

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

EA - Q1 2013 Electronic Arts Inc. Earnings Conference Call

EVENT DATE/TIME: JULY 31, 2012 / 09:00PM GMT

## OVERVIEW:

EA reported 1Q13 GAAP net revenue of \$955m and GAAP diluted EPS of \$0.63. Expects FY13 GAAP revenue of \$3.90-4.05b and GAAP EPS to be between loss of \$0.17 and a profit of \$0.05. Expects 2Q13 GAAP revenue of \$650-700m and GAAP loss per share of \$1.43-1.36.



## CORPORATE PARTICIPANTS

**Rob Sison** *Electronic Arts Inc. - VP, IR*

**John Riccitiello** *Electronic Arts Inc. - CEO*

**Ken Barker** *Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer*

**Frank Gibeau** *Electronic Arts Inc. - President, EA Labels*

**Peter Moore** *Electronic Arts Inc. - COO*

## CONFERENCE CALL PARTICIPANTS

**Neil Doshi** *Citigroup - Analyst*

**Edward Williams** *BMO Capital Markets - Analyst*

**Brian Karimzad** *Goldman Sachs - Analyst*

**Arvind Bhatia** *Sterne, Agee & Leach, Inc. - Analyst*

**Sean McGowan** *Needham & Company - Analyst*

**Colin Sebastian** *Robert W. Baird & Company, Inc. - Analyst*

**Justin Post** *BofA Merrill Lynch - Analyst*

**Atul Bagga** *Lazard Capital - Analyst*

**Doug Creutz** *Cowen & Company - Analyst*

## PRESENTATION

---

### Operator

Welcome and thank you for standing by. At this time, all participants are in a listen-only mode. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I will turn the meeting over to Mr. Rob Sison, Vice President of Investor Relations. You may begin.

---

### Rob Sison - *Electronic Arts Inc. - VP, IR*

Thank you. Welcome to EA's fiscal 2013 first-quarter earnings call. With me on the call today are John Riccitiello, our CEO; Ken Barker, interim 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](http://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-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 July 31, 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 Q1 net revenue of \$955 million, digital revenue of \$342 million, gross margin of 78.5%, operating expenses of \$535 million, and resulting EPS of \$0.63 per diluted share.



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, our CEO.

---

**John Riccitiello - *Electronic Arts Inc. - CEO***

Good afternoon. EA delivered a solid performance in our first fiscal 2013 period, hitting EPS guidance for the quarter. The EPS loss of \$0.41 was at the high end of our guidance and \$0.01 ahead of the Street. The quarter was marked by a series of puts and takes that reflected the strength and diversity of our business across multiple brands, channels, business models and geographies.

The disappointing results of Star Wars - The Old Republic were largely offset by a powerful performance from Battlefield 3 premium service, although revenue recognition rules will push this very significant EPS driver into our fourth quarter. Industry weakness in packaged goods was offset for EA by share growth on console and continued strength in digital, including on our own Origin platform.

In the first quarter, 66% of our revenue was generated by online games and services.

And finally, a section level slowdown in social network games was more than offset by share gains for EA, and we also saw double-digit growth in mobile, driven by gains on smartphones and tablets.

What you're seeing is a strategic balance that none of our peers can duplicate. We have strength in a dozen great brands, strength in strong market positions across multiple channels and business models. In general, the hits offset the misses, allowing us to keep our promises, meeting or exceeding guidance for 10 consecutive quarters and maintaining strong guidance of double-digit EPS growth in a very dynamic transition market for games.

We have established solid fundamentals and a clear strategy for future growth. We're bullish on EA's future, and today we are announcing that our Board of Directors has authorized a share buyback totaling \$500 million.

With that, I will turn the call over to our interim CFO Ken Barker.

---

**Ken Barker - *Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer***

Thanks, John. Starting with the review of Q1, EA's overall performance was in line with the guidance we provided on our last earnings call. Total Q1 non-GAAP net revenue was \$491 million, roughly in line with our guidance of \$500 million.

Note that this quarter's non-GAAP revenue does not include revenue from our recently launched Battlefield 3 premium subscription service. \$37 million of Battlefield 3 premium sales were generated in June, beating our expectations by a wide margin. However, we will recognize these sales as revenue in the fourth quarter when we release the fifth expansion pack entitled Endgame.

Our prior non-GAAP guidance had been based on Battlefield 3 premium revenue being recognized when the sale is made. Also, our prior guidance had assumed our packaged goods title, The Secret World, would launch in Q1. However, it ultimately launched in Q2.

EA's Q1 non-GAAP digital net revenue increased 55% year over year to \$324 million, and for the trailing 12 months exceeded \$1.3 billion, representing a year-over-year growth of 57%.

Q1 non-GAAP digital revenue represented two-thirds of total revenue, demonstrating the success in our strategy to have 365 day relationships with our consumers. We launched seven digital titles in the quarter and had revenue growth in all areas of our business.

For the quarter, extra content and future play free-to-play were up 87% versus last year, led by PopCap, Battlefield 3, Mass Effect 3 and The Sims Social. We also successfully launched SimCity Social, which currently has over 10 million MAUs, and is monetizing well. Old game downloads were up slightly year over year with Origin contributing almost 60% of the quarter's full game digital download revenues.



Mobile and other handheld digital revenue was up 34% year over year. This quarter we saw continued growth in our smart phone and tablet revenue, as well as in our Asia mobile business. Our FIFA - World Class Soccer title was a top-selling mobile title in Japan on the GREE Network for the quarter. \$52 million of this quarter's revenue came from smartphones and tablets, growing 86% year over year. This growth will offset a decline in standard feature phones. Subscriptions, advertising and other digital revenue grew 69% year over year, driven by Star Wars - The Old Republic. Frank will provide an update on Star Wars later in the call.

