2012 and disclaims any duty to update them.

Throughout this call, we will discuss both GAAP and non-GAAP financial measures.

The comparable GAAP measures for certain non-GAAP measures to be discussed are:

Q2: net revenue of \$711 million, digital revenue of \$324 million, gross margin of 37.4%, operating expenses of \$630 million, and resulting loss per share of (\$1.21).

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 Riccitiello:

Good afternoon.

EA delivered a very strong performance in the second quarter of FY13. Non-GAAP revenue was \$1.08 billion in the quarter, higher than a year ago despite a significant headwind from the declining packaged goods channel. Non-GAAP diluted earnings per share was five-cents above the midpoint of our guidance, making this our 11th straight quarter of meeting or beating guidance. And I'm proud to say that we are tracking toward another sharp increase in EPS in FY13.

Our performance in Q2 was led by very strong sales of our EA SPORTS titles *Madden NFL 13* and *FIFA Soccer 13*, consistent strength on smart phones and tablets, and the break-away success of our iOS game, *The Simpsons: Tapped Out*.

Medal of Honor Warfighter shipped last week and the highly anticipated *Need for Speed Most Wanted* launched today in North America. While we are very pleased with the demand indicators on *Need for Speed*, the *Medal of Honor* launch is coming in below our expectations. Blake and Frank will provide more detail on these.

We also continue to see overall choppiness in the sector. Digital games and services are surging; mobile is scaling nicely, and free-to-play is bringing in millions of new consumers. But growth in social network gaming has slowed and console packaged goods are declining, which is typical for console games this late in the cycle.

Despite the volatility and headwinds, EA is performing well. We've focused our title count and managed costs. We have diversified our platform partners and business models so that EA is less vulnerable to weakness in a single channel, platform or business model. We've got more big franchises than any other publisher – and on most of these, we're performing very well.

We are managing the ups and downs. Our Q1 and Q2 were better than expected. Our Q3 appears soft due mostly to *Medal of Honor*. We're expecting a strong finish in Q4, driven by a powerful slate of titles.

Taken together, we are updating our FY13 non-GAAP EPS guidance to a range of \$1.00 to \$1.15 -- down a nickel from our original guidance, which reflects the weakness in Q3 associated with *Medal of Honor*. At the midpoint our guidance is to deliver over 25% non-GAAP EPS growth and to beat the current street EPS estimate for our fiscal year.

Next, I want to highlight our progress on three key strategies. By now you will recognize these strategies as our mantra: Brands, Platform and Talent.

Our focus on **brands** centers on constantly improving the quality of our key franchises. We make fewer titles – but we make them bigger, by making them better. We've transformed the revenue model by adding digital content and services which extends the relationship with consumers. This strategy is working for EA and here is one key highlight to prove the point: Since we adopted the fewer, better, bigger brand approach in 2007, EA has delivered the five biggest revenue hits in our company's entire history.

Our **platform** strategy is about taking our brands into new, fast growing digital channels and also building our own platform technology to facilitate growth on these platforms and on our own Origin service. We are building bridges to the next generation of games and technology. This strategy is delivering for us and here is a proof point: Inclusive of our successes on *Battlefield 3 Premium*, EA is currently tied for first in digital revenue among Western gaming companies. Over the past five years we have consistently grown our digital revenues, averaging annual growth of nearly 40%.

Our third strategic initiative is **talent**. We are evolving our core capabilities to better address both the art and science of gaming. In addition to having the best creative talent in our studios, we are adding new DNA to build our engineering and analytic capabilities. We are building this capability to support network and platform technologies that will define the most profitable companies in years to come.

To summarize, the game sector is in a volatile period of change and transition – awaiting new catalysts for even more rapid growth. EA is executing well in this environment, and investing for strong growth and leadership in what comes next.

Since the San Francisco Giants won the World Series, I'll use a baseball analogy: EA doesn't win every inning – but we put a lot of runs on the scoreboard and we expect to finish the season at the top of the standings and to continue to do so for years to come.

With that I will turn it over to our new CFO – Blake Jorgensen.

Blake Jorgensen:

Thanks, John.

