

ELECTRONIC ARTS
Q4 FY14 PREPARED COMMENTS
May 6, 2014

ROB:

Thank you.

Welcome to EA's fiscal 2014 fourth 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 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 May 6, 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'll turn the call over to Andrew.

ANDREW:

Thanks, Rob.

I'm pleased to be here reporting on a great fourth quarter and capping off a strong fiscal 2014 for Electronic Arts.

EA's performance in FY14 was above expectations. In the fourth quarter, we delivered revenue and EPS above our guidance. We also exceeded our full-year guidance by generating \$4.02 billion in non-GAAP revenue and delivering \$1.69 in EPS, doubling our EPS from FY13.

The introduction of two new consoles, continued growth of the mobile gaming audience and new modalities of play across the world combined to make the last year one of the most dynamic periods in the history of interactive entertainment. With our focus on producing a portfolio of hit games, increasing our shift to digital, and building profitability, EA successfully navigated the transition and delivered transformative results.

First, we delivered on our commitment to lead the transition to new consoles with great new games. The Playstation 4 and Xbox One have successfully established a new generation of console gaming, and our games are at the top of the charts. We immediately established EA as the early segment share leader on the new consoles, and today we continue to lead. EA is the #1 publisher on the new consoles, with 40% segment share in calendar year 2014 across North America and Europe. The depth of our game line-up on the new consoles remains unmatched and was bolstered this quarter by the addition of *Plants vs. Zombies Garden Warfare* and the huge hit, *Titanfall*.

Second, we delivered on our plan to grow digital, powered by the extraordinary depth of play offered through our live services, mobile games, and full-game downloads. Our *Ultimate Team* game modes generated more than \$380 million in FY14, including a breakout year for *Madden Ultimate Team* which grew 90% year-over-year. In all, our full-year digital non-GAAP revenue of approximately \$1.8 billion exceeded our guidance by almost \$100 million, and represented 45% of our total revenue.

Third, our objective was to increase profitability and keep our costs flat during a transition year. Not only did we achieve this, we exceeded our own expectations by reducing operating costs and doubling cash flow year-over-year, all while maintaining our investments in key IP.

These achievements were the result of strong execution. We began FY14 with an aggressive plan and a slate of incredible games. Through the hard work of the best and brightest teams in the industry, we delivered on our key objectives for the year.

Now we turn to FY15, where another exciting year is already underway.

At the core of our Company, we aim to deliver amazing and fun experiences to our players. But our concept of what makes an amazing game today has changed. The power and diversity of the platforms, innovation through digital content and services, and a greater flow of feedback from the player community mean we are designing experiences for long-term entertainment. Our plans for FY15 reflect this focus. We expect to launch awesome new games for console, PC and mobile, as well as introduce great new content for our existing live services.

And now let's touch on our new games coming in FY15.

Global excitement for this summer's World Cup is heating up, and we have just launched *FIFA World Cup 14*. We have included all 203 FIFA-sanctioned national teams, as well as 21 stadiums and 11 game modes in the most immersive version of our tournament game, ever.

Next up comes the much-anticipated arrival of *EA SPORTS UFC*, launching on June 17. The power of the EA SPORTS Ignite engine and the new consoles bring to life the athleticism, emotion and intensity of the sport like never before – you truly **feel the fight** in this game. The addition of Bruce Lee, the father of mixed martial arts, to this game last month has been a huge hit with fans around the world.

Over the summer, we plan to deliver new editions of our major EA SPORTS franchises – *Madden NFL 15*, *FIFA 15* and *NHL 15*. *Madden NFL 15* will bring the deepest defensive gameplay in franchise history, and a new *Madden Ultimate Team* that builds on last year's success. *NHL 15* will mark the game's debut on PS4 and Xbox One, and it is looking fantastic.

FIFA 15, the world's most popular sports game, will deliver breakthrough innovation that brings fans closer to the sport than ever before.

Fall 2014 will see the arrival of *The Sims 4*, our first all-new Sims experience in over five years. The team at Maxis has built an innovative technology base which offers smarter, more relatable Sims with rich emotions; fluid and intuitive creative tools; and vibrant and intimate play spaces. These all combine to create the most entertaining, surprising and personal Sims experience yet.