Moving on to gross margin. Our non-GAAP gross margin was within our expectation and up 7 percentage points year over year, due to less distribution revenue.

Recall that last year's results included distribution revenue from the launch of Portal 2. Operating expenses for the quarter came in lower than expectations due to a combination of operational efficiencies and delayed spending. The resulting non-GAAP diluted EPS was a loss of \$0.41 for the quarter, slightly 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 was \$1.4 billion, or approximately \$4.50 per share. Roughly half of this of amount was held offshore. Net cash used in operating activities for the quarter was \$244 million, and on a trailing 12-month basis, operating cash flow was \$307 million, a quarter-over-quarter increase of \$30 million.

In summary, for Q1 we delivered revenue and EPS that were in line with the non-GAAP guidance we provided on our last call, despite a delayed launch of our only packaged goods product and deferral of Battlefield 3 premium sales. We are able to deliver on the bottom line to the strength of our catalog products an effective cost management.

Turning to guidance. GAAP revenue for the second quarter is expected to be between \$650 million and \$700 million, as compared to \$715 million in the prior year. GAAP EPS for the second quarter is expected to be a loss of between \$1.43 and \$1.36 per share, as compared to a loss of \$1.03 in the prior year. Non-GAAP revenue for the quarter is expected to be between \$1.05 billion and \$1.1 billion, an increase from last year's \$1.03 billion.

The EA Sports label is in the spotlight this quarter with its award-winning lineup -- NCAA football, Madden, NHL and FIFA. Along with our exciting sports releases, we expect to see continued quarter-over-quarter and year-over-year digital growth in virtually all areas, utilizing our brands effectively across mobile, social, play-to-free, console and PC.

Our updated guidance also reflects the fact that Battlefield 3 premium sales made in the second and third quarters will not be recognized until the fourth quarter when Endgame is released.

In addition to the multiple digital titles we already support, we expect to launch nine new titles across social, mobile and free-to-play in Q2.

Regarding operating expenses, we expect our total non-GAAP OpEx to be approximately \$600 million for the quarter with marketing and sales driving the sequential increase given the seasonal launch schedule.

For the quarter, we expect non-GAAP EPS to be between \$0.07 and \$0.12, as compared to \$0.05 last year. The difference from last quarter's commentary is driven by the revenue deferral for Battlefield 3 premium.

For fiscal 2013, GAAP revenue for the fiscal year is expected to be between \$3.9 billion and \$4.05 billion, and GAAP EPS is expected to be between a loss of \$0.17 and a profit of \$0.05 per share.

Non-GAAP revenue for the fiscal year is expected to be between \$4.1 billion and \$4.25 billion. We are lowering the midpoint of our guidance from \$4.3 billion to reflect current exchange rates and lower expectations of Star Wars. The change in FX rates from last quarter, primarily for the euro and GBP, is impacting our revenue guidance by roughly \$75 million. Given the current volatility in foreign exchange rate and revenue from Star Wars, we believe it is better to provide a range than a single amount.

Our revenue guidance also considers a change in mix in the gaming sector. Our overall calendar 2012 expectations for the sector and the Western world remain consistent with our previous forecast. We continue to expect overall low single-digit percentage growth with digital growing over 20%. However, we are now expecting more growth in mobile and free-to-play, but this is offset with slightly less growth in social and greater weakness in packaged goods.

Operating expenses are now expected to be approximately \$2.2 billion, \$50 million lower than our prior guidance, due to the change in foreign exchange rates and our continued focus on cost management. We are maintaining our non-GAAP EPS guidance of between \$1.05 and \$1.20. However, we are expecting very unique phasing for the back half of the year. In Q4 we will see three substantial, high-margin, incremental positives versus Q4 fiscal 2012.



First, all of the high-margin Battlefield 3 premium revenue from the first three quarters will be in the fourth quarter. Second, SimCity on the PC launches in Q4 with significant margin and no comparable title in fiscal 2012. And third, a significant contribution from our mobile and social launches, particularly those from PopCap. As a result, we are expecting roughly equal profitability between Q3 and Q4.

Now a few housekeeping items. PopCap. While we reaffirm PopCap double-digit EPS accretion for the fiscal year, we have adjusted our expectations to incorporate the weaker growth in the social space.

Headcount. As of June, our headcount was roughly 9200 with about 70% of that in R&D, and we expect to increase total headcount to 9700 by the end of fiscal 2013.

Cash flow. We reconfirm our fiscal 2013 operating cash flow and capital expense projection of at least \$400 million and \$100 million, respectively. This implies an expected free cash flow generation of over \$300 million, or three times what we generated in fiscal 2012.

Buyback. Today we are announcing a \$500 million stock repurchase program. EA's Board has authorized this program with an open timeframe. While we expect to be able to complete the buyback with available onshore cash, we are considering establishing a line of credit to provide us with additional flexibility.

Now I'll turn the call over to Frank.

---

**Frank Gibeau - Electronic Arts Inc. - President, EA Labels**

Thanks, Ken. I'll begin with an update on EA's subscription business. Our philosophy is to give players maximum choice by offering premium subscription services alongside a la carte microtransactions. We believe this makes our games more acceptable and attracts the largest possible audience.

First, the game many of you have been tracking closely, Star Wars - The Old Republic. Although it launched well, subscriptions have been on a declining trajectory and have now slipped below 1 million. Last year we announced that the breakeven point was roughly 500,000 subscribers. While we are well above that today, that is not good enough. The message from players exiting the game is clear -- 40% say they were turned off by the monthly subscription, and many indicate they would come back if we offer a free-to-play model.

