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EA - Q2 2015 Electronic Arts Inc Earnings Call

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OVERVIEW:

EA reported 2Q15 non-GAAP net revenue of \$1.22b and non-GAAP diluted EPS of \$0.73. Expects FY15 GAAP revenues to be \$4.375b and GAAP fully-diluted EPS to be \$2.06. Expects 3Q15 GAAP net revenues to be \$1.1b and GAAP EPS to be \$0.41.



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PRESENTATION

Operator

Welcome and thank you for standing by. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the meeting over to Mr. Chris Evenden, Vice President of Investor Relations. You may begin, sir.

Chris Evenden - *Electronic Arts Inc. - VP IR*

Thanks. Welcome to EA's fiscal 2015 second-quarter earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO. Frank Gibeau, our EVP of Mobile, and Peter Moore, our CEO -- 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 28, 2014, 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 will turn the call over to Andrew.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Thanks, Chris. I am pleased to report excellent results for EA's second quarter of fiscal-year 2015, exceeding guidance for non-GAAP revenue and earnings and generating record Q2 operating cash flow. Strong new titles, deep player engagement in our large services, and ongoing digital growth drove continued momentum for EA.

Putting players first is our top priority at EA and that begins with delivering incredible experiences for gamers every day. Our players on console and PC logged more than 1.9 billion hours of gameplay through the quarter. We also reached more mobile gamers this quarter, with an average of over 155 million monthly active users for EA mobile games.

Across the biggest platforms and most popular genres, EA is delivering long-lasting fun and enduring value for our players.

During the second quarter, EA launched a slate of new games and services across console, PC, and mobile. To call out a few highlights, Madden NFL 15 kicked off in August and quickly registered as one of the most successful Madden titles in recent years among players and critics. To date, players have logged more than 89 million games of Madden, up 48% year over year.

With Sims 4 and NHL 15 launched in September, we have already delivered major content updates to players in both of these games with new features and game modes.

FIFA 15 had only one week in our Q2, but within that week it surpassed 3.4 million unique players in one day, a launch record for our FIFA games, and it continues to be strong. On average, we are seeing nearly 50% more players engaged online in FIFA 15 over FIFA 14 last year. With engagement this strong this early, we are very excited about the opportunity we have with FIFA 15 through the soccer season and beyond.

The Ultimate Team modes for Madden NFL 15, NHL 15, and FIFA 15 continue to see explosive growth. Our aggregate Ultimate Team player base has already increased by more than 40% over FY14.

Madden NFL mobile and FIFA 15 Ultimate Team for mobile also launched for iOS and Android this quarter. Along with our EA SPORTS King of the Course golf game, these are new experiences that have ignited the sports category on mobile. Our EA SPORTS mobile games averaged over 40 million monthly active users in Q2, up 250% year over year.

Our digital transformation strategy continues to drive EA as we innovate and provide more ways to play our industry-leading portfolio of games and IP. Last quarter, we launched EA Access, our new digital service for Xbox One players that allows unlimited play across a selection of EA titles and other valuable benefits for a monthly or annual fee. EA Access membership has grown well beyond our early expectations and we anticipate continued momentum in the months ahead.

Digital is driving our growth in Asia as well. FIFA Online 3 revenue grew 89% year over year in Q2. In Korea, one of the most competitive free-to-play markets in the world, FIFA Online 3 was one of the top mid-session games by revenue in Q2, and the bidder in China has already reached the top 10 for mid-session games as well. Korea and China are exciting growth opportunities for EA and we continue to explore new ways to reach more players with our biggest IP.

Across EA's portfolio, our second-quarter results demonstrated the value we can deliver across different experiences, platforms, and geographies. Our slate of new titles and services for this year and beyond will continue to emphasize new experiences that allow players to spend more time immersed in their favorite games.

Looking ahead into Q3 and the holiday season, NBA Live 15 launched today with stunning visuals and new gameplay experience, and excitement is building for the release of Dragon Age: Inquisition in November. With more than 150 hours of gameplay, Dragon Age: Inquisition is shaping up to be a true BioWare epic. We believe the additional time that we gave the development team has paid off with a great game that is immense, polished, and fun to play. Both IGN and GameSpot have Dragon Age: Inquisition as one of the most anticipated games coming this quarter and we are excited to have fans experience the deep story and gameplay when it launches in just a few weeks.

We expect momentum from Q2 to continue across our portfolio as more players join in our top titles across console, PC, and mobile. Live services for our EA SPORTS games will continue to deliver new updates, content, and challenges to players, connecting the real-world events of the NFL, NHL, soccer, and NBA season directly to the player experience in our games.

We also expect continuing engagement in The Sims 4 as players in the game receive two more rich content updates before the end of the calendar year.