In October, BioWare is scheduled to release *Dragon Age: Inquisition*. Showcasing the vast capabilities of the Frostbite 3 engine, *Dragon Age* is an epic, character driven story in a visually stunning, living open world. It's the most immersive RPG ever created in the rich history of Bioware.

Two more EA SPORTS titles are scheduled to launch in Q3 and Q4. *NBA Live 15* returns from our Tiburon studio, where the teams have been working with community feedback to deliver a great game. We will also debut our new EA SPORTS golf game, the first on next-gen and something entirely new from the development teams in Florida.

And last, but far from least, we also have a major new game coming in our third quarter this year, powered by Frostbite 3 and developed by some of our most talented teams. We're excited to unveil this game to our fans first, with a live reveal next month at the gaming industry's marquee event in North America – E3 in Los Angeles.

We're preparing a rich lineup of games for E3 this year that showcases our commitment to the player experience. This will include first looks, demos and other new announcements for many titles from this year's slate. We also plan to unveil details on at least six new projects in development at EA. Over the next few years, we will deliver some epic new entertainment experiences to our players, built on a foundation of creativity and innovation. I'm looking forward to sharing a lot more with our gamers in just a few short weeks.

We will launch fewer titles in FY15 as we focus on delivering top-quality games and services and invest in new experiences. Previously, we announced that we will not release an *NCAA Football* game this year. We also decided not to ship a *Need for Speed* game in FY15. Ghost Games in Gothenburg is working on an innovative new chapter of this storied franchise, and we've planned an extended development window to ensure we're delivering a high-quality experience for *Need for Speed* players next year.

To keep the experience fresh for players in our live services, we expect to deliver more new content through the year than ever before. Three map packs are planned for *Titanfall*, two more expansion packs for *Battlefield 4*, and our EA SPORTS games receive live daily updates including *Ultimate Team* content, and much more. Through hours of new gameplay and additional content, live services make our games truly dynamic entertainment, with rich new experiences for gamers every time they play.

Moving on to our mobile portfolio, we are now approaching a \$500 million business with more than 130 million monthly active users. Our strongest titles, *The Simpsons: Tapped Out*, *The Sims FreePlay*, *Real Racing 3* and *FIFA 14*, clearly demonstrate our approach for EA Mobile: engineer games as live services, designed to constantly evolve and keep players engaged long-term. EA Mobile studios are preparing some exciting new experiences from our major brands this year, while also incubating and prototyping more new projects for the future.

Through all of our plans for FY15, we will maintain our focus on building profitability across EA's business for this year and beyond. Delivering quality experiences and executing on our plans are critical goals for us in FY15.

FY14 was an outstanding performance in an important year for EA and the gaming industry. We are proud to have emerged from a transition year as the clear leader on new consoles and positioned for growth across key platforms and regions. Our focus is now on executing in FY15 against three objectives that define a new EA: delivering amazing games and services to players around the world, driving innovation and creativity into new experiences, and building deeper relationships with our community.

Over to you, Blake.

BLAKE:

Thanks, Andrew.

As Andrew mentioned, we had an extremely strong quarter and a phenomenal year. Before I get into the details, I would like to provide you some context, especially on the quarterly results. As you may remember, during our third quarter ending in December, we came in below our revenue guidance because of a steeper than anticipated decline in PS3 and Xbox 360 software demand which was partially offset by next generation software sales.

We anticipated that this was going to continue into the next period, which caused us to lower our FY14 revenue guidance; however, during the March quarter this weakness moderated and we continued to see strong demand for Playstation 4 and Xbox One software. Additionally, we saw a robust pick up in our digital sales. These factors provided a significant boost to our revenue, gross margins and operating profits as we closed out our year.

We are encouraged by both new console hardware and software sales, but we continue to see risks associated with the decline of the previous generation software as the transition to the next generation continues. We are approaching fiscal 15 cautiously, and we have attempted to factor this potential risk into our guidance, but before I walk you through our guidance, let me get into the details of our fourth quarter and full year results.