Our plan now is to pivot and provide a two-tiered pricing plan, which will make the game more accessible and grow the audience. The new pricing will go into effect in November. The first tier is a premium player's membership for Star Wars fans who want everything the game has to offer. For \$15 a month, premium players will receive comprehensive access to the game plus monthly infusions of in game currency, which can be used for booths, customization and for moving more quickly through each level.

The second tier is a free-to-play option which allows consumers to experience the first 50 levels at no charge, but with some restrictions on content and advanced player features. Upgrades to the experience can be purchased with in game currency. Players will move at their own speed and comfort level, and if and when they are ready, they can easily switch to the premium tier.

Additionally, we are introducing new pricing next week in North America and Europe. Beginning August 6, Star Wars - The Old Republic will retail for \$14.99, essentially offering the first month for free.

As John mentioned, the disappointing performance of Star Wars was largely offset by the great performance of our Battlefield 3 premium service. The core game, Battlefield 3, launched 10 months ago and has shipped over 15 million units to date. The premium service introduced in June has sold roughly 1.3 million downloads in just two months. Offering both a premium subscription and an a la carte option has proven to be enormously popular with consumers.

We couldn't be more pleased with how the diversity of our business allows us to make up for a missed on one franchise with a big hit on another.

Next, I will quickly review EA's major releases for Q2, the holiday and Q4. I'll start with Madden NFL 13 because this year's game represents a huge leap in innovation. Powered by the all-new Infinity Engine, every impact is more intense and no two plays ever look the same.

Madden 13 also includes Connected Careers mode, a new feature which allows you to create a player or coach in a league with 32 of your friends.

The presales for Madden NFL 13 are up 25% versus last year, and purchase intent, based on weekly Nielsen surveys, is also up significantly.



Next is our FIFA soccer franchise, a connected universe that continues to grow with new markets, formats and devices. This year, the core product, FIFA 13 for PCs and consoles, transforms the way players control the ball. We've upgraded the online features with better multiplayer and a rich social network where fans can compete and share with millions of other players around the world. And earlier today, in Seoul, South Korea, we announced a partnership with Nexon to publish FIFA Online 3 there.

Our current game, FIFA Online 2, continues to be a smash hit in Korea, with internal estimates suggesting 80% of all men in that country aged 16 to 19 play this game. The agreement with Nexon gives us a big advantage with a clear platform leader in that country when the product goes into beta testing later this year.

Another FIFA title is attracting a big audience in Japan, FIFA - World Class Soccer, which is running on the GREE Network. Together with FIFA Online 2 in Korea, these games generated \$25 million in the quarter.

Viewed as a whole, our FIFA franchise validates three fundamental assumptions in our digital strategy. First, big brands have global appeal and can attract mass audiences in multiple markets. Second, high-quality free-to-play games can generate impressive revenue and profitability. Third, our digital strategy is not beholden to a single product, platform, geography or business model.

Congratulations to the global team that creates and sustains this fantastic game franchise.

Two more highlights for EA SPORTS. First, watch for NHL 13 in September, a title many critics feel is the best-looking sports game on the market. This year's game includes an all-new skating engine and a GM Connected mode that allows you to manage, coach or play online against friends.

Second, we are incredibly excited about our new partnership with the UFC. The team is already hard at work on creating a connected universe of fighting games for consoles, PCs, mobile and tablets. In my opinion, this franchise could easily grow to be one of the top three EA SPORTS brands worldwide.

Other big titles scheduled to ship this fiscal year include Medal of Honor Warfighter. Built on the Frostbite 2 engine with the direct involvement of special forces combat veterans, the game drops players into real-world hotspots. This is an especially competitive holiday for shooters. The primary competition in this category, Halo and Call of Duty, are both sci-fi games this year. We believe the authenticity of Medal of Honor Warfighter will help us extend the positive trend line we have established with this franchise.

Next, Need For Speed Most Wanted is being developed by a renowned Criterion studio in the UK. Most Wanted had a strong debut at E3. It won best racing game and was the only non-shooter nominated for best online multiplayer.

Jumping into Q4, presales on our sci-fi/horror franchise, Dead Space 3, are tracking almost 5 times higher than Dead Space 2 in the same timeframe in 2010. We believe the new co-op gameplay feature is attracting a lot of attention and a broader audience.

SimCity earned 36 award nominations and 17 wins at E3 and is tracking with good demand metrics, great awareness and solid purchase intent.

Crysis 3 is a highly anticipated title we are publishing in partnership with Crytek in Frankfurt. Pre-orders are roughly 3 times what they were for Crysis 2 at this time in 2010.

Those are our major releases for the balance of the year. Now I want to offer some perspective on our fast-growing free-to-play games, a portfolio that includes social network games, as well as browser-based experiences for PCs, consoles and mobile.

Free-to-play is EA's fastest-growing business model, with year-over-year revenues that are up 156%. And while this already makes up 17% of our overall revenue in Q1, the compounded annual growth rate is significantly outpacing the overall market.

EA's strategic focus on big brands fits comfortably in this business model. In fact, the worldwide recognition of our brands provides a powerful competitive advantage in attracting large audiences at a lower cost of acquisition.

I've already highlighted the success of our free-to-play FIFA games, but let me give you a couple more examples to prove a point.

The Sims Social continues to perform well, averaging roughly 3 million daily active users in the past month. The game has generated more than \$50 million in revenue since it launched last summer.



SimCity Social launched in June and hit 1.6 million DA used last week. While it is still early, the game is monetizing well and on track to exceed our internal projections.

