

**ELECTRONIC ARTS**  
**Q1 FY16 PREPARED COMMENTS**  
**July 30, 2015**

**CHRIS:**

Thank you.

Welcome to EA's fiscal 2016 first quarter earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO. 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.

A quick calendar note: our Q2 earnings call is scheduled for Thursday, October 29.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-K for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, July 30, 2015 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, Chris.

Q1 was a great start to fiscal year 2016 as we continue our journey to put our players first and deliver amazing entertainment experiences for them. We're building deeper connections with players in our games and live services, there is tremendous excitement for our upcoming titles, and we see profound new energy in our industry.

Our Q1 results were excellent, with revenue, margins and earnings above our guidance. Our top games and live services, including *EA SPORTS FIFA 15*, *Battlefield Hardline*, and *The Sims 4*, are engaging players around the world with fresh new experiences. We see continued strength in our mobile titles, with new games coming later this year. EA is executing well against our plans for FY16, and, with ongoing strength in our digital business and growing anticipation for our upcoming titles, we are raising our full-year guidance today to reflect momentum across the portfolio.

Our industry is hitting a powerful stride as we advance further into the new global era for games. The Xbox One and PlayStation 4 installed base continues to grow and show great strength, driving well beyond adoption rates of previous-generation devices. The opportunities in mobile, as well as new service and delivery models, are opening up more ways to bring players into our games than ever before. At the E3 conference in June, the appetite for great new games was clear. Players on all platforms are ready for new experiences that capture their imagination with creativity, innovation and breakthrough gameplay. EA is in a strong position to deliver.

We had an outstanding E3 this year, showcasing 15 new games to our players, media and partners. Throughout the event, our partnership with Disney and Lucasfilm was in full view: *Star Wars Battlefront* stunned audiences with the magnitude and realism of its gameplay, we revealed a new expansion for *Star Wars: The Old Republic*, and announced a new *Star Wars* mobile game. We unveiled new experiences for original IP with *Mass Effect: Andromeda*, *Plants vs. Zombies Garden Warfare 2*, and surprised with the unexpected charm of *Unravel*. We celebrated the return of *Need for Speed*, captivated players with the authenticity of our upcoming EA SPORTS games, and detailed the gameplay innovation in *Mirror's Edge Catalyst*. Attendees were able to go hands-on with all of this year's titles at our E3 booth.

Most importantly, through content and social conversation, we brought the E3 experience to players around the world. Millions of viewers joined the stream of our live event, and our titles were mentioned more than 500 times per minute on social media during the week of E3. Trailers, gameplay and livestreams of our games were viewed over 53 million times throughout E3, with *Star Wars Battlefront* alone generating 22 million views on social platforms – our most popular content ever at E3. It was tremendous to see such positive reaction from players and feel the excitement level for our games continuing to build. We're looking forward to sharing more at gamescom in just a few days.

In addition to our upcoming games, our live services today are ecosystems of ever-changing content for our players. *Battlefield 4* and *Battlefield Hardline* players logged a combined 170 million online gameplay hours in Q1, and we'll be bringing new expansion packs to both experiences in the coming months. *The Sims 4* player community continues to grow and engage deeply with the game as we deliver more updates and new content, and we saw gameplay hours in our mobile hit *The Sims FreePlay* increase 85% year-over-year. In addition, our EA SPORTS *Ultimate Team* modes averaged over 2 million players per day in Q1, up nearly 20% year-over-year.

Amazing and creative new experiences, dynamic live services and deeply-engaged communities built on strong and meaningful relationships with our players – these are the building blocks of our long-term strategy for Electronic Arts. Through our key franchises as well as experiences with new and original IP, we have the ability to reach more players than ever. EA Access, Origin and our new Xfinity Games beta are bringing more players in, to compete, connect and fuel their passion for games. And with our digital infrastructure, analytics and live services, we are evolving and personalizing the experience for each player, and exploring how cross-game services can create additional value for everyone.

After a strong first quarter, the stage is now set for us to deliver a slate of groundbreaking and stunning new games through the remainder of FY16. I'll now turn the call over to Blake for a deeper look at our financials.

**BLAKE:**

Thanks, Andrew.