EA's Q4 non-GAAP net revenue was \$914 million, which was \$114 million above our guidance and \$126 million below last year. The decline over fiscal 13 was primarily due to the recognition of over \$120 million in *Battlefield 3 Premium* revenue in last year's Q4.

Relative to our guidance, the upside was driven by greater than anticipated demand for our digital offerings, primarily driven by full game downloads as well as extra-content, specifically from *Madden*, *FIFA* and *NHL Hockey Ultimate Teams*. Additionally, we saw a strong showing from our console titles – most notably from *Titanfall*, *Madden NFL 25*, *FIFA 14*, *Need for Speed Rivals*, and *Plants vs. Zombies Garden Warfare*.

Madden NFL 25 is a great example of our digital strategy. Due to the deep, immersive gameplay in Madden combined with the engagement of *Madden Ultimate Team*, we exceeded our expectations both in full game revenue, as well as digital extra content. In addition, we have found that the *Ultimate Team* experience is engaging players in the game long after the season has ended.

EA's Q4 non-GAAP digital net revenue was \$550 million, which exceeded our guidance by \$93 million. This resulted in our fiscal year digital revenue being nearly \$1.8 billion.

Breaking down our digital revenue into its key components highlights the performance of each business:

- First, extra content and PC free-to-play contributed \$243 million, up 8% over the prior year, led by continued growth in *Ultimate Team* services and *FIFA Online 3*. As Andrew had mentioned, our *Ultimate Team* services accounted for more than \$380 million of our annual revenue.
- Second, our mobile business generated \$126 million for the quarter, up 21% over prior year. Smartphones and tablets continue to represent a majority of the revenue, accounting for \$111 million of the total, and growing 41% year-over-year. Our mobile revenue has continued to set new records for us each year – we are closing out this year with nearly \$460 million of mobile revenue.
- Third, full game downloads added \$112 million to the quarter, up 13% over the prior year. This was driven by full game downloads for *Battlefield 4* and *Titanfall*, and strong demand from other catalog titles, both on consoles and PCs. Our Origin service for PC gamers nearly doubled its monthly player engagement levels over the previous year, and continues to grow in revenue and users.
- And finally, subscriptions, advertising, and other digital revenue totaled \$69 million, down \$122 million or 64% over the same period last year. This significant decline is a result of how we accounted for the *Battlefield 3 Premium* revenue. Last year all of the fiscal 13 *Battlefield 3 Premium* revenue, which was over \$120 million, was recognized in Q4. This year, we are recording *Battlefield 4 Premium* subscription revenue on a ratable basis.

Moving on to gross margin: our non-GAAP gross margin for the quarter was 77.4%, up over last year's 74.3%.

Gross margins also exceeded our guidance of 71% due to the pickup in our digital revenue, especially from direct downloads on consoles, and PC downloads on Origin. The new generation consoles are showing impressive growth in full game downloads; in North America, we have seen two to three times greater downloads on the new consoles versus the prior generation. We expect this will continue to fuel the growth of this part of our digital business.

Operating Expenses for the quarter were \$503 million, down \$37 million from last year, and \$22 million lower than our guidance. This was driven by continued cost discipline and finding further efficiencies around contracted services and marketing efforts. For the full year, operating expenses totaled \$2.02 billion, which was \$131 million below our initial guidance for the year.

The resulting non-GAAP diluted EPS for the quarter was \$0.48 per share, which exceeds our guidance of \$0.09 per share, and naturally drove higher than anticipated cash flows.

Net cash provided by operating activities for the quarter was \$281 million, compared to \$233 million in the prior year. Operating cash flow for the full fiscal year hit its highest level in over a decade at \$712 million, and it more than doubled last year's cash flow of \$324 million.

Fiscal year 14 capital expenditures were \$97 million, resulting in free cash flow of \$615 million, exceeding our upward revised guidance of \$500 million.

Our cash and short-term investments at the end of the quarter were \$2.37 billion, or approximately \$7.60 per share. In addition to the stronger cash flow and operating results, we made a one-time repatriation of \$700 million of foreign earnings from certain international subsidiaries. This bolstered our onshore cash balances. At the end of the quarter approximately 68% of our cash and short-term investment balances were held in the U.S. The tax impact of this repatriation was not material.