Need For Speed World, a browser-based free-to-play title, has already registered 15 million players. And Bejeweled Blitz from PopCap was once again EA's top-grossing game on IOS. A clear trend line is emerging here. While I look at the quality of these games and the revenue they produce, I'm convinced that free-to-play will emerge as the leading business model for PC and mobile gaming.

Back to John.

---

**John Riccitiello - *Electronic Arts Inc. - CEO***

Thank you, Frank. EA had another solid quarter. We have met or exceeded Street consensus in our last quarters and have growth digital revenue and EPS in each of the last three years. We have a portfolio of proven brands, and we have diversified our business, extending the reach, revenue and profitability of our major brands with high-margin online services and content offerings.

Within EA, we have the talent to continue to drive both the art of content creation and the science of successful monetization. We have a rapidly growing audience of 0.25 billion users, and we are building a technology platform to recognize each player with a unique ID and to service them across multiple devices. This has changed our relationship with the consumer from shot, intermittent transactions to an ongoing connection that can last months, and, we believe, for years.

EA is a company with an ambitious strategy for future growth, and we deeply appreciate the ongoing support of our shareholders.

With that, Ken, Frank, Peter and I will take your questions.

---

**Ken Barker - *Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer***

We will start taking questions now.

## QUESTION AND ANSWER

---

**Operator**

(Operator Instructions). Neil Doshi, Citi.

---

**Neil Doshi - *Citigroup - Analyst***

Great. Thank you very much. Two questions, please. J.R., could you discuss where EA is in the platform build and how that's progressing?

And then secondly for Ken, I think there's a lot of moving parts in terms of the guidance today. Is it possible to give us a little more detail around your fiscal 2013 guide, especially as it relates to the phasing and how we should be thinking about the publishing business, Star Wars and the Battlefield 3 premium business? Thanks.

---

**John Riccitiello - *Electronic Arts Inc. - CEO***

I think I got the easier of the two questions, at least less multipart, anyway.

The platform, I would say that we have virtually all the underlying plumbing in place, meaning the overall architecture for the database, the customer ID system, security in and around that, you know, the principal features that we need. We bring that forward or manifest that with our Origin service, which is presently a PC-based business and also on mobile.



You can see different aspects of this when you look at the advertising surround on our social and mobile offerings, and what you'll be seeing over the coming year is all of this start to merge into one more cohesive service offering from Electronic Arts. If you will, we might be shifting from a series of products, say, like a Warner television more to an HBO in some of our offerings.

In terms of where we are in the process, I'd say we're sort of 70% to 75% built, and more in the category of 30% to 40% shown, in terms of what we have.

---

**Ken Barker - *Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer***

With regard to the overall guidance for fiscal 2013, starting with the top revenue, we had given guidance of \$4.3 billion at the last call, and we're now giving revenue guidance of \$4.1 billion to \$4.25 billion. And that's due to a combination of two things, really. First is the FX rates. The move on FX has come down, primarily in the Euro and GBP, by roughly 10% since May, so that's had a \$75 million impact. On the rest, it's a number of puts and takes, but Star Wars is the primary driver for the rest of that.

As you go through the rest of the income statement margin, there's a mix that impacts us there, but generally a little bit favorable there. And, again, our cost structure, where we are guiding at 2.2 in non-GAAP OpEx, due to the FX, as well as some effective cost management that we're working to. So we're able to hold the overall non-GAAP EPS range that we had provided at the last call.

As it relates to the phasing towards the back half of the year, there are those three things that I talked about in our prepared remarks. The first is Battlefield 3 premium. That is -- all of the revenue or all the sales associated with that service in the first three quarters are being deferred until we launch the last expansion pack called Endgame, which is planned for Q4. So that has a significant impact, not just on revenue, but also EPS, as that is very high-margin, essentially pure profit hitting that quarter. And it has an adverse impact for the first three quarters.

The second was SimCity. There is no compare. Our comp in the prior year. That's launched on the PC. It's high margin. It's high profitable title for us, and that has a good impact to us in that quarter, in the fourth quarter.

And then the last is, we were seeing significant contributions to mobile and social and PopCap -- and we're excited about what we see from PopCap in that quarter. And that's going to be a big driver in the fourth quarter as well. So that's driving that split between Q3 and Q4 to be roughly equal profitability.

---

**John Riccitiello - *Electronic Arts Inc. - CEO***

Yes, one way to think about the year might be this, if you're looking for simple, straightforward headlines. At the full-year basis, the strength on Battlefield largely offset Star Wars. And while the phasing is consistent with our expectations once we recognized we had a deferral associated with Battlefield, we recognize that not everybody in the Street would have an understanding, so we wanted to provide some clarity.

Q3 is not as strong as last year. Medal of Honor, while good, will comp well to Battlefield 3, which was a huge hit. And then we've got the three hits in Q4, one of which is essentially in the bank already, and the other is pretty straightforward in the way of SimCity.

So, again, we like our guidance. We like to be able to hold our guidance. We're disciplined about delivering that. And there is a slightly different shape to the earnings curve this year than prior years for our launch schedule.

---

**Neil Doshi - *Citigroup - Analyst***

All right. Thank you, John. Thank you, Ken.

---

**Operator**

Edward Williams, BMO Capital Markets.

---

**Edward Williams - *BMO Capital Markets - Analyst***





Good afternoon. A couple questions on EA SPORTS for a moment.

---

**John Riccitiello - Electronic Arts Inc. - CEO**

Hey, can you speak up. You are so quiet we can barely hear you.

---

**Edward Williams - BMO Capital Markets - Analyst**

Is this any better?

---

**John Riccitiello - Electronic Arts Inc. - CEO**

Yes.