Before I discuss the quarter, I would like to make a few comments and observations about EA after my first eight weeks at the company. First, I am very excited to join this great company – the management team and all the people I have met are leaders in the industry and extremely dedicated to developing and delivering world class entertainment to consumers around the world. I am fully aligned with the strategy of the company and I believe we need to continue our journey of focus – on those products and activities that generate the greatest shareholder returns. I joined EA because the company is now in the middle of an exciting transformation to a truly digital business that will allow us to grow and improve our profitability over time.

My focus at EA will be to help lead the company in improving our operating margins, increasing the return on capital and generating greater free cash flow for investors. In conversations with investors and analysts I will be direct and transparent, providing the information required to follow our business. I will help people understand the changes in the financial results as we move further into a digital business. I will provide key metrics and guidance when they are appropriate for understanding our performance and our future outlook, but I will stop providing metrics if they no longer provide useful information on business performance. I look forward to working with each of you. Now, turning to the business and our quarterly performance:

First, let me start with a brief review of the gaming sector for this quarter: We estimate that the worldwide video game sector grew in the high single-digit percentages. We are encouraged the digital market continued to grow more than 20% over the prior year, as the packaged goods market slowed. In addition, the mobile business continues to expand, while the social network gaming growth has slowed.

For EA, both *FIFA Soccer 13* and *Madden NFL 13* debuted as the top two best-selling titles for the Western World in the month of September, and *NHL 13* made the top 10 list. Additionally, we saw solid catalog performances from *Battlefield 3* and *FIFA Soccer 12*, as well as continued growth in our mobile business.

Total Q2 non-GAAP net revenue was \$1.08 billion which was in-line with our revenue guidance and 4% higher than the same period last year, driven by our *FIFA*, *Madden* and *NHL* titles.

EA's Q2 non-GAAP digital net revenue increased 45% year-over-year to \$314 million, and for the trailing twelve months exceeded \$1.4 billion, representing a year-over-year growth of 59%.

For the quarter, each digital revenue channel demonstrated more than 30% growth versus the prior year. For example:

- Extra content and free-to-play were up 34% led by *Battlefield 3*, *SimCity Social* and *Mass Effect 3*.
- Full game downloads were up 46% with continued strong demand for *Battlefield 3*.
- Mobile business alone was approximately \$88 million, up 60% over the prior year. Smartphone and tablet revenue accounted for \$66 million of this quarter's revenue, growing at more than 120% year-over-year. The primary drivers include *FIFA World Class Soccer* in Japan and *Bejeweled Blitz* on a worldwide basis. *The Simpsons: Tapped Out* launched in mid-August and has led top grossing applications in the Apple App Store for most of the month of October. Frank will provide more color on this business.
- Subscriptions, advertising, and other digital revenue grew 48%, driven by *Star Wars: The Old Republic*. As we mentioned on the last call, a free-to-play option for this game will be available this quarter, and we will provide more insight regarding the results of this change in future calls. Also, the non-GAAP revenue continues to exclude our *Battlefield 3 Premium* subscription service. \$43 million of *Battlefield 3 Premium* sales were generated in the September quarter, bringing the total premium revenue this year to approximately \$80 million. We will recognize these sales as revenue in the fourth quarter when we release the fifth expansion pack entitled *End Game*.

A quick update on Origin, we now have over 30 million registered users, including 13 million mobile gamers to date, and revenue was up sharply year over year off a small base. Additionally we have signed agreements with over 70 independent developers to publish their games on our platform, along with our own vast catalog of titles and new launches.

Moving on to gross margin: our non-GAAP gross margin was up 1% over prior year results driven by the growth of our digital revenue.

Operating Expenses for the quarter came in \$20 million lower than expectations due to the phasing of marketing expenses out of this quarter, slower than anticipated hiring, and our focus on improving operating efficiencies.

The resulting non-GAAP diluted EPS was \$0.15 for the quarter, \$0.05 above the midpoint of our guidance and market consensus.

Turning to Cash:

Our cash, short-term investments and marketable securities at the end of the quarter were \$1.3 billion or approximately 4 dollars and 21 cents per share. Roughly half of this cash is held outside of the U.S.

Net cash used in operating activities for the quarter was \$28 million, and on a trailing twelve month basis operating cash flow was \$490 million, an increase of \$183 million over Q1.

During Q2, EA repurchased 8.4 million shares at a cost of \$108 million. As a reminder, the \$500 million share repurchase program was initiated in August, and we continue to actively repurchase shares under this program.