Related to the use of these increased cash balances, we are announcing a new \$750 million stock repurchase program. This repurchase program has a 2 year time frame and replaces the remaining \$222 million portion of our previous buyback program.

In summary, our fiscal year 14 was a great year for EA. Despite navigating through a year of tremendous change in the industry – which included a challenging console transition, we were able to:

- exceed revenue guidance
- drive higher gross margins
- lower our operating expenses
- improve non-GAAP operating profit margins to 18%
- double operating cash flows, and
- invest in new products and services for the future.

On top of all these positive points, we are also implementing a new \$750 million buyback program.

Throughout fiscal 14, we conveyed to you our goal to grow non-GAAP operating margins from 10% to 20% over a 3 year period. As we have demonstrated through our results, we are clearly ahead of this goal – by at least one year. Our improving operating leverage is a testament to our commitment to drive higher operating profits for EA's shareholders, and lays the foundation of possibly exceeding it...more important, it positions the Company for profitable growth in the future.

Turning to guidance:

For fiscal year 2015, we are forecasting growth of approximately 2% for our non-GAAP revenue. This estimate reflects fewer major launches this year, including new titles and the continued headwinds associated with a console transition.

Andrew laid out the new releases, and as he mentioned, we will not be releasing a *Need for Speed* or a college football game this year. However, we have included in our guidance a major new game that we expect to launch in our third quarter.

GAAP revenue for the fiscal year is expected to be \$4.38 billion, and we expect **GAAP earnings per share** of \$2.37.

Non-GAAP revenue for the fiscal year is expected to be \$4.1 billion, and we expect **non-GAAP diluted EPS** of \$1.85 per share.

Segmenting the sales provides further insight into key drivers of our full year non-GAAP revenue guidance:

- Packaged goods and distribution revenue is forecasted to be approximately \$2.0 billion, down 10%, driven by fewer announced launches, greater shift to digital delivery, and a continued tempered view regarding PS3 and Xbox 360 titles.
- Digital revenue is forecasted to generate nearly \$2.1 billion, up 17%. Breaking down our digital revenue into its four primary categories we see the contributions from each group, and the sustained growth in each area:
 - Our mobile revenue is expected to grow over 20% as gamers' engagement on smartphones and tablets continue to expand at a significant pace. In addition, we plan to expand our entertainment offering across these platforms.
 - Full game downloads are anticipated to continue to show growth based on the early trends seen on the new consoles. Additionally, the release of *The Sims 4* should also contribute to the growth in this category.
 - Extra-content and free-to-play is expected to continue to grow over 15% this year, fueled by our live services. It becomes more difficult to show significant percentage growth year-over-year as this revenue base has hit a sizeable level – three-quarters of a billion dollars.
 - Lastly, subscription revenue is expected to grow approximately 30% this year as a significant portion of the *Battlefield 4 Premium* revenue will be recognized during this fiscal year.

Based on this segmentation, non-GAAP digital revenue is expected to represent over half of our total revenue, a significant milestone in the digital transformation of our business. The increased digital revenue should help bolster our gross margins, however this will be offset by the release of more royalty bearing titles this year, such as *UFC*, *FIFA World Cup 14* and *Titanfall* catalog sales. Based on all of these factors, we are forecasting the non-GAAP gross margins to grow to 68.5% for the year.

GAAP operating expense for the fiscal year is expected to be around \$2.17 billion.

Non-GAAP operating expense for the fiscal year is expected to be approximately \$2.0 billion, down 1% compared to fiscal 14. This would also result in an **operating margin** of approximately 20% for fiscal 15 – doubling our operating margin in just 2 years.

Focusing on Q1:

GAAP revenue is expected to be \$1.2 billion, as compared to \$949 million in the prior year.

GAAP diluted EPS is expected to be \$1.26, as compared to \$0.71 per share in the prior year.

Non-GAAP revenue for the quarter is expected to be \$700 million, a 41% increase over last year's \$495 million. This quarter will benefit from the launches of *UFC*, *FIFA World Cup 14*, and *Titanfall* for the Xbox 360.