---

**Edward Williams - BMO Capital Markets - Analyst**

Okay. A couple questions on EA SPORTS for a moment. Can you give us a sense as to -- if we were to look back at fiscal 2012, how much of the EA SPORTS revenue was from digital sources? And as we look into fiscal 2013, how might that change? What sort of growth could we get there?

And then I have a follow-on after that, but if you can just give us the color about the digital contribution within SPORTS and how it's evolving.

---

**Frank Gibeau - Electronic Arts Inc. - President, EA Labels**

Well, this is Frank. I will start and maybe Peter can help add some color as well. The digital business in SPORTS is up year over year. We're continuing to see strong growth trends in FIFA Ultimate Team and also from our free-to-play businesses in Asia. It's probably up double digits.

When you're looking at how we've expanded digital this year in terms of a product offering, with the release of Madden and NHL and some of the other products, we've added that Ultimate Team style of gameplay. So we're anticipating that growth will come from expanding the offerings online to our additional franchises.

So as those products hit the market, we will have a much better read on what the ultimate growth will be this year, but we're very bullish on it, and it has been growing year over year very nicely.

---

**Peter Moore - Electronic Arts Inc. - COO**

Yes, I think the other thing is, to Frank's point, that the maturing of being able to put in the Ultimate Team mode into both football and hockey has been big. I'm just looking at some data here. If you look at FIFA 11 to FIFA 12, I know that crosses calendar years, but in FIFA 11 that generated \$79 million of digital revenue, primarily obviously FIFA Ultimate Team. We're projecting FIFA 12, and it crosses over fiscal years, and will do \$161 million.

So we are close to double year on year in FIFA alone, which, of course, is probably the lion's share. And I think what you're going to see both Madden and NHL continue to grow that as they mature with their consumer base and the features they offer for Ultimate Team. And let's not forget Season Ticket as well, which is an online feature we offer EA SPORTS consumers for early access to content and discounts on DLC.

---

**Edward Williams - BMO Capital Markets - Analyst**

Okay. And then, looking at NCAA and then pre-orders from Madden, can you give us a sense as to what you're seeing within -- from retailers within the packaged goods category?

---

**Peter Moore - Electronic Arts Inc. - COO**



Well, packaged goods, as I think we mentioned on the call, we're seeing continued declines. From our perspective, digital is where it's at. 20% increase in digital, single-digit declines in packaged goods. NCAA is holding well, and remember, we're in the seventh year of, as this generation, when I think from going back from Xbox 360 in 2005. So our sports titles are holding up incredibly well.

But from an overall perspective, we're seeing 25% increase year on year, which is a phenomenal achievement for Madden on the pre-orders. Retailers are very, very bullish about this title. I think you probably saw it at E3, the new Infinity Engine. The physics in the tackles and all the motions the players have now are spectacular. So I think it's almost unprecedented that we are going into year seven, and we're seeing that level of increase in anticipation from our consumer base. Retailers are delighted with the pre-orders we're seeing on Madden 13.

---

**Edward Williams - BMO Capital Markets - Analyst**

Okay. Great. Thank you.

---

**Operator**

Brian Karimzad, Goldman Sachs.

---

**Brian Karimzad - Goldman Sachs - Analyst**

Hi there. On the social and the smartphone investment, I know, because you're building a pipeline there, it's hard to look at the margin, a snapshot in time and say that's the run rate, but can you give us a sense on titles that have launched over the last year or so, what kind of success rate you're seeing, if success perhaps is defined as those that are earning a positive margin or earning their costs back within a year of launch? And then I have a follow-up.

---

**Peter Moore - Electronic Arts Inc. - COO**

Well, the two social examples, Brian, is obviously what we said on the call, SimCity Social, which right now has got over 10 million MAUs, and we're only just a few weeks in market, full-blown, on that on a global basis. And, of course, the Sims Social is still averaging over 3 million DAUs, and we made \$50 million on that since we launched it last year.

So those are the two best examples we have right now. We have a strong portfolio of digital titles for the fiscal year, 41 in total. Those are social, mobile and free-to-play, and we're committed to the nine titles we're going to ship in those categories in Q2.

So from the focus that we are putting on as a Company, we do recognize that the growth in social is slowing down, but more than being picked up with the opportunities in mobile in particular, and on a global basis, we talked about our success in fee for in both Korea and Japan.

So, growth slowing down in social, big pickup in mobile. The application of world-class brands across these platforms is going to be the differentiator. And I think it's also important to note that, as a Company, it allows us to be able to spread our bets across different platforms. We can up some investment where we're seeing platforms be successful and maybe ratchet back on others.

Still very bullish on social, it slowed down a little bit, but boy, we've seen some great pickup in mobile.

---

**Brian Karimzad - Goldman Sachs - Analyst**

Okay. And then, Ken, on the guidance, I think I'm probably missing some little nit here, but if I were to take what you've given and create an operating income number that's implied by it, the old guide ended up, I think, around \$500 million. The new, if I take the low and the high literally, gets you kind of around \$425 million to \$520 million. The high end is a touch above the old; low end is meaningfully below. The middle is down about 6%.

If I look at what you've given for tax, it doesn't look like it's changed much, and the share count is maybe 1% different. The EPS has not changed, even though the op income theoretically could be down about 5% from the old. I'm kind of running out of cards here, but do you mind help me filling in what I'm missing?



---

**Ken Barker** - *Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer*

You are hitting it in terms of the OpEx is we're shooting at a 2.2. And so there's, that number you have to guesstimate as to where that number is. Our tax is holding roughly the same on a non-GAAP basis at 28%. So if the impact -- your revenue mix is a little bit -- is probably going to be a little bit different than what you'd seen in the last quarter. So between the margin and the OpEx, that's where you're seeing some of the ability to hold our total guidance for the year.