On mobile devices, EA will launch two new games in Q3, SimCity BuildIt and Peggle Blast. Both games are free to play and took advantage of EA's new sandbox program where our employees from around the world play-test early versions of titles still in development. The data and feedback we collect from the sandbox helps us bring innovative, high-quality, new mobile experiences to our players.

Battlefield 4 will release its fifth expansion pack, Final Stand, during Q3, adding to the massive experience in that game. Battlefield 4 continues to add new players and engage existing fans a year after launch.

As a result of the extended services and content updates that we provide, it's clear that players want to experience the games we are delivering for longer periods of time. Looking into next year, we will ensure that our players have enough time between releases to fully explore the depth and innovation in our shooter titles. Beginning on March 17, 2015, in North America and a few days later in Europe, we will launch Battlefield Hardline, packed with innovation and set in an entirely new environment that will excite fans of Battlefield and new players as well.

Following this launch, our next Battlefield experience is planned for launch in Q3 FY17. We want to give Battlefield 4 and Battlefield Hardline players more time to enjoy these games and immerse themselves in a game, the live service, and the community.

Next holiday, we will launch a new blockbuster, Star Wars Battlefront, from our DICE Studio is slated to release in EA's third-quarter FY16.

We will detail more of our upcoming title plans in the quarters ahead, as it is shaping up to be an exciting year. For now, I will hand the call over to Blake for a deeper look at our Q2 financial performance.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Thanks, Andrew.

EA's non-GAAP net revenue was \$1.22 billion, which was 17% higher than the prior year's results and 7% above our guidance. The excellent performance was led by FIFA 15, Madden 15, and The Sims 4. In addition to these key titles, catalog titles, including FIFA 14, Battlefield 4, and Plants vs. Zombies Garden Warfare, continued to perform well.

On a trailing 12-month non-GAAP basis, we delivered record net revenue, record earnings, and record operating cash flow. Our non-GAAP digital net revenue for the quarter increased by 30% year over year to \$453 million, 37% of this quarter's revenue. The trailing 12-month digital net revenue was another record, up 14% to \$2 billion.

Breaking down our digital revenue into its key components highlights the performance of each of these businesses this quarter. Extra content and free to play contributed \$153 million, up 20% over the prior year, led by sustained momentum in our FIFA, Madden, and Hockey Ultimate Team services, which were up 96% year on year. Over the same period, we have grown FIFA Ultimate Team 61%, Madden Ultimate Team 277%, and Hockey Ultimate Team 113%.

In addition, we saw great success in Asia with the continued growth of FIFA Online 3, up 89% year on year. Star Wars: The Old Republic also contributed to the free-to-play segment. As a reminder, FIFA online is still in beta in China with our partner, Tencent; thus, we are not yet recognizing revenue.

The financial success of our digital business follows directly from the strategy Andrew discussed in his remarks of building live services to engage players. These live services are also increasing the longevity of our games. The strength of Ultimate Team in Q2 was mainly due to catalog titles and Ultimate Team revenue associated with the new releases of FIFA, Madden, and NHL is expected to start contributing meaningfully in Q3.

Mobile generated \$115 million for the quarter, up 11% over the prior year. \$105 million, or 91%, of this was from digital extra content and advertising. This was up 35% versus the prior year and continues to more than offset the decline in the premium business. Premium full-game download revenue was just \$10 million, down 62% compared to the prior year.

Full-game PC and console downloads generated \$94 million, up 71% over the prior year. Although the percentage varied considerably by title, platform, and geography, the trend towards full-game downloads continues.

Subscriptions, advertising, and other digital revenue contributed \$91 million, up 47% over the same period last year. The ratable recognition of Battlefield 4 Premium continues to be a driver behind the year-on-year comparison. EA Access is performing above expectations, although little revenue was recognized in Q2, following its launch in the middle of the quarter.

Moving on to gross margins, our non-GAAP gross margin for the quarter was 66.1%, an increase from last year's 61.7% and better than our guidance of 65.5%. The increase over the prior year was primarily due to growth in our digital business, both full-game downloads and extra content, and by The Sims 4 launch.

Non-GAAP operating expenses for the quarter were \$497 million, \$2 million below prior year and \$33 million better than our guidance. Our lower operating expenses compared to guidance were largely driven by quarterly phasing of key expenses in marketing and contracted services, combined with continued cost discipline. We expect some of these marketing and services costs to be incurred in future quarters.

With regard to the year-over-year comparison, bear in mind that The Sims 4 drove more marketing expenses than the titles in the same quarter last year. In addition, some marketing expenses originally planned for Battlefield Hardline were shifted into Q4 as we refine our launch plans for that title.

More generally with regard to expenses, we believe there are still many opportunities to improve our profitability. We are focused on generating operating profits, as well as revenues, and this has increased our emphasis on driving our digital and live services businesses.

