



Prepared Remarks

FISCAL 2018 Q3

January 30, 2018

CHRIS:

Thank you.

Welcome to EA's third quarter fiscal 2018 earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO.

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, our financial model, and a transcript.

With regards to our calendar: our Q4 fiscal 18 earnings call is scheduled for Tuesday, May 8, 2018.

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 today, January 30, 2018, and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

On the subject of accounting standards, effective fiscal 2019, we will adopt the new ASC 606 revenue recognition standard for GAAP net revenue. We will continue to provide the GAAP measures that enable investors to derive the management reporting metrics. We do not expect a material impact to total net bookings. For more details, please see the brief qualitative overview of the impact of ASC 606 we have posted on our IR website. For additional information, also please see our 10-Q for the period ended December 31, 2017.

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

ANDREW:

Thanks, Chris.

Q3 was a quarter defined by strong performances and important learnings for us at Electronic Arts. We love making games. It is a privilege to bring fun and entertainment to people all around the world. As we look across our games and services this quarter, we have a lot to be proud of. We brought hundreds of millions of hours of play to fans during the holiday quarter across console, mobile and PC. We also appreciate that our players have high expectations of us and the games we make – and that passion drives us. As we push the boundaries with every new experience, we are continually listening, learning and taking action to serve our players.

Now, let me touch on *Star Wars* Battlefront II. This was definitely a learning opportunity. You'll remember that we brought three of our top studios together on this project, and the result was a massive game with a new *Star Wars* story; space battles; and huge multiplayer variety. We wanted a game that would meet the needs of the vast and passionate *Star Wars* fan base, so we designed it with the intent of keeping the community together, and a commitment to continually add content long after launch. Given the newness of this design, we knew that player feedback during the pre-launch testing period would be key. Having made adjustments based on sentiment and community data coming out of the beta and early trials, we ultimately made the decision to pull in-game purchases out of the game prior to launch. We never intended to build an experience that could be seen as unfair or lacking clear progression, so we removed the feature that was taking away from what fans were telling us was an otherwise great game. We are fortunate to have such passionate players that will tell us when we get it right, and when we don't. We're now working hard on more updates that will meet the needs of our players, and we hope to bring these to the *Battlefront II* community in the months ahead.

Having made these changes before launch, *Star Wars* Battlefront II has been delivering fun to millions of players around the world, through the holiday season and beyond. With the breadth and depth of the game, fans spent twice as much time playing Battlefront II over the previous game during the launch quarter. The unique story of Iden Versio at the center of the game has drawn nearly 70% of players into the single-player campaign. Engagement has been strong in the first season of free post-launch content from *The Last Jedi*, and we're excited to bring new seasons to fans in FY19. As we grow this game with more content, we believe that *Star Wars* fans will continue to have fantastic experiences over the long life of Battlefront II.

Going forward, we believe that live services that include optional digital monetization, when done right, provide a very important element of choice that can extend and enhance the experience in our games. We're committed to continually working with our players to deliver the right experience in each of our games and live services.

Across the company, our fantastic creative teams are constantly pioneering new experiences that expand our reach, and add to the unmatched depth and breadth of our portfolio of games. There were many great examples of this throughout Q3, and I'll touch on a few of them here.

FIFA continues to thrive as one of the world's leading entertainment properties. On console alone, our FIFA franchise had nearly 42 million players during the calendar year, and our FIFA 18 unique player base grew 10% year-over-year from launch through Q3. FIFA Mobile added another 26 million players in the quarter to its total player base – more than any quarter in the last 12 months – and millions more joined our FIFA experiences in Korea and China this year. Ultimate Team is more popular than ever across our EA SPORTS titles, and in *FIFA Ultimate Team* we had 12% more players year-over-year from launch through Q3.