**EA's non-GAAP net revenue** was \$693 million, which was \$53 million, or more than 8%, above our guidance. The quarter's revenue was 11% lower than the prior year's, because we had no console launches this quarter, and the year-ago quarter included the launches of *Titanfall* for Xbox 360, *EA SPORTS FIFA World Cup 2014* and *EA SPORTS UFC*. Our core business was strong and, at constant currency, this quarter's revenue would have been within 4% of last year's.

As I discuss the results for this quarter, bear in mind that FX changes have had a dramatic impact on year-on-year comparisons – the Euro, for example, fell nearly 20% against the dollar from the first quarter last year to this year's first quarter.

In the first quarter, *EA SPORTS FIFA 15*, *Battlefield Hardline* and *The Sims 4* drove solid revenues and delivered excellent margins. This demonstrates the power of our deep catalog of popular IP, which delivers a base of stable revenue throughout the year. The revenue and margin beats versus guidance were driven by better-than-expected performance from *FIFA Ultimate Team* and *The Sims 4*.

**Our non-GAAP digital net revenue** for the quarter increased 10% year-over-year to \$532 million, 77% of this quarter's revenue. The trailing twelve-month digital net revenue was up 20% to \$2.28 billion. Breaking down our digital revenue into its key components highlights the performance of each of these businesses this quarter:

- Extra content and freemium contributed \$255 million, up 21% over the prior year. The principal driver of the growth was *FIFA Online 3* in China. \$31 million of the *FIFA Online 3* revenue was deferred from previous quarters, as noted in our last earnings call. Total Ultimate Team was down 6% year on year, but up 3% on a constant currency basis, even with the World Cup boosting *FIFA Ultimate Team* engagement levels last year.
- Mobile generated \$122 million in the quarter. Digital extra content and advertising was up 11% versus the prior year, to \$115 million. Premium mobile full game download revenue was just \$7 million, down 56% compared to the prior year. We expect premium full game download revenue to remain around this minimal level for the foreseeable future.
- Full game PC and console downloads generated \$84 million of revenue, up 18% over the prior year. We continued to see the digital downloads increase as a percentage of full game

sales, although this quarter was particularly high, since our catalog titles typically skew more towards digital downloads than do newly-launched games.

- Subscriptions, advertising, and other digital revenue contributed \$71 million, down 11% from last year, due to the natural decline in *Battlefield 4 Premium* revenues. EA Access is delivering strong, sustained growth, and we continue to build its value to gamers as we add more games to the Vault. *Titanfall* is now in the Vault, and *Dragon Age: Inquisition* will join it at the end of the summer, bringing the total to 13.

**Moving on to gross margin:** our non-GAAP gross margin for the quarter was 76.8%, an increase from last year's 70.2% and better than our guidance of 74.5%. Growth over the prior year was driven by product mix, the shift to digital and *FIFA Online 3* in China. We exceeded guidance largely through better-than-expected performance from FIFA Ultimate Team and the continued success of *The Sims 4*, which delivers very high margins by virtue of being a PC title based on wholly-owned IP.

**Non-GAAP operating expenses** for the quarter were \$472 million, up \$13 million, or 3%, year on year. The increase over last year was driven by R&D, payroll tax expenses related to stock-based compensation, which have risen with the stock price, and by the extra week in the quarter. This was offset by FX and lower marketing costs as a result of no major launches this quarter.

**The resulting non-GAAP diluted EPS** was \$0.15 per share, which is \$0.15 better than guidance due to strong revenue and higher gross margin. As a reminder, this is calculated at our new tax rate of 22%.

**Our cash and short-term investments** at the end of the quarter were \$2.88 billion, or approximately \$9.23 per share. 64% of this cash and short-term investment balance is held onshore.

**Net cash used by operating activities** for the quarter was \$71 million. On a trailing twelve month basis, operating cash flow was \$992 million, a record for this period.

**During Q1, we repurchased 2.2 million shares at a cost of \$132 million.** Our \$1 billion stock buyback program was initiated partway through Q1, in May 2015, and has a two year time

frame. As of the end of the first quarter, there was \$925 million left on the \$1 billion plan, as some of the stock repurchased during the quarter was bought under the old plan.

**Due to the strength of our business**, we are increasing our full year guidance. For fiscal year 2016, our non-GAAP guidance for revenue is up by \$50 million to \$4.45 billion and our non-GAAP EPS increases \$0.10 to \$2.85 per share. This results in an expected operating margin of 27%. It's still early in the year, and with Q1 representing less than 16% of expected full-year revenues, we believe some continued conservatism is appropriate.