The resulting non-GAAP diluted EPS was \$0.73 per share, far exceeding our guidance and prior year, due to strong revenues, higher gross margin, and continued cost control. The beat was primarily driven by the strength of our key franchises, outperformance in our digital business, and the power of our deep catalog, coupled with continued spending discipline.

Our cash and short-term investments at the end of the quarter were \$2.39 billion or approximately \$7.65 per share. 67% of this cash and short-term investment balance is held onshore.

Net cash provided by operating activities for the quarter was \$183 million versus last year's use of \$6 million. On a trailing 12-month basis, operating cash flow was a record \$1.15 billion.

During Q2, we repurchased 2.6 million shares at a cost of \$95 million. As a reminder, our \$750 million stock buyback program was initiated in May and has a two-year timeframe. The current rate of purchases keep us on a track to complete the full \$750 million in that time.

Now turning to guidance, due to our strong first half of the year performance, we are increasing our full-year guidance. For fiscal-year 2015, our non-GAAP guidance for revenue will increase by \$75 million to \$4.175 billion and our non-GAAP EPS will increase by \$0.20 to \$2.05 per share. This results in an expected operating margin of approximately 21%. This increase in our total-year guidance is driven by the continued strength of our core titles, our catalog business, our digital live services, and our continued focus on operating expenses.

In addition, this guidance reflects our plan to ship Battlefield Hardline during the third week of March 2015.

The guidance -- the GAAP guidance becomes \$4.375 billion in revenue and \$2.06 in fully diluted EPS.

Regarding cash flow for the full fiscal year, we are increasing our operating cash flow guidance to approximately \$850 million. Our capital expense forecast remains approximately \$100 million, resulting in a new free cash flow forecast of approximately \$750 million.

Guidance for our third quarter is now non-GAAP net revenue to be \$1.275 billion, a 19% decrease compared to last year's \$1.57 billion. Last year's third quarter was exceptional in that it saw the launch of PlayStation 4, Xbox One, and six major next-gen titles from EA. Launches this quarter include Dragon Age: Inquisition, NBA Live 15, and, on mobile, Peggle Blast and SimCity BuildIt.

Our non-GAAP gross margin is forecasted to be 70.5%. Q3 operating expenses will be impacted by the phasing of some of our operating expenses from Q2. We expect our total non-GAAP operating expense to be \$515 million. This results in a non-GAAP diluted EPS of \$0.90 per share, as compared to \$1.26 last year.

Our Q3 guidance for GAAP net revenue is expected to be \$1.1 billion, as compared to \$808 million in the prior year. GAAP earnings per share is expected to be \$0.41, as compared to \$1 loss per share in the prior year.

As a follow-up to Andrew's comments on our title slate in FY16 and FY17, we are planning to release Star Wars Battlefront in Q3 FY16 and our next Battlefield title in Q3 FY17. This provides us with a major first-person shooter title each year and allows us to focus on steadily earnings progression -- still increasing earnings progression in the coming years. This also allows our Battlefield titles to enjoy the long life we have seen historically through our core gameplay and extended services.

We will provide detailed yearly guidance on our title slate, as we normally do, during our fourth-quarter earnings call, but we felt that more clarity around our plans for Battlefield and Star Wars franchises would be useful at this time.

In the last two years, we have achieved major improvements in the Company's operating model, dramatically increasing cash generation and profitability. We're building a solid foundation for steady earnings growth as we focus on player engagement, our continued digital transformation, intelligent investment in new IP, and the leverage of our catalog in an increasingly digital and mobile world. We are very excited about the future of the industry and of Electronic Arts.

Now I will turn the call back to Andrew.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Thanks, Blake.

Looking ahead, there are three distinct principles that drive our strategy today. As I said at the outset, we are constantly focused on our commitment to put our players first. The foundation of this commitment is delivering amazing and innovative new experiences for our players, both from fan-favorite brands and new IP.



Battlefield Hardline will be a fresh new direction in the Battlefield universe coming in Q4. We are excited to deliver Star Wars Battlefront to fans next year, and in recent months, we have shown new projects in development from studios across EA. We continue to invest deeply in new experiences, both near term and long term.

Second, as we accelerate towards our digital future, we are transforming the way people play games. For the past several years, we have been developing EA's digital platform, the technology foundation that allows us to deliver live services for games like FIFA and Battlefield, while building player relationships that can last for years, instead of days or weeks.

That same foundation also enables new player-centric ways to discover and try new experiences, including EA Access and Origin's Great Game Guarantee, Game Time, and On the House programs. The digital transformation is unlocking new potential in platforms, content models, and modalities of play, and with our investments in technology and services, we feel well prepared to continue delivering new opportunities for our players.

