

July 27, 2017

CHRIS:

Thank you.

Welcome to EA's first quarter fiscal 2018 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. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar, our annual shareholder meeting will be on Thursday, August 3 here in Redwood Shores.

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-K 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, July 27, 2017 and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. 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.

Our first quarter of FY18 was an outstanding start to an exciting year for Electronic Arts. Engagement in our live services across console, PC and mobile was exceptional, demonstrating the strength of our digital business that evolves daily to meet the needs of our players. Revenue and EPS for the quarter were above our guidance, and we had our highest Q1 operating cash flow in EA history.

Our live services today continue to grow with more passionate players, connecting with their friends through our network and having more fun with the games they love. Our EA SPORTS live services were thriving through Q1, engaging more players on multiple platforms. Unique players in Ultimate Team grew 11% year-over-year through Q1. In our mobile business, *FIFA Mobile* expanded to more than 95 million unique players, and *NBA LIVE Mobile* grew to more than 70 million unique players. Our Sims community continues to be strong: monthly active players in *The Sims 4* increased more than 20% year-over-year in Q1, and we're excited to have a new Sims Mobile game in soft launch. And in *Battlefield 1*, our community has grown to 21 million unique players experiencing an extensive live service, with monthly updates, in-game events and missions, and the largest expansion packs in franchise history.

As we continue to strengthen player relationships through our live services, we are also innovating with how we reach players outside our games. Through EA PLAY in June, we engaged a global audience from our event in Hollywood. First, we gave fans the most comprehensive look to date at our FY18 titles, including *Star Wars Battlefront II*, *FIFA 18*, *Need for Speed Payback*, *Madden NFL 18*, *NBA LIVE 18*, a new EA Originals title in *A Way Out*, and

our stunning new IP, *Anthem*. The trailers and videos we launched for our games at EA PLAY have together generated more than 115 million views on social channels, twice as many as last year's content. We welcomed nearly 20,000 players to our venue for a celebration of play, and opportunities to go hands-on with our biggest games. Among those attendees were 300 community leaders and content creators, who captured and streamed a thousand hours of gameplay from our upcoming titles. That content is now being shared among a combined 250 million subscribers worldwide, bringing them closer to the new experiences and excitement we will deliver this year.

Q1 set the foundation for FY18, and there is much more ahead of us – new games, more content, and pioneering for the future of play.

At Electronic Arts, we're committed to innovation – for our players and the industry. We are pushing the limits forward. Our focus manifests in three key areas that uniquely position EA to lead and drive growth: a core technology base that is unparalleled in our industry, amazing new titles being developed by extraordinary teams, and new models to expand our reach and help more people discover, engage and enjoy the fun of games.

EA's investments in engine technology, analytics, infrastructure and research continue to fuel advancements in our games, our services and our Player Network. Our industry-leading Frostbite engine is now powering development of a dozen new titles across our portfolio. It is continually engineered alongside our world-class technology platform for games and services, enabling our creative teams to leverage sophisticated data and insights to conceptualize and build the most incredible new experiences for our players. Our digital platform provides the scalable infrastructure that powers our multiplayer experiences, connects players to their friends, and updates our games based on player inputs. And across the company, research

teams like SEED are working in areas like neural networks derived from our data sets, cloud infrastructure to deliver streaming experiences, virtual humans and AI. These concepts will dramatically shape how players interact and experience games over the next five years and beyond.

Competitive gaming will also continue to fuel growth and evolution in EA's portfolio. Players in titles like FIFA and Madden NFL are up to three times more engaged when they are playing competitively, and fan feedback from our tournaments has been highly positive. This year, new competitive structures and new modes are set to expand engagement and drive growth in the digital ecosystem, broadcast and sponsorship. Launching first is *Madden NFL*, where the size and scope of our competitions in FY18 will increase substantially from a strong foundation as we deepen our partnership with the NFL, and bring esports even closer to the real-world sport. At Gamescom, we will debut a new way to play *Battlefield 1* built for competition, and designed with direct input from our *Battlefield* community. Through a growing portfolio of digital and traditional broadcast deals, our spectator reach will continue to expand, with major brands set to engage this high-value audience through global sponsorships.

Looking to our FY18 slate of new titles and live services, we are delivering unprecedented levels of innovation. Starting in Q2:

- *FIFA 18* delivers a generational leap forward for the franchise. Frostbite is now enhancing every aspect of the game from visual fidelity to gameplay. The Journey 2 brings a deeper and more personalized story experience, and FIFA Ultimate Team is expanding with the addition of FUT Icons. *FIFA's* global appeal also continues to grow: *FIFA Online* in China is one of our fastest growing sports businesses over the past year.