The GAAP guidance becomes \$4.3 billion in revenue, and \$1.98 of fully diluted EPS.

**Regarding cash flow for the full fiscal year**, we are reiterating our operating cash flow guidance of approximately \$1.15 billion. Our capital expense forecast remains approximately \$100 million, resulting in a free cash flow forecast of approximately \$1.05 billion.

**Guidance for our second quarter is for non-GAAP net revenue** to be \$1.075 billion, 12% lower than last year's \$1.22 billion. In this Q2, we are launching Madden NFL, FIFA, Rory McIlroy PGA Tour, NHL and NBA Live. While last year's Q2 saw the launches of our major sports titles, it also included *The Sims 4*. In addition, FX presents a year-on-year impact of around \$100 million to Q2 revenues.

**Non-GAAP gross margin** is forecasted to be 63.0%. Again, the main difference between this quarter and the year-ago quarter is the launch of *The Sims 4*.

We expect our **Q2 non-GAAP operating expenses** to be \$510 million, up slightly year on year, driven by increased investment in R&D, offset by FX and savings in marketing.

This results in a **non-GAAP diluted EPS** of \$0.40 per share, as compared to \$0.73 last year.

**Our Q2 GAAP net revenue** is expected to be \$815 million, as compared to \$990 million in the prior year.

**GAAP loss per share** is expected to be \$0.58, as compared to a \$0.01 per share profit in the prior year.

We're very pleased with our first quarter results. Our ability to reliably generate earnings, even in the absence of major launches, is testament to the value of our broad IP portfolio, catalog and robust live services. Digital extra content and mobile continue to provide additional layers of consistent revenue. On top of this, player reactions to our marquee titles at E3 give us great confidence in our competitive position as we look further into this year and beyond.

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

**ANDREW CLOSING:**

Thanks, Blake.

We have a great deal ahead of us over the next three quarters as we prepare to deliver a range of new titles from our key franchises and original IP, as well as more new content for players in our live services.

We will have four more EA SPORTS experiences launching through the summer and fall – Madden *NFL 16*, *NHL 16*, *FIFA 16* and *NBA LIVE 16* – all featuring engaging new modes and groundbreaking gameplay for our players. *Need for Speed* will arrive in November, and fans are loving the authentic car culture and deep customization that we've shown so far. And of course, *Star Wars Battlefront* will launch on November 17. The excitement for this game continues to build. It took home 45 awards from E3, including Game of the Show from IGN and Best Online Multiplayer from the E3 Game Critics. We look forward to unveiling another new dimension of *Star Wars Battlefront* and letting players go hands-on next week at gamescom.

We have more new experiences coming throughout the year. Our live services will continue to evolve with new content; we'll have some great new mobile games; and we're excited to have three new and original IP titles launching in Q4.

Looking further ahead, we're preparing more new games for our players. The reaction to a first look at *Mass Effect: Andromeda* at E3 was incredibly positive; we have a new *Battlefield* experience coming in Q3 FY17; and another new *Star Wars* project being led by the dynamic creative team of Jade Raymond and Amy Hennig. These are just a few of the new experiences in development across our studios today.

From the creativity of our teams, to the technologies we are building, to the passion for play that we share with our players – we are pushing the boundaries for games in our effort to deliver the next amazing experience. Through our games and live services, we will immerse players in new worlds, introduce engaging new characters, and transport them into adventures that capture the imagination. In a new global age for games where more time is spent playing than ever before, we are also building a future with relationships at the core. Through our network, we are connecting players with each other, and delivering experiences that are meaningful every time they play.

I look forward to sharing more updates on our progress in the quarters ahead.

Now Blake, Peter and I are here for 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), non-GAAP diluted earnings (loss) per share and non-GAAP diluted shares. These non-GAAP financial measures exclude the following items (other than Shares from Convertible Bond Hedge, which are included), 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
- Income tax adjustments
- Loss on licensed intellectual property commitment (COGS)
- Restructuring charges
- Shares from Convertible Bond Hedge
- Stock-based compensation

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. The Company's management team is evaluated on the basis of non-GAAP financial measures and these measures also facilitate comparisons of the Company's performance to prior periods.

In its earnings press release dated July 30, 2015, 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 2016 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

These forward-looking statements are current as of July 30, 2015. 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, 2015. 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, 2015.