In other areas of our portfolio, *Battlefield 1* now has more than 25 million unique players life to date, putting it on a similar growth trajectory as *Battlefield 4's* massive community. *The Sims 4* had another extraordinary quarter as we launched our highest-performing expansion pack to date, and brought the game to consoles for the first time. Both of those contributed to player base growth in our Sims 4 community of more than 35% year-over-year in Q3. *Need for Speed Payback* also brought new experiences to long-time fans this quarter.

On mobile, we're bringing more players into our network from across the world through the unique breadth and depth of our IP. From deeply-engaged fans in *Star Wars Galaxy of Heroes* to large, long-term communities in our EA SPORTS titles, *The Sims FreePlay* and more, our mobile games are reaching a wide and diverse audience and delivering years of high-value entertainment.

Competitive gaming continues to be a major growth opportunity for us. We are bringing some of the biggest sports franchises in the world to the esports stage, and with new league partners, sponsors and broadcasters, our Madden NFL and FIFA competitions are reaching new milestones. The Madden Challenge special on The CW network was the #1 esports television broadcast in the U.S. for 2017, and our Madden Challenge live finals in December drove our largest digital viewership to date for a Madden tournament. On the FIFA side, we just kicked off the Road to the eWorld Cup with the FUT Champions Cup in Barcelona last weekend. Digital viewership was massive, with more than 17 million total views – that's half of last season's total views in just our first tournament of the year. We are also partnering with leagues like the MLS, Bundesliga, and more to bring competitive FIFA deep into their fan bases, expanding our global opportunity. Next, we're bringing competition to *Battlefield*, with online qualifiers set to begin in

Q1 FY19. Across FIFA, Madden and Battlefield, this is going to be our biggest competitive season yet for players and spectators.

Looking to the quarter ahead, we're set to deliver a mix of amazing new games that will add to the breadth of our portfolio. First, later this week we will launch *UFC 3*. We have a great partnership with the UFC, and have worked hard over a two-year development cycle to bring innovation across the entire game. With major UFC events coming in the months ahead, we're delivering *UFC 3* at a very exciting time for the sport and its fans.

During the fourth quarter, we will also launch the first two games from our EA Originals program, *Fe* and *A Way Out*. As you'll remember, we started EA Originals with a commitment to help independent developers bring unique and memorable games to the world. We can't wait to see fans come out and support these deeply-talented creators and the ideas they have brought to life in these games.

Also in Q4, *The Sims Mobile* will launch worldwide on iOS and Android. This game is a major leap forward for the franchise, combining the unique Sims magic with new dimensions of social play. Sims players are some of our most diverse and committed fans, and with games like *The Sims 4* and *The SimsFreePlay*, we've shown how we build and deliver for these communities over many years.

In FY19, we will push the boundaries even further for our players, with new experiences and constant innovation. It's a World Cup year, and with the largest sporting event on the planet set to reach billions of soccer fans, our EA SPORTS development teams are packing excitement into our next FIFA. Madden NFL, NHL, and NBA LIVE will all bring new dimensions of gameplay, self-expression and social connection. The Battlefield universe will grow this year

with our next Battlefield title, captivating longtime fans and new players alike, and adding to our Battlefield service where players can move seamlessly with their friends. Our new IP, *Anthem*, is a stunning project from BioWare that will blend genres with a shared-world experience that evolves around its players. Excitement for *Anthem* is building, and we're deeply invested in delivering a great new experience with this game when it launches in Q4 FY19. In addition, we plan to launch two new mobile games built around fan-favorite IP; we'll grow in esports with competitions and broadcast content reaching more players and viewers; and we'll continue to deliver for players through our live services – including *Star Wars Battlefront II* – with more great content for the games they love.

This collection of amazing games and content across more platforms, wrapped in live services, is at the core of the network we are building for our players. With competition, and subscription offerings that we will expand in new and innovative ways, we are reaching new audiences. Our amazing creative teams – including the addition of the talented group at Respawn Entertainment – our Frostbite engine, our central technology platform and our Labs groups are putting us in position to be disruptive, and deliver the unexpected.