Third, the pursuit of our goals requires that we operate as one team that is faster, more focused, and constantly evolving. We are changing how we develop, engaging with players through alphas, betas, and other programs to seek out more feedback. We are changing the shape and skill set of our workforce, and combine the art of game making with the science of managing dynamic live services.

We continue to increase our speed, while improving discipline in our operations. As an organization, we are learning, adapting, and evolving to not only be an innovative leader in gaming, but also to build meaningful long-term relationships with our players.

After a dynamic and rewarding first year as CEO, I'm even more energized for the future of Electronic Arts and this great industry. Now Blake, Peter, Frank, and I are here for your questions.

Chris Evenden - *Electronic Arts Inc. - VP IR*

Thanks, Sharon, now we are ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Edward Williams, BMO Capital Markets.

Edward Williams - *BMO Capital Markets - Analyst*

Just quickly, if you guys could dive in a little bit on the digital adoption. Blake, you made the comment that there was a wide range in performance from game to game. But if you can give us a little bit more color as to how it is looking from -- in the various games compared to prior cycles and if there is any key nuances from market to market.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

I think clearly we are seeing more of it here in the US than internationally, just because, I think, of bandwidth speeds and the adoption of digital downloads, music, and movies, and others. We've tended to lead that.

The interesting note is remember we had a fairly large SimCity game last year, and then The Sims game this year, and so you're still seeing growth, even though you had two PC titles back to back in those quarters. So you have got to assume that there is stronger movement on the console titles



across the board. We are seeing that on both platforms, Xbox and Sony, and we are seeing it across all genres of the games we are having, as well as -- not just our most current games, but also some of our older games that are in the catalog.

Edward Williams - *BMO Capital Markets - Analyst*

Okay, great. Thank you.

Operator

Stephen Ju, Credit Suisse.

Unidentified Participant

This is [Nick] on for Stephen. Thanks for taking the question. With FIFA online still in beta testing in China with Tencent, is there any update on the timeline for when that actually goes live? Thanks.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

We will probably see -- it really depends on both the performance in beta and timing from -- coming from Tencent, but it's most likely late in Q3 or early Q4, but results in the beta, as Andrew mentioned, have been very, very exciting for us. It looks like a strong product, and clearly that product has done extremely well in Korea and we hope to replicate a similar view in China.

I do think, as we have said in the past, it's probably six to 12 months before we really see momentum there, and we have a long-term view. The game of soccer in China is growing in popularity and we think that means real strength for the long run in that business.

Operator

Mike Olson, Piper Jaffray.

Mike Olson - *Piper Jaffray & Co. - Analyst*

Without giving anything away competitively, could you provide some details on what the extra development time for Battlefield Hardline will result in or what kinds of things you guys are focusing on there?

Then secondly, you had a strong growth for full-game downloads in the quarter. Can you give us a general sense for what you expect the percentage of full-game units that will be downloads versus packaged goods over the next several quarters will be?

Andrew Wilson - *Electronic Arts Inc. - CEO*

This is Andrew. I will take the first part of the question, then pass to Peter to get the digital download piece.

At a macro level, what we discovered as we went through the beta phases with Battlefield Hardline and play testing feedback and the various game shows that we showed it at was that the cops and criminals fantasy that was the foundation for the game resonated very, very strongly with not just existing fans, but new players to the Battlefield franchise.



But the feedback was also somewhat universal that we should go deeper with that fantasy and really deliver against that to a greater degree, and what we have done is given the development team that time to go back in and really look at how to truly deliver on that cops and criminals kind of gameplay as it exists in a Battlefield world.

Peter Moore - *Electronic Arts Inc. - COO*

Mike, this is Peter. The second part of your question, as Blake said, it varies from genre to geography, but right now with the increased adoption of gen 4, we are seeing anywhere between 10% and 15% of our net sales through digital channels full-game download.

And as we get into the holiday and beyond, we can only imagine that is going to increase, so we're pretty optimistic that that number will increase over the next few quarters, as per your question.

Mike Olson - *Piper Jaffray & Co. - Analyst*

Thank you.

Operator

Justin Post, Bank of America.

Ryan Gee - *BofA Merrill Lynch - Analyst*

This is Ryan Gee calling in for Justin. My question is on your R&D investments, encouraging to see that it continues to trend lower. Curious to think if there is any point in this cycle where it should start to reverse and you start to actually reinvest in R&D.

Then as a follow-up, what percent of your R&D or your development budgets right now are going towards new IP to leverage the new consoles versus existing franchises? Thanks.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

I guess the most important thing to remember about R&D is that we are changing and reprioritizing all the time the things that we do.