In summary, for Q2 we delivered revenue in line with our guidance, and regarding non-GAAP EPS we were able to over-deliver through favorable product mix, and management of our marketing and operating expenses.

Turning to Guidance:

GAAP revenue for the third quarter is expected to be between \$900 million and \$1 billion, as compared to \$1.06 billion in the prior year.

GAAP EPS for the third quarter is expected to be a loss between (\$0.71) and (\$0.57) per share, as compared to a loss of (\$0.62) per share in the prior year.

Non-GAAP revenue for the quarter is expected to be between \$1.25 and \$1.35 billion, a decline in comparison from last year's \$1.65 billion, which included the launches of *Battlefield 3* and *Star Wars: The Old Republic*. Both titles drove packaged goods and full-game digital download revenue. Frank will provide an update on our third quarter titles.

Regarding **operating expenses**, we expect our total non-GAAP operating expenses to be less than \$600 million for the quarter with marketing and sales down versus prior year due to fewer titles.

For the quarter, we expect non-GAAP diluted EPS to be between \$0.50 and \$0.60 per share, as compared to \$0.99 last year. This reflects weaker than expected performance from *Medal of Honor Warfighter* and our decision to cancel our *NBA* title.

For fiscal 13:

GAAP revenue for the fiscal year is expected to be between \$3.85 billion and \$4.00 billion, and **GAAP EPS** is expected to be a loss between (\$0.27) per share and (\$0.06) per share.

Non-GAAP revenue for the fiscal year is now expected to be between \$4.05 billion and \$4.20 billion.

Operating Expenses are still expected to be approximately \$2.2 billion, but we continue to focus on cost management and efficiencies.

We have lowered our **non-GAAP EPS** estimate to be between \$1.00 and \$1.15. The nickel adjustment is coming out of the third quarter based on the guidance above. It is offset by a benefit from a reduced share count, due to the Share Repurchase Program.

Cash Flow: We reconfirm our **fiscal 13 operating cash flow and capital expense projections** of at least \$400 million and \$100 million, respectively. This implies an expected free cash flow generation of over \$300 million dollars, or three times what we generated in fiscal 12.

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

Frank Gibeau:

Thanks.

Now that Blake has briefed you on our financial performance, I'm going to provide some context around our ongoing success with core products. I want to show that despite a couple of misses – we've got a great track record of rolling out big hits.

I'll start by providing some color around the outstanding performance of our EA SPORTS portfolio – **Madden**, **NHL** and **FIFA** are all meeting or significantly exceeding expectations.

Madden NFL 13 just executed the biggest launch in four years. At the heart of this success is another big leap in product quality -- a new gameplay engine that includes a huge physics upgrade and innovative online services such as Connected Career Mode and Gridiron Club. These breakthrough improvements were noticed by critics who awarded *Madden 13* an 86 at launch, our biggest year-over-year Metacritic jump in four years.

NHL 13 has stunned critics and fans with its graphics and year-over-year innovations. The 84 on Metacritic has helped offset the headwinds related to a strike-impacted season.

In September we released **FIFA 13**, EA's biggest game of the year with more than 7.4 million units sold in the first four weeks. *FIFA 13* launched with a 90-Metacritic and quickly became the number one seller in more than 40 countries. *FIFA Ultimate Team* – a feature which allows fans to connect, to manage teams, and trade players – is now one of the most popular online services in gaming worldwide. Today, more than 2.5 million people are actively engaged in *FIFA Ultimate Team* – up 34 percent year over year.

Now consider seven years into a console cycle, *Madden* and *FIFA* are tracking to their best performance...EVER.

Another breakout hit in the fiscal quarter was ***The Simpsons: Tapped Out***, a free-to-play mobile title which launched in August and was the #1 top-grossing game on iOS for most of the last four weeks. The game has registered roughly 17 million downloads and is generating meaningful revenue in more than 40 countries including the UK, Germany, and France. This serves as another demonstration that mobile is rapidly scaling and that EA leads with sustained share growth.

Now on to our expectations for Q3. I'll start with the two franchises that have not met our expectations.

The first is *NBA Live*, which we elected to cancel this year. I'll address this in the context of our success on *FIFA* and *Madden*, where a spectacular core product sets us up for big opportunities with online services. This year's *NBA Live* did not meet that test. We take this situation seriously. EA SPORTS is committed to basketball and we will publish a basketball game when we can match the quality of franchises like *Madden NFL*, *NHL Hockey*, *Tiger Woods PGA Tour* and *FIFA Soccer*.