---

**John Riccitiello** - *Electronic Arts Inc. - CEO*

This is John. I think you may -- you went by a lot of numbers real quick there, but you said something that you are trying to flip to, but I don't think we're tracking. We were afforded consistent \$1.05 to \$1.20 EPS, which tracks to pretty consistent op income range. Are you suggesting something different than that you're asking us to explain?

---

**Brian Karimzad** - *Goldman Sachs - Analyst*

(multiple speakers) No, what I'm getting at is, if you take the fiscal 2013 guidance and you take the revenue and then you take the gross margin you offer and then pull out the OpEx, that seems to imply an op income number for the year, which looks like it's between \$425 million and \$520 million. If I did that with the prior guide, the one issued in May, it implied an op income of about \$500 million. And I'm just trying to figure out how the EPS range stays the same, given the other items you've given, the tax and the share count are essentially the same. But the midpoint of this is a little bit lower.

---

**John Riccitiello** - *Electronic Arts Inc. - CEO*

We should take this off-line, because you're taking a single point off a \$0.15 range last time, and you're putting a range around a \$0.15 range this time on op income. And I don't think that's a comparison that quite adds up.

---

**Brian Karimzad** - *Goldman Sachs - Analyst*

Yes, that's why I'm trying to figure out what's driving that range?

---

**John Riccitiello** - *Electronic Arts Inc. - CEO*

Well, we didn't do the math and get the same number you did, so I'm not sure how to respond to your question.

---

**Brian Karimzad** - *Goldman Sachs - Analyst*

(multiple speakers) We will take offline as --

---

**John Riccitiello** - *Electronic Arts Inc. - CEO*

We maintained our earnings guidance from the last call, and we haven't changed share count. So there's something that's missing on your numbers.

---

**Brian Karimzad** - *Goldman Sachs - Analyst*

Yes, yes, there's something in between that, and so that's what I'm trying to get at.

---

**Operator**

Arvind Bhatia, Sterne, Agee.



---

**Arvind Bhatia** - *Sterne, Agee & Leach, Inc. - Analyst*

Yes, great. I wanted to see if we can go back to the social games discussion a little bit.

One, we know that [Phazwidgen] made some changes recently, and you've got a lot of games coming in the next several quarters, and in some ways, the changes they're making should level the playing field and maybe be a positive for players like you.

So, one, I'd like you to comment on how you see the overall competitive dynamics changing for you in social games.

And then, within the context of digital, you have lowered your social games' growth expectations. I wonder for PopCap what that means in terms of the earnouts and the EBIT margins that you guys have talked about. Are they somewhat different, meaningfully different, or generally holding, and the delta is just going to be across the board on all the different titles? Thanks.

---

**Peter Moore** - *Electronic Arts Inc. - COO*

Hey, Arvind. It's Peter. Let me take that first question. Yes, Facebook is making navigation and discovery of new games a little bit easier, and I think that benefits our slate coming into the marketplace over the next three quarters here. No real radical changes to what we're at it, and as I said, the diversification of our business allows us to ratchet up what we're doing in the overall social, mobile, free-to-play market as we see the market paradigm start to shift.

But from our perspective, we certainly were not increasing our -- any guidance on social because of any changes that Facebook is making. We take great pride in the diversification of our business, but nothing that would be radically different or material to us because of any change that Facebook is making. We're very happy with where we're at. We're delighted with the portfolio that's coming down the pike, and I think we are fine with that as it currently stands.

---

**Ken Barker** - *Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer*

All right. So, with regard to PopCap, while we said we were reaffirming the double-digit EPS accretion in the year, we indicated that the slowing growth or slightly slowing growth in the social sector is -- we're adjusting our expectations with regard to that.

It is having a more challenging impact for them to be able to hit their earnout, and we've made adjustments to that. That is where we are shaking there. We're still excited and bullish on the overall portfolio that PopCap brings to us. Just they've got a little bit more of a headwind against them right now with the space.

---

**John Riccitiello** - *Electronic Arts Inc. - CEO*

(multiple speakers) The question about operating income that came up a moment ago, I would direct you to go back to the slides we released a quarter ago and examine slide 21 and compare that to slide 14 from this year's -- this quarter's release. You'll see that the net income numbers are within a couple million dollars for the full year, so essentially exactly the same when you look at the range. And since the tax rate is exactly the same, the operating income is exactly the same.

I think there was another issue with footing that we'd be happy to ask off-line or respond to off-line, but at this point I have that for everyone that heard the question, slides 21 and 14 provide data from our slides on the website.

---

**Arvind Bhatia** - *Sterne, Agee & Leach, Inc. - Analyst*

Thanks. I had a question on the Medal of Honor franchise and then Battlefield as well. I might have missed this early on, but did you guys talk about the franchise relative to how -- relative to the last one, a couple of years ago? And I also want to confirm that Battlefield -- that there will be a Battlefield in fiscal 2014, that that is the right way to think about the launch time for that?

---

**Frank Gibeau** - *Electronic Arts Inc. - President, EA Labels*

Yes, this is Frank. On Battlefield, we are aiming to have a product -- the next product in the Battlefield franchise in that period of time that you highlight.



And with regards to Medal of Honor, we brought the brand back a couple of years ago in 2010 with the goal of building a sustainable, long-term franchise that was positioned around the authentic experience of being in combat, and we were very proud of the first product. It definitely delivered on a lot of fronts, and a couple fronts it didn't. We weren't as pleased with the quality as we had hoped to be.

And our goal was, with this version, was to change things up a bit. We changed the tech base from the Unreal engine to the Frostbite engine. We added some resources from our Dike Studio in Stockholm, and we've tried some very innovative things this time around with multiplayer and some other things. So we're tracking to grow the franchise from the prior version, the 2010 version, and our goal is to continue to have a Medal of Honor as part of our portfolio going forward.