And so if you see movements up or down in R&D, that may mean that we've changed the priority in the development schedule, not that we are actually cutting back true R&D spending. We may have stopped -- ended the cycle of development on one product and are waiting to start on the next cycle on another product. Be careful to let any one quarter's movement of R&D up or down worry you about new IP development or get you locked into a lower R&D long term.

I think in general what we are trying to do is develop great IP that has live services connected to it, which extends the life of the gameplay, and that may mean over time that our R&D as a percentage of revenue comes down, but that's really driven by the fact that the revenue per product is going up dramatically over time as we're extending the life of those products.

We are going to continue to prioritize the R&D across both our console products and our mobile products and our PC products, and you will see R&D spending slowly climb up in a dollar level over time, but most likely, as a percentage of revenue, continue to stay flat to come down.



Operator

Drew Crum, Stifel.

Drew Crum - Stifel Nicolaus - Analyst

Blake, as far as the revenue guidance is concerned, you beat the quarter by \$80 million. You raised by \$75 million. I see the \$[15] million FX detriment you are forecasting for the balance of the year. Are there any other puts or takes you can point to to reconcile the revenue guidance -- the updated revenue guidance you provided?

Then as a follow-up, I noted a slowdown in mobile. It looked like it dropped sequentially. Is that just timing and do you still expect to grow mobile 20% or better in 2015? Thanks.

Blake Jorgensen - Electronic Arts Inc. - CFO

So I guess conservatism isn't a fair answer there, Drew.

I think most important is the fact that we are going to ship Hardline the third week of March. That leaves Hardline as really just the first sell in into the channel in the US and in international markets. We probably will get no replenishment that late in the year, and a lot of the digital components of Hardline will fall into the coming year. So we are not overly aggressive, because of that decision, around the timetable.

The second is while we are very optimistic about our business, we're also trying to be very conservative in our forecasting and maintain our vigilance around driving the digital side of our business. Today, it's harder -- it's still hard to forecast all of the digital trends, and thus we are, I think, defaulting towards the numbers that you are seeing.

But we are very excited about both the third-quarter slate and the fourth-quarter slate, and I think the reality is that we will tend to see longer service drawn out across products, which will spread revenues out across the quarters, unlike having it all grouped in the third quarter as we saw historically.

What was the second part of your question, Drew?

Drew Crum - Stifel Nicolaus - Analyst

The second question was concerning mobile. I think you originally guided to 20% or better growth in fiscal 2015, and it looked like it slowed down sequentially. It actually declined from the first quarter and your second quarter. Just wonder if you're still confident you can grow mobile 20% or better this year.

Blake Jorgensen - Electronic Arts Inc. - CFO

Yes, let me -- I will let Frank answer it around the product, just one quick math item. Just remember that the premium side of our business, the paid downloads, which are really a leftover from our original mobile business, they are still a drag on the overall growth. That drag has now gotten down to a fairly small number, but it dropped 62%. It's down to \$10 million.

When you look at mobile without that drag, it's up 35%. Now quarter over quarter, or sequential quarters, you got to be careful because we have products that ebb and flow in every quarter, but let me let Frank address some of the products and, most importantly, some of the new products we are seeing in mobile.

Frank Gibeau - *Electronic Arts Inc. - EVP EA Mobile*

Yes, I think Blake said it very well there that the premium services side of the business, which is where the future is and where we are focused, is growing 35% in that quarter and in that year.

It was largely tied to a timing issue. The products for sports came later in the quarter, and as you know, freemium games don't have big pops initially, like a packaged goods game. They tend to grow very nicely over time.

If you look the individual products, we saw some very good results year over year on FIFA and on Madden. Overall, you saw in the case of EA SPORTS a jump of over 250% in terms of the engagement metrics.

So if you look at a year-over-year comp between titles, you are seeing a lot of -- a lot more effectiveness in terms of the services that we are running, much better focus on value and engagement for our customers, and as you look at the way that the rest of the SKU plan and title plan will unfold over the next period of time, we are very confident that those growth numbers will be possible.

We are very focused on that growth, but we want it to be oriented towards value and sustainability, so we are always looking at engagement as the primary metric there to make sure that the products and services that we are building really hit customer expectations and create services that can endure for multiple years, like we have with The Simpsons and Sims FreePlay and Real Racing.

Drew Crum - *Stifel Nicolaus - Analyst*

Perfect. Okay, thanks, guys.

Operator

Mike Hickey, The Benchmark Company.

Mike Hickey - *The Benchmark Company - Analyst*

Great quarter. Just curious if you could talk a little bit to how you see the key drivers or what the key drivers for growth in fiscal 2016?

Andrew Wilson - *Electronic Arts Inc. - CEO*

I think that we have a tremendous new slate of titles that we are launching. We talk about Star Wars Battlefront, as well as the rest of our sports portfolio that continues to grow. We have got the ongoing growth in the PlayStation 4 and Xbox One console generation. We expect that will continue to be very healthy.

