ELECTRONIC ARTS

Q1 FY13 PREPARED COMMENTS

July 31, 2012

Rob Sison:

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. 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 31st, 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. John?

John Riccitiello:

Good afternoon.

EA delivered a solid performance in our first FY13 period, hitting EPS guidance for the quarter. The EPS loss of $0.41 cents was at the high-end of our guidance and a penny ahead of the Street consensus. 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 percent of our revenue was generated by online games and services.

And finally, a sector-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 are 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 dollars.

With that, I'll turn the call over to our Interim CFO, Ken Barker.

<u>Ken Barker:</u>

Thanks John.

Starting with a 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 *End Game*. 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 twelve 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 7 digital titles in the quarter and had revenue growth in all areas of the business.

- For the quarter, extra content and 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.
- Full game downloads were up slightly year-over-year, with Origin contributing almost 60% of the quarter's full game digital download revenue.
- Mobile and other handheld digital revenue was up 34% year-over-year. This quarter, we saw continued growth in our smartphone 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 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 expectations 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 dollars and 50 cents per share. Roughly half of this amount was held offshore.

Net cash used in operating activities for the quarter was $244 million and on a trailing twelve month basis operating cash flow was $307 million, a quarter-over-quarter increase of $30 million dollars.

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 were able to deliver on the bottom line through the strength of our catalog products and effective cost management.

Turning to Guidance:

GAAP revenue for the second quarter is expected to be between $650 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 and $1.10 billion, an increase from last year's $1.034 billion. The EA Sports Label is in the spotlight this quarter with its award-winning line-up: 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, free-to-play, 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 *End*

Game is released. In addition to the multiple digital titles we already support, we expect to launch 9 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 13:

GAAP revenue for the fiscal year is expected to be between $3.90 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 $4.10 and $4.25 billion. We are lowering the midpoint of our guidance from $4.30 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 rates 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 **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 12:

- First, all of the high-margin *Battlefield 3 Premium* revenue from the first three quarters,
- Second, SimCity on the PC launches in Q4, with significant margin and with no comparable title in fiscal 12,

- 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's 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 9,200 with about 70% of that in R&D, and we expect to increase total headcount to 9,700 by the end of fiscal 13.

Cash Flow: We reconfirm our **fiscal 13 operating cash flow and capital expense projections** of at least $400 million and $100 million, respectively. This implies an expected free cash flow generation of over $300 million dollars, or 3 times what we generated in fiscal 12.

Buyback: Today we are announcing a $500 million stock repurchase program. EA's board has authorized this repurchase 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:

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 accessible 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 one million. Last year we announced that the breakeven point was roughly 500,000 subscribers. And while we are well above that today, that's not good enough.

The message from players exiting the game is clear – 40 percent say they were turned off by the monthly subscription. And many indicated they would come back if we offered 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.

<u>The first tier</u> is a Premium Players 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 boosts, customization and for moving more quickly through each level.

<u>The second tier</u> 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. If and when they're 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 free.

As John mentioned, the disappointing performance of *Star Wars* is 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 miss on one franchise with a big hit on another.

Next I'll 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 pre-sells for *Madden NFL 13* are up 25 percent 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 percent of all men in that country aged 16 to 19 play this game. The agreement with Nexon gives us a big advantage with the clear platform leader in that country when that 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 our 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, pre-sells on our sci-fi horror franchise *Dead Space 3* are tracking almost five-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 it's 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 three-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 percent. And while this already makes up 17 percent of our overall revenue in Q1, the compound 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 three 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 DAU's 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. When I look at the quality of these games and the revenue they produce, I'm convinced that free-to-play will soon emerge as the leading business model for PC and mobile gaming.

Back to John.

JOHN CONCLUSION:

Thank you, Frank.

EA had another solid quarter. We have met or exceeded Street consensus in our last 10 quarters, and grown digital revenue and EPS in each of the last three years.

We have a portfolio of proven global 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 a quarter of a 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 short, 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.

Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss) and historical and estimated non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount
- Certain non-recurring litigation expenses
- Change in deferred net revenue (packaged goods and digital content)
- Loss (gain) on strategic investments
- Restructuring charges
- Stock-based compensation
- Income tax adjustments

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods.

In its earnings press release dated July 31, 2012, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measure to the historical non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2013 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", “estimate” or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions including the PopCap acquisition; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

These forward-looking statements are current as of July 31, 2012. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended June 30, 2012.