---

**Peter Moore - Electronic Arts Inc. - COO**

Arvind, this is Peter. The question on pre-orders, they are tracking to internal projections. So when I look at retail and Origin, they are actually up as we currently stand here weeks out of launch versus where they were in 2010.

---

**Arvind Bhatia - Sterne, Agee & Leach, Inc. - Analyst**

Great. Thank you, guys, and good luck.

---

**Operator**

Sean McGowan, Needham & Co.

---

**Sean McGowan - Needham & Company - Analyst**

Yes, please, two questions. Was the growth in gross margin entirely attributed to the reduction in distribution revenue?

---

**Ken Barker - Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer**

The vast majority of it is due to the reduction of the distribution revenue, yes.

---

**Sean McGowan - Needham & Company - Analyst**

So have we not really seen a lot of the benefit of this rapid growth in digital? Is that to come?

---

**Ken Barker - Electronic Arts Inc. - CFO, SVP & Chief Accounting Officer**

I was explaining the net impact. We are getting the benefit from it. Distribution had more of an impact than just the 7 points. It was greater than that, but the digital offsets it. I was just clarifying, entitling my comments.

---

**Sean McGowan - Needham & Company - Analyst**

All right. Thank you.

---

**John Riccitiello - Electronic Arts Inc. - CEO**

Most of our digital business businesses have gross margins between 70% and 95%, and our packaged goods business is, depending on the property, in the 60s. And so we definitely get a pickup in gross margin as we shift to digital. But it depends on exactly what channel that digital product was in. PC product on Origin is extremely high margin, lower on Facebook. But, in general, we get a significant pickup as we move to digital. We've seen our gross margins rise in the last four years from



approximately 49% into the low to mid-60s. And that's -- the question from Sean was essentially that. The shift has been a mix of reduction in the distribution business and a drive towards the digital business.

---

**Sean McGowan** - *Needham & Company* - Analyst

Thank you. And the second question is, can you comment at this point on what we should expect or not expect on the football litigation?

---

**John Riccitiello** - *Electronic Arts Inc.* - CEO

Which --

---

**Sean McGowan** - *Needham & Company* - Analyst

I mean the settlements or proposed settlements or you know what's going on with that issue.

---

**Peter Moore** - *Electronic Arts Inc.* - COO

There was a settlement a couple of weeks ago, which was public, for \$27 million, which was public. And you can read the details online, Sean. We are happy to give you more details on that. Is there another one that you are interested in?

---

**Sean McGowan** - *Needham & Company* - Analyst

No, I didn't mean those details. I mean what do you expect us to do, if anything, to the ongoing success in this franchise over the next several years?

---

**Peter Moore** - *Electronic Arts Inc.* - COO

No impact whatsoever. And clarification, because some of the headlines are confusing, this does not impact us with NCAA. It simply means that in our next renegotiation we can't sign an exclusive license, but we're very, very aggressively continuing to pursue the NCAA license for football, which may have to be on a nonexclusive basis. But there was some concern that this means we're out of the NCAA football business. I need to clarify that is not the case at all.

---

**Sean McGowan** - *Needham & Company* - Analyst

I figured that was a misprint on that headline, but in terms of competition, you just don't expect this to have any impact on the landscape?

---

**Frank Gibeau** - *Electronic Arts Inc.* - President, EA Labels

We don't believe so. We're very bullish on our NCAA product going forward, and we welcome the competition.

---

**Sean McGowan** - *Needham & Company* - Analyst

Okay. Great. Thank you.

---

**Operator**

Colin Sebastian, Robert Baird.

---

**Colin Sebastian** - *Robert W. Baird & Company, Inc.* - Analyst



Thanks. Good afternoon. A couple of quick ones for me. I guess platform questions, really, and first off, since E3, if you could talk about your expectations for Wii U, if those views have changed at all, given some of the mixed reviews.

And then secondly, in the smartphone and tablet segment, obviously iOS and Android are going to be a core focus, but I'm also wondering how much Windows, the mobile platform, and perhaps Amazon devices, if they are also going to be an area of investment as well? Thanks.

---

**Frank Gibeau** - *Electronic Arts Inc. - President, EA Labels*

I can take the second one first. This is Frank, and then Peter can comment on Wii U. The vast majority of our business is Android and iOS, and the growth rates are extremely high, so we're very much focused there.

However, we are approaching devices from Amazon and Microsoft in an opportunistic manner. We are multiplatform. We're not wed to one platform or the other. We're definitely working on ideas there to see how we can approach them opportunistically. And if they grow and become more significant, we will be in position to ride that wave.

---

**Peter Moore** - *Electronic Arts Inc. - COO*

Yes, Colin, it's Peter. Just on the Wii U, as you know, we announced Mass Effect on the Wii U to great applause at the Nintendo press conference. As we stated, we are keeping a very close eye on the platform. You're probably right in saying that it probably got a lackluster response coming out of E3. They are great partners. We never underestimate what Nintendo can do, as evidenced by the last generation. We've got great franchises that are poised to be on that platform right now, and we may announce something in the future. Right now we've announced Mass Effect, and we'll probably leave it at that right now for announcements on the Wii U platform.

---

**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Thanks very much.

---

**Operator**

Justin Post, Merrill Lynch.

---

**Justin Post** - *BofA Merrill Lynch - Analyst*

Great. A couple big picture questions. Just on your digital portfolio, how much of that revenue is tied to console games versus stuff that might be completely unrelated to console games?