Need for Speed will be back in a year with having had a full two-year development cycle the first time in its history (technical difficulty). We expect that we will be able to continue to scale the live services and the ongoing engagement that we drive for our players.

So when you think about that at an IP level, at a platform level with console and mobile growth, and our live service growth, we feel like we have some strong levers to work with for FY16.



Blake Jorgensen - *Electronic Arts Inc. - CFO*

I guess I would add to that the continued growth of FIFA Online 3 in Korea, China, and FIFA around the world in general and mobile FIFA Ultimate Team, which has rolled out, as Frank mentioned, continue to contribute to the growth of the FIFA franchise, which we see as very important for us.

Mike Hickey - *The Benchmark Company - Analyst*

Thanks, guys. That's very helpful. Then just as a follow-up, can you speak to the future of your Titanfall franchise?

Andrew Wilson - *Electronic Arts Inc. - CEO*

We have announced that we have a continuing relationship for Titanfall, but we have nothing more to announce at this time.

Mike Hickey - *The Benchmark Company - Analyst*

Okay. Thanks, guys. Best of luck.

Operator

Tim O'Shea, Jefferies.

Tim O'Shea - *Jefferies & Company - Analyst*

Congrats on the quarter. Just looking at that Star Wars license, I was wondering if you could articulate the strategy with respect to how many different AAA franchises we might expect to see over the life of that license. In addition to the Battlefield shooter, are you working on any other games in different genres? Any chance we could see something like an RPG, maybe even a reboot of BioWare's Knights Of The Old Republic?

And then I had a quick follow-up.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Again, it's a great IP, a fantastic relationship, and we certainly have plans to do a number of different things as part of that relationship that are going to deliver great ways to interact with that IP for players.

At this time, we have announced Star Wars Battlefield. That is our focus and nothing more to announce at this time.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

I would -- if you go back to the original announcement when we struck the deal with Disney, it's clearly a multi-year franchise. Disney is looking for us to help support the broad effort of bringing back the Star Wars franchise, and it's across mobile, social, tablets, online, consoles, across all venues. So you can imagine that we're going to look for many ways to leverage the franchise and help that franchise grow over time.

Tim O'Shea - *Jefferies & Company - Analyst*

Thanks. Then just quickly, any color on that big jump in engagement for Madden? The 89 million games to date, up 48% year over year. How big of a role does Ultimate Team play in terms of driving that engagement? It sounds like Ultimate Team is really working for you guys. Thanks.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Yes, there are really two vectors that are -- created that jump in engagement. This year, the team embarked on a journey to create a better onboarding flow for the game in general and get more people into the game and enjoying it than we have done before.

And then from that point of enjoyment, provide Ultimate Team as a way to engage and socially connect with their friends around the sport they love, and the combination of better onboarding and heightened social interaction are probably the two greatest drivers of increased engagement in Madden this year.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

We saw this year for the first time that Madden, which normally stops gameplay after the Super Bowl -- we rarely sell a lot of Madden after the Super Bowl and we can see on the servers that people aren't playing much. This year, we saw Madden play, primarily due to Ultimate Team, all the way up until we shipped the new Madden.

We saw big spikes around the draft in May and we continued to see gameplay even through the summer, as people were engaging with beauty of the Ultimate Team concept and the ability to engage with their friends as a way of continuing to stretch out that engagement.

Peter Moore - *Electronic Arts Inc. - COO*

Just on that point, this is Peter, to Blake's point exactly, Ultimate Team for years has stretched out our engagement with FIFA all the way through to the next installment of the game.

We haven't had that luxury with Madden, but in the last year and certainly we -- our expectations for this year do exactly that. Post-Super Bowl, the numbers of engagement were superb and our retail partners were reporting strong catalog sales as a result of that, so we really feel now our NFL game feels like a 12-month a year service, rather than a one-off game that is played three or four months a year.

Frank Gibeau - *Electronic Arts Inc. - EVP EA Mobile*

Just to add on, mobile Ultimate Team is really serving as the centerpiece for FIFA and Madden there and has driven the year-over-year gains in engagement and audience size. So, Ultimate Team works across multiple platforms and geos and has proven to be a great engine of growth for us.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

And if you love defense, you could play defense a lot better now than you could before on Madden.

Tim O'Shea - *Jefferies & Company - Analyst*

Great, fantastic. Thanks for the color.



Operator

James Hardiman, Longbow Research.

James Hardiman - Longbow Research - Analyst

Thanks for taking my call and congrats on a strong quarter. Maybe just give us a little bit more details, if you can, on EA Access. Do you think that's having a positive impact on your annual sports titles? Are there any people that may have bought a title, but didn't after the demo period -- any chance that gets picked up by Sony platforms or are those negotiations ongoing? And then, I had a quick follow-up.