Non-GAAP gross margin is forecasted to be approximately 67%.

Non-GAAP operating expenses are expected to be \$485 million, \$8 million higher compared to last year, taking into account three launches in the quarter versus one title last year.

For the quarter, we expect a non-GAAP loss of (\$0.05) per share, as compared to the loss of (\$0.40) per share last year.

Looking at the phasing for the year on a non-GAAP basis, as compared to the prior year the first and second quarters are expected to represent a slightly larger portion of the revenue due to the timing of our launches.

Finally, cash flow will continue to be a key metric for us going forward. In fiscal year 15, we are forecasting operating cash flows of approximately \$800 million, and capital expenses to be approximately \$100 million, resulting in free cash flow of \$700 million versus \$615 million in fiscal 2014.

We remain focused on improving financial performance and driving profitable growth. To achieve those goals, we will continue to drive the digital transformation of our business and the efficient utilization of all of our assets.

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

ANDREW CLOSING:

Thanks Blake.

It was a dynamic year for gaming, and an outstanding year for Electronic Arts. Through the transition, I'm proud of what our teams accomplished in FY14, and the position of our business today.

We are the #1 worldwide publisher on the new consoles with great games like *Battlefield 4*, *FIFA 15*, *Madden NFL 25*, *Need for Speed Rivals* and *Titanfall*. We have a portfolio of hit mobile games and a strong plan for expansion. We have exciting new PC free-to-play opportunities around the world. We are increasing profitability and investing in the future. Our digital products and services continue to grow, and will account for more than 50% of our business in FY15.

Looking at the opportunities in front of us, I'm even more excited about how EA is lining up for FY15 and the years ahead.

At Electronic Arts, we are committed to putting our players first. This starts with **creating amazing games and services** – fresh, fun experiences that connect, inspire, challenge and entertain players all over the world. In FY15, we're planning new games for console and PC, new titles for mobile, and new experiences through our live services.

Games and services built around fresh IP are a key part of EA's future. Our teams are working on more exciting projects, including *Star Wars* games in development at our DICE and Visceral studios, new titles from Bioware and Criterion, as well as new experiences from our EA Mobile studios.

We're also excited to announce that EA is continuing its partnership with Vince Zampella and the Respawn Entertainment team, building on our success in delivering *Titanfall*, the biggest interactive entertainment event of the year so far. Through a new publishing agreement, we'll be working with Respawn to bring new *Titanfall* experiences to players worldwide.

Amazing games and services must be built on a foundation of **creativity and innovation**, and we are committed to constantly evolving not only the games we make but the way that we make them. Our teams have a track record for driving innovation in games, and they are pushing to achieve more. Across our studios today, we have teams rapidly prototyping ideas for compelling new experiences, and using shared technology stacks to quickly develop and test more creative concepts. We're also channeling innovation into our design processes, engineering new development and testing frameworks to enable each game we launch to perform at the scale of today's gaming audience. With every game, every feature, every part of our live services, EA is innovating to pioneer the next generation of game experiences.

Finally, we are also committed to continually **engaging with our players** and taking action to ensure we are delivering meaningful and positive EA experiences. Our gamers are at the very center of our focus, and we're transforming how we connect, engage and act on their feedback. Across our games and platforms, more than five billion online game sessions played monthly deliver game data that helps us evolve game experiences based on play patterns. Millions of conversations about our games are happening on social networks, and we are there connecting with these growing communities through dialogue and interactive content. We continue to prioritize and expand our capabilities in support so that help is readily available to our players when needed. Through these interactions and many others, we are constantly in dialogue with our community, acting on their feedback and building long-lasting relationships between our gamers and EA.

Our commitments are clear, our position is strong, and new opportunities are in front of us. We have a lot of hard work ahead, and it will be an exciting year for EA. I look forward to seeing many of you at E3 next month, but for now, Blake, Peter, Frank and I are here to 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
- Change in deferred net revenue (online-enabled games)
- College football settlement expenses
- 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 May 6, 2014, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to the non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2015 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; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2013.

These forward-looking statements are current as of May 6, 2014. 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2014. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2014.