And then secondly, a lot of good pre-order data out there from you and some other people in the industry, but it looks like sales, when they are added up at the end of the quarter, are not up as much as the pre-orders. I'm just wondering, what kind of dynamic is going on with pre-orders and how indicative do you believe that is of total sales? Thank you.

---

**Peter Moore** - *Electronic Arts Inc. - COO*

I will take the pre-order question. We look at pre-orders as a key indicator from the perspective of being able to dictate what we think the first week of sellthrough is, Justin. It often varies. Some consumers pick up at 100% level from our key retailers. Some are only pre-order \$5 or whatever it is to the next title.

So NCAA's most recent one, we had strong pre-orders, and we're seeing strong sellthrough of that title. And, as we mentioned a few moments ago, we're up 25% in our pre-orders year on year on Madden 13 and think that would be a key indicator for the strength of the title.

---

**John Riccitiello** - *Electronic Arts Inc. - CEO*



To add to that a little bit, Justin, I think it's fair to say that over the last four to five years, publishers have invested more on pre-order incentives.

And so I think, broadly speaking, pre-orders -- the direction of pre-orders is a good indicator. The magnitude of the increase is not always a good indicator. And I think it's just a function of the fact that the people have been investing to get to pre-orders, and that can disassociate, if you will, the natural underpinnings of the value of a pre-order.

Frank, I think, is going to address the question on --

---

**Frank Gibeau - Electronic Arts Inc. - President, EA Labels**

Yes, your question, what percentage of our digital revenue is coming from consoles? On a trailing 12-month basis, we're generating about \$1.3 billion in digital revenues. A little over \$400 million of that is associated with consoles.

---

**Justin Post - BofA Merrill Lynch - Analyst**

And when you say associated, that is just like, things like map packs and some of the stuff you're doing with sports, and also does that include the direct downloads of games that go on consoles?

---

**Frank Gibeau - Electronic Arts Inc. - President, EA Labels**

It includes both. It's direct download of full product, as well as downloadable content like what you see with Battlefield and FIFA.

---

**Justin Post - BofA Merrill Lynch - Analyst**

Great. Thank you.

---

**Operator**

Atul Bagga, Lazard Capital.

---

**Atul Bagga - Lazard Capital - Analyst**

Hey, guys. Thanks for taking my question. A couple of questions for you. I was wondering if you can share any update on the retail environment in Europe, and what kind of pre-orders you have seen on FIFA versus last year?

And second question about Star Wars free-to-play, what is your expectation for Star Wars this year? It seems like from your commentary that you are not making any expectation from Star Wars in the full-year guidance. Does that mean anything coming from free-to-play is upside to the guidance? Thank you.

---

**Peter Moore - Electronic Arts Inc. - COO**

Hey, it's Peter. I'll touch on the first question. Europe has stabilized nicely. As I think we've been talking about in the last couple of calls, we lost a major retailer there. The slack seems to have been picked up by other retailers. Plus, a strategic buyer is reopening some of those stores in the UK.

It's a little early on FIFA pre-orders. We get a better indication over the next couple of weeks, but all indications are, when we look at those metrics, anticipation, the feedback we're getting from consumers coming out of E3, and then perhaps most importantly, as you know, we're going into Cologne in two weeks for GamesCom, we will have a very strong indicator of the strength of that type. So stay tuned for further info on FIFA as we come out of Cologne the week of August 13.

---

**Frank Gibeau - Electronic Arts Inc. - President, EA Labels**





I'll take the second question. This is Frank. The pivot to free-to-play is really about opening up the top of the funnel and getting more players through and starting to claw back some of the folks that have churned. We anticipate that the mix between subscription and free-to-play are going to be balanced. But we don't see free-to-play revenues as incremental to anything that we currently discussed on the call.

---

**Atul Bagga - Lazard Capital - Analyst**

Thank you.

---

**John Riccitiello - Electronic Arts Inc. - CEO**

Karen, we will probably take one more question here.

---

**Operator**

Doug Creutz, Cowen & Company.

---

**Doug Creutz - Cowen & Company - Analyst**

Hi. Thank you. I may have just answered this, and if so, I apologize. Could you comment on what your NCAA football sales to date, sellthrough has been to date, versus last year, first of all?

And then secondly, in your slide deck, you have your number of titles coming per quarter and a list of titles you've announced. It looks to me like you have three consoles/PC titles that you haven't yet announced what they are for the year. Is that correct? And also is it correct that those are all scheduled for the March quarter? Thank you.

---

**Peter Moore - Electronic Arts Inc. - COO**

Hey, Doug, it's Peter. On the NCAA, we really don't start comparisons this early in the sellthrough cycle, albeit particularly as school is not even in yet. But we do see strong comps from year to year so far. It's a long season for NCAA football; it's a very strong holiday title. So whilst I'm not going to give you specific numbers, it's got off to a very good start. But this is a longtail title.

NCAA really only kicks off for us from the perspective of being able to market aggressively against it, once the college football season starts. And, again, very strong into the holiday period, as well as bowl season in January. But so far, so good.

---

**Frank Gibeau - Electronic Arts Inc. - President, EA Labels**

And on the title count, yes, there are six titles scheduled for Q4, three of which we have announced and are providing in our schedules.

---

**John Riccitiello - Electronic Arts Inc. - CEO**

And GamesCom is when we do most of the rest of the unveiling. So we use the major consumer shows as opposed to our quarterly financial results to announce titles.

---

**Doug Creutz - Cowen & Company - Analyst**

Okay, great. Thank you.

---

**John Riccitiello - Electronic Arts Inc. - CEO**



Thank you, everyone. We will be ringing off. Appreciate your time.

---

**Operator**

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

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2012 Thomson Reuters. All Rights Reserved.