Peter Moore - Electronic Arts Inc. - COO

James, it's Peter. That's exactly what is happening. We are seeing both empirical and anecdotal data that people now who are members of Access and, of course, have access to games like FIFA and Madden, who've said that ordinarily they wouldn't have gone out and bought them, are now experiencing them and enjoying them, and our belief is the next time around when the games are launched, they will actually buy them.

It's turning into an incredible sampling program for us, if you will, and obviously the value for money is there.

As regards the Sony question, nothing to talk about right now on that. But I will say that EA Access is surpassing all of our internal expectations with regard to subscriber numbers, and it is delivering exactly what we thought, which would be a great way for gamers to get great value and experience more games.

James Hardiman - Longbow Research - Analyst

Got it, and then just a quick clarification. Peter, you talked about that digital mix on consoles of 10% to 15%. Just help me clarify. The last couple quarters, you had talked about similar numbers on the next-gen consoles. Is that 10% to 15% across consoles, in which case it seems like a pretty big increase? Is it just on next gen, in which case it seems like it is flattish, despite some commentary that suggested that it might be growing?

Peter Moore - Electronic Arts Inc. - COO

That's purely next gen. I am referring purely to next gen what I talk about 10% to 15%, and we are seeing that number grow.

As Blake said in the outset, it varies by genre and it also varies by geography, depending on, quite frankly, the quality of your Internet speed in downloading multi-gigabyte files. But we are seeing each quarter that goes by, as we ship more games, we are seeing a steady increase in digital full-game downloads.

Blake Jorgensen - Electronic Arts Inc. - CFO

I guess I would be careful with the number and trying to get a trend out of it. One, since it is just very new and, two, there is not that many titles out there.

For us, we ship a lot of FIFA into Europe. If people are doing less full-game downloads in Europe either because FIFA is a big title that a lot of retailers use to bring traffic into their stores or because Internet speeds are slow, be careful that you don't use that as a data point that implies that it's either flattened or not.

We think the trend, based on what we hear from consumers, as well as what we are seeing in our own product, is continued direction toward full-game download.

James Hardiman - *Longbow Research - Analyst*

Got it, thanks, guys.

Operator

Neil Doshi, CRT Capital.

Robert Goodman - *CRT Capital Group - Analyst*

Good afternoon. This is actually Robert on the call for Neil. Just a couple questions. On Hardline, wondering just beyond what you are addressing with the game, what progress you are seeing on the development team and when we might be able to expect the second beta there?

Then, also, if you could provide a little more color on some of the expenses that shifted out of 2Q and should go into 3Q, both in terms of the scale and the specific investment areas. Thank you.

Andrew Wilson - *Electronic Arts Inc. - CEO*

With respect to the game, again, as I talked about earlier, a lot of what was happening was taking what was a really solid foundation for a game and really doing our best to deliver on the fantasy that was the cops and criminals gameplay mechanic.

The team is going through in both single player and multi-player and done a lot to enhance that and make sure that comes to the forefront and delivers an experience that is interesting both to Battlefield fans and new players alike.

With respect to the team themselves, they have a great deal of passion around this. There's a lot of great people on that team, and I am energized every time I spend time with them and hear them talk about what they're doing, and then see how they are delivering that at a gameplay level.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

As far as expenses, what we have said is that some of the expenses associated with either product marketing or contracted services -- and as a reminder, we often use contracted services late in the development cycle for testing or debugging of a product -- some of those expenses got pulled forward as we moved Battlefield Hardline forward, and some of the marketing expenses got phased as well.

Also, some phasing around the holidays as we want to make sure we're having great promotions around the holiday timeframe. Then obviously, some of it got put into our raise of guidance as a real savings to the quarter, and we will try to be as transparent as possible going forward on what we think is phasing and what we don't, and that's really the core pieces of that.

Robert Goodman - *CRT Capital Group - Analyst*

Great, thank you.

Operator

Doug Creutz, Cowen.



Doug Creutz - *Cowen and Company - Analyst*

I was wondering if you could give a little color. Of people who are playing your Ultimate Team games on mobile, how many of them are also console players? Then, I guess, vice versa. How many of your console players are playing Ultimate Team on mobile? Is there more opportunities there to try to cross-sell people who are in one experience to get them to also be in the other experience? Thanks.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Doug, I thought you were going to ask about Madden. Let me let Frank answer the mobile question.

Frank Gibeau - *Electronic Arts Inc. - EVP EA Mobile*

It's a great question. It's something that we are tracking and watching. It's a little early right now, honestly, to give you a definitive answer because the game on mobile is out and it's so new.

What we've found to date is that there is a very loyal following that will play Ultimate Team everywhere, but a lot of the mobile activity is incremental to what we have already established on consoles and on PCs, which is great news.