- *Madden NFL 18* will break new ground for the franchise when it launches in August, powered by Frostbite, delivering a unique take on story mode with “Longshot,” and introducing MUT Champions to power our global esports competitions.
- *NHL 18* will have the most ways to team up and compete with friends in franchise history – 60 combinations of co-op and online multiplayer, including the brand-new NHL THREES mode.
- And *Battlefield 1* will continue to evolve as a content-rich live service, with monthly game updates, and our next expansion pack, “In The Name of the Tsar,” launching in full in September. In addition, at Gamescom we will detail our plans for a new offering that will bring the richest *Battlefield 1* experience yet – including the all-out warfare, epic multiplayer battles and War Stories campaign that have defined the game, plus new maps, deeper progression and additional fan-favorite game modes, all in a single package.

In Q3, we'll deliver new games in some of our most popular global IP:

- *Need for Speed Payback* will excite fans with its adrenaline-fueled, action-driving experience, signature car customization, new story and new characters.
- Yesterday, we announced that *The Sims 4* is coming to Xbox One and PS4 players this November, bringing the same unique gameplay and self-expression from the PC game to console players. Much of the content added post-launch on PC will be included, with more game updates to come.
- Finally, *Star Wars Battlefront II* will bring the unforgettable *Star Wars* experience that fans want: a game three times the size of the previous title, with a new single-player story, iconic space battles, deeper multiplayer, and a new, event-driven live service model that will keep the community together long after launch. Anticipation and

excitement for this game continues to grow: our trailers and user-generated content for *Battlefront II* have received more than 117 million views to date, up more than a third from our previous game.

We are also focused on growing our reach and engaging more players around the world. Our live services are continually evolving to connect more players with new experiences, like our unique model for *Star Wars Battlefront II* post-launch content, and event-based modes like FUT Champions. As we continue to expand our competitive gaming program across more IP, we are delivering highly-engaging broadcast content for esports spectators, one of the fastest-growing audiences in entertainment. And as a publisher, we have pioneered the multi-title subscription service at the platform level with EA Access and Origin Access, enabling players to discover and enjoy more games at tremendous value. Only EA spans this breadth of engagement models today, helping us to reach more players and continually grow our network.

There is a lot to be excited about in the quarters to come. We are innovating for our players, for our business, and for the industry. Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

We had a great start to the fiscal year, powered by our event-driven live services, particularly FIFA Ultimate Team, and our mobile titles. Our operating cash flow was the highest ever for a first quarter, and underlines how our growing live services have fundamentally changed our business model, resulting in a more stable and predictable cash flow, all year round.

I'll report our results on a GAAP basis, then use our operational measure of net sales to discuss the dynamics of our business. To compare this quarter's results to historically-reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

EA's **net revenue** was \$1.45 billion, compared to \$1.27 billion a year ago, and above our guidance by \$24 million. **Operating expenses** were \$552 million, \$6 million above our guidance due to the phasing of some third-party developer advances. The increase over last year was primarily driven by new product development as we invest in new genres. **Operating income** was \$743 million, and diluted **earnings per share** was \$2.06, \$0.13 above our guidance.

Operating cash flow for the quarter was a record \$176 million, up \$294 million from last year. Remember that the FASB rules regarding the treatment of stock-based compensation have changed, and this affects how we classify our cash flow. Under the old rules, OCF for Q1 fiscal 2018 would have been \$42 million, up \$290 million year on year. Under both accounting treatments, operating cash flow was an all-time record for the first quarter. **Capital expenditures** for the quarter were \$33 million, resulting in a **free cash flow** of \$143 million.

Operating cash flow for the last twelve months was \$1.87 billion, our strongest-ever twelve months. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 1.4 million shares at a cost of \$150 million**, leaving \$1.08 billion in our two-year \$1.2 billion buyback program we began in May.

Our **cash and short-term investments** at the end of the quarter were \$4.47 billion, with 37% of this balance held onshore.

Now, I'd like to turn to the key drivers of our business this quarter.

Net sales for the quarter were \$775 million, up \$93 million on the prior year, and \$25 million above our guidance. There was an FX headwind of approximately \$16 million compared to the prior year. The outperformance relative to guidance was driven by Ultimate Team, *The Sims 4* and *FIFA Online 3*. Year-on-year growth was driven by the *Mass Effect: Andromeda* sales captured in the quarter and by FIFA.

Digital net sales were \$681 million, a new record for the first quarter, and up \$113 million on the year-ago period. The increase reflects strength in live services, together with our Mobile business. In addition, *Mass Effect: Andromeda* was a significant contributor. Digital sales now represent 63% of our business on a trailing twelve-month basis compared to 56% in the prior year.