Next, ***Medal of Honor Warfighter*** shipped last week to a critical reception that fell below our expectations. While we're disappointed with the critical response, we believe this is a good game with a receptive audience. The game finished the weekend in the #1 position in the UK. We will continue to support this game through the holidays with sales execution and marketing. This includes a compelling content download tied to the December release of Sony Pictures' film, *Zero Dark Thirty*.

While we're not pleased with the situation on either of these titles, we are confident in the hit potential of the games that will follow.

Our highly anticipated racing game, ***Need for Speed Most Wanted*** debuts this week and the early reviews are strong. Two of the most respected critical outlets -- IGN and Game Informer -- gave *Need for Speed* a 9 out of 10. And in the UK, the Guardian awarded the game a perfect score. This spectacular open-world racing experience is enhanced by Autolog 2.0, an innovative social component which assembles an online community to advance players through the game. Edge Magazine said that Autolog is one of the most ambitious innovations in console gaming this generation. It's too early to celebrate, but *Need for Speed Most Wanted* launched today in North America with pre-orders well ahead of last year's game.

Finally, two more positives in Q3:

First, ***Battlefield 3*** is still charting in the top ten a full twelve months after it launched. The game now has sold-in more than 17 million copies, and in five months our *Battlefield 3 Premium* service already has more than 2.1 million active subscribers. A steady stream of online content and services have extended the life cycle of this blockbuster and created a large and persistent ecosystem of fans who pour over every new download of the game. We keep them supplied with digital content, and they keep playing. A new expansion pack -- *Battlefield Aftermath* -- will be available for download this quarter and another -- *Battlefield End Game* -- is scheduled for Q4.

Second, I want to direct your attention to the release of ***Real Racing 3*** in December. This was the only game on stage when Apple unveiled the iPhone 5. We believe they chose *Real Racing*

3 because the visuals are, quite frankly, incredibly close to what you see on current generation consoles. The EA FireMonkey studio that made this game has demonstrated an incredible mastery of the iOS format. If you want to understand why everyone is raving about mobile games, check out *Real Racing 3* when it launches in December.

That's our portfolio through Q3 -- and **we're planning a big finish in Q4**, which has historically been a strong quarter for EA. Here's a snapshot of three titles we think will be big hits:

On February 5th, ***Dead Space 3*** is coming to Xbox 360, PS3 and the PC. Each time our Visceral Studio releases a new game in this critically acclaimed sci-fi horror series, the game gets scarier and the audience gets bigger. In North America, presells for *Dead Space 3* are up 28 percent over the same period before our last release on this franchise.

In February, we will debut ***Crysis 3*** coming to Xbox 360, PS3 and PC. Developed by our partners at Crytek, this one follows *Crysis 2*, which was widely considered to be the best looking console shooter of this generation. We believe *Crysis 3* will set the bar even higher. *Crysis 3* has cultivated a large audience in both Europe and North America and won several awards at E3 and Gamescom this year. This game has a lot of a potential to be a breakaway hit, and we are going to give it a blockbuster marketing campaign.

And finally, ***SimCity*** -- one of EA's flagship franchises -- will launch on the PC and Mac on March 5th. Consumer awareness is tracking ahead of our expectations for this breathtakingly cool new experience. We're really proud of this one, and it shows: *SimCity* won scores of prestigious awards this summer including Game Informer's Best of Show at E3 and the Best PC Game Award at Gamescom in Europe. We can't wait to release this one in March.

Now back to John.

JOHN CONCLUSION:

Thank you, Frank.

If you've been following our quarterly calls for the past few years, you'll note a certain consistency to our narrative.

We promised to build our biggest brands, and we have.

We promised to drive our business to new digital revenue models, both on third party platforms and on our own. We have.

We've talked about investing in and transforming our talent base. We have.

Delivering on these three strategies, combined with aggressive cost control, has allowed us to deliver double digit EPS growth the past three years – and we are on track to do this again in fiscal year 13.

We're consistent in delivering on our strategies and goals. And we are very serious about driving shareholder value.

With that, Blake, Frank, Peter 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 October 30, 2012, 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 June 30, 2012.

These forward-looking statements are current as of October 30, 2012. 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 September 30, 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 September 30, 2012.