So, it is something that we will track over time and report back on, but early stages are that most of it is incremental.

Andrew Wilson - *Electronic Arts Inc. - CEO*

And for a little bit more color there, part of our core strategy is to offer our biggest IP as unified and united experiences across platforms where people can play on one platform or many, but interact with a single community across the globe on those platforms. We believe that kind of social interaction and that engagement is the way forward for our industry.

Peter Moore - *Electronic Arts Inc. - COO*

Doug, it's Peter. I am reminded there is also the FUT web app, as we call it, which is a companion app that allows you to be able to manage your FIFA Ultimate Team via mobile, separate to the mobile game itself. But no matter where you are, 24 hours a day, you can manage that FIFA Ultimate Team mobility.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

I think one interesting thing we have watched as we roll out mobile in Korea alongside of FIFA Online 3, it has actually grown both businesses. It just increases the understanding of the Ultimate Team mechanic and the game itself, and we are doing our best, as Andrew mentioned, around onboarding to educate people about the excitement of Ultimate Team.

There is still a lot of people that don't understand it. They understand Fantasy Football. They understand playing or trading card mechanics, but they haven't seen how it works in a game, and so we are trying to do a better job of that onboarding, and we feel that across all platforms will help grow all platforms.

Doug Creutz - *Cowen and Company - Analyst*

Great, thank you.

Operator

Adam Krejcik, Eilers Research.

Adam Krejcik - Eilers Research - Analyst

Thanks for taking the question. First one is, have you guys disclose what percentage of your total non-GAAP revenues now come from Asia and where do you see this going in the next year or two?

And then the second question is on mobile. It looks like your MAUs have been trending higher, I think, from 130 million, 140 million, now 155 million this most current quarter, but the smartphone and tablet revenues have been pretty stagnant or flat here. So are you actually seeing lower paying engagement in ARPU levels or is there something else going on?

Additionally, how do you think about the CPI environment on mobile? It tends to be increasing quite a bit here. How do you guys view the mobile install landscape? Thank you.

Blake Jorgensen - Electronic Arts Inc. - CFO

Let me start. This is Blake. I will start with the Asia question and then I will let Frank to address the mobile questions.

On Asia, we don't break out our revenues. It is obviously the smallest part of our international business. Europe is obviously very strong, primarily due to the strength of the console business there. Asia, as far as console markets, really is -- and Australia, New Zealand, Southeast Asia are really where the bulk of the console players is, and Japan, where the biggest markets, China and Korea, tend to be more PC, free to play, and mobile.

Our strength there has been partnering with third parties -- Nexon in the case of Korea for FIFA Online 3 and Tencent in China, so we are in early days there. But we see a huge opportunity, particularly to play off of some of our strong IP, not just FIFA, but games like Need for Speed. Our Plants vs. Zombies franchise is very popular in China, and you'll see us focusing on both mobile and free-to-play games in those marketplaces through partnerships or through iOS and Android distribution over the coming years.

Frank Gibeau - Electronic Arts Inc. - EVP EA Mobile

This is Frank. Let me take a couple of your questions in line here. As you noted, yes, MAUs have had a very nice growth trend, hitting 155 million in the last quarter in terms of monthly active users. If you parse out what Blake had called out earlier, the freemium revenues within that overall mix are actually up 35%, so MU growth and freemium revenue growth are both doing nicely.

We have a lot more to do. We are proud of what we have done, but we know we can do better, but that's how I would start to think about how those two are trending. We still have a bit of this overhang of getting past the premium side of the business, which should be in the rearview mirror pretty soon here.

As it relates to your argument about -- or your question about CPI, one of the competitive advantages we have at Electronic Arts is we have this incredible diversity and portfolio of brands that have huge audiences out there, and we are able to organically attract people into those brands and into our network much more efficiently than a lot of other mobile gaming companies out there.

So as the cost of install or the cost to acquire continues to rise, we have a bit of an unfair advantage in that our brands naturally attract, and as well, we have a network that is very large in size. Last year, we installed over 635 million games. That generates an audience that we can reach out and touch very effectively and communicate with as they increase their engagement in our games.

So if we can keep them in our network, that compounds the advantage that we have in organic acquisition.

Those would be two of our offsets in a rapidly growing CPI world that other mobile game companies don't have and we're going to maximize those leverages. That leverage, by investing more in our network to provide more engagement opportunities and more value to our customers, at the same time as we release more of these branded hits like FIFA and SimCity BuildIt.

Adam Krejcik - *Eilers Research - Analyst*

Very helpful. Thank you.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Thanks, all, for joining us and we look forward to speaking with you again next quarter.

Operator

This concludes today's conference. Thank you for your participation. You may now disconnect.

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