Looking at each of the components of this quarter's digital sales in turn:

- **Live services** net sales were up 22% year on year, to \$420 million. The growth was broad based, driven by *FIFA Ultimate Team*, *Battlefield 1*, and *The Sims 4*. The esports mode in *FIFA Ultimate Team* continues to attract new players and drive engagement. Notably, *Sims 4* expansion packs continue to perform extremely well, and the last twelve months have been the best in the title's history. Both *EA Access* and *Origin Access* are up year on year. Remember we have merged "Extra Content" and "Subscriptions, Ads and Other" into this Live Services category.
- **Mobile** delivered net sales of \$150 million, up 6% year on year, with growth primarily from *FIFA Mobile*, *Star Wars Galaxy of Heroes* and *NBA Mobile*. *FIFA Mobile* is continuing along its growth trajectory, and beat our expectations by delivering its strongest quarter since launch. June was the strongest month so far for *FIFA Mobile*, a testament to the ability of the team to create compelling live services for players. In Q1 alone they released two major client upgrades and delivered ten major content programs.
- **Full game PC and console downloads** generated net sales of \$111 million, 32% higher than last year. This was driven by *Mass Effect: Andromeda* sales captured in the quarter. 34% of our unit sales are now digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months. This compares to just 27% a year ago.

Turning to guidance: we are reiterating our guidance for the full year.

For the **second quarter**, we expect net revenue of \$955 million, **cost of revenue** to be \$389 million, and **operating expenses** of \$638 million. Opex is up year on year, primarily due to two factors: continued investment in new genres and live services; and the phasing of marketing expenses. Phasing will be different as we start campaigns earlier for new games and

live services. This results in a **loss per share** of \$0.18 for the second quarter. Note that this is calculated using the basic share count of 310 million. Should EA report a profit, the diluted share count of 314 million would be used.

We anticipate **net sales for the quarter** to be \$1.16 billion. This is up 5.6% year-on-year, primarily driven by growth in our sports franchises, offset by an FX headwind of around \$18 million. With regards to sports, *Madden NFL 18* is a significant step up from last year's game. It's the first Madden on Frostbite, it is the first with a story mode, and we've significantly refined the competitive gaming features in *Madden Ultimate Team*. *FIFA 18* continues the pattern of innovation, with the addition of Real Player Motion Technology and Player Personalities, and the second season of the Journey. Also contributing to our excitement around FIFA is the addition of the Nintendo Switch. We will launch *FIFA 18* for all three console platforms on September 29.

In conclusion, we are delighted with the performance of our business in the first quarter, driven by the growing revenue streams generated by our live services. We've applied our teams to developing compelling live services events, and this has fundamentally transformed our business model. Our live services continue to grow our profitability and enable us to generate cash all year round.

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

ANDREW CLOSING:

Thanks, Blake.

The future of games is changing. Over two and a half billion people are estimated to play video games today, and we expect that number will continue to grow. At that scale, the way we connect to, access, and play games will continue to evolve. EA is at the leading edge of that transformation.

Our creative teams are applying advanced technologies and data intelligence to craft new experiences, like our Longshot mode in *Madden NFL 18* and the massive, dynamic environments in *Star Wars Battlefront II*. But this is just the beginning as we combine the power of our Frostbite engine with our digital platform. With increased processing power on devices and in the cloud, the new frontiers for innovation become deeper forms of personalization, immersive and self-generating worlds, artificial intelligence and deep learning.

As we continue to pioneer for our players, our portfolio will expand in FY19 and beyond. We will deliver stories that you're able to play, like the *Star Wars* action-adventure game being developed by the Visceral Games team. *Anthem*, our new IP from BioWare, will introduce a contiguous open world that is ever-changing and influenced by players, as they band together and support each other in their journeys. Next year will also be a World Cup year in soccer, an added opportunity for us to innovate and engage our massive *FIFA* audience around the world. We will continue delivering for our *Battlefield* fans, including the next great game in the franchise. Across our top franchises and new IP, our ongoing focus will be on advancing the state of the art in games for players on every platform.

Delivering new and compelling ways to discover, engage and enjoy games will enable us to reach more players and grow our network. Our live services will continue to expand, hosting thousands of daily, weekly and seasonal in-game events that bringing players in deeper. Our

competitive gaming programs, from online tournaments to global championship spectacles, will engage more players and spectators in our franchises as the massive esports audience continues to grow. And through our subscriptions and Origin platform, players will be able to seamlessly connect to new experiences, from EA's portfolio and beyond.

We are entering a new era for innovation in the games industry. We believe interactive entertainment will change more in the next five years than it has in the last 45. We are excited to lead that evolution at 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 develop and support digital products and services, 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

These forward-looking statements are current as of July 27, 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 Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017. 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 June 30, 2017.