We are excited to bring many more great experiences to our global network in this quarter and beyond. Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

Electronic Arts delivered earnings above our guidance, absent a one-time impact from tax reform. Sales of *Star Wars* Battlefront II underperformed our expectations, but event-driven live services significantly exceeded them. This speaks to the stability of a business as diverse as ours, with its broad portfolio of titles and mix of business models.

I'll report our results on a GAAP basis, then use our operational measure of net bookings to discuss the dynamics of our business. To compare this quarter's results to historically-reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

EA's **net revenue** was \$1.160 billion, compared to \$1.149 billion a year ago. **Operating expenses** were \$680 million, compared to \$637 million a year ago, with the year-over-year increase primarily due to continued investment in existing and new genres, and in live services.

GAAP operating loss was \$21 million, compared to an operating loss of \$4 million a year ago, and, together with the charge from tax reform, resulted in a **loss per share** of \$0.60, compared to \$0.00 a year ago. Almost all of the year-on-year change, approximately \$0.57, was due to the tax charge. Note that, given our GAAP result was a loss, our share count was 308 million shares. Had we reported a profit, the diluted share count would have been 311 million shares.

Operating cash flow for the quarter was \$849 million, down \$288 million from last year. The decrease was driven by the timing of collections and by lower net bookings. **Capital expenditures** for the quarter were \$24 million, resulting in a **free cash flow** of \$825 million.

Operating cash flow for the trailing twelve months was \$1.514 billion. We remain on track

to deliver operating cash flow of \$1.6 billion for the fiscal year, which would be a new record.

See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 1.4 million shares at a cost of \$150 million**, leaving \$778 million in our two-year \$1.2 billion buyback program we began in May. We also paid \$151 million in cash to acquire Respawn Entertainment.

Our **cash and short-term investments** at the end of the quarter were \$4.9 billion, with 36% of this balance held onshore.

Now, I'd like to turn to the key drivers of our business this quarter.

Net bookings for the quarter were \$1.971 billion, down \$99 million on the prior year, which benefitted from a strong *Battlefield 1* launch. Net bookings for the quarter were \$29 million below our guidance, driven by lower-than-expected sales of *Star Wars* Battlefront II. For Q3, we had expected to sell in about 8 million units, but we fell short of that by less than 1 million units. However, this shortfall was significantly offset by an excellent performance from our live services. The impact of FX was immaterial on the quarter.

Digital net bookings were \$1.230 billion, up 12% on the year-ago period, and a new record for the third quarter. The main driver of the increase was live services, offset by lower sales of *Star Wars* Battlefront II compared to *Battlefield 1*. Digital net bookings now represent 67% of our business on a trailing twelve-month basis, compared to 60% in the prior year.

Looking at each of the components of this quarter's digital net bookings in turn:

- **Live services** net bookings were up 39% year on year, to \$787 million. The increase was driven by Ultimate Team and *The Sims 4*. This was a record for the third quarter.
- **Mobile** delivered net bookings of \$183 million, up 5% year on year, also a record for the third quarter. Year-on-year growth was driven by *FIFA Mobile*.
- **Full game PC and console downloads** generated net bookings of \$260 million, 27% lower than last year, driven by *Star Wars Battlefront II* compared to *Battlefield 1* last year. This was partially offset by the underlying growth in digital downloads. *Star Wars Battlefront II* units on console were 28% digital, up 12 percentage points over *Battlefront I* two years ago. Across the portfolio, 37% of our full game unit sales were digital, measured on Xbox One and PlayStation 4 over the last twelve months. This compares to 32% a year ago.

Before turning to guidance, **a brief note on tax reform**. The enactment of the Tax Cuts and Jobs Act in December 2017 resulted in a charge of \$176 million in the third quarter. The charge is preliminary and includes a tax on accumulated overseas profits and the revaluation of deferred tax assets and liabilities. Also, while we are not changing our management reporting tax rate for fiscal 2018, we are still analyzing whether the new legislation will reduce this rate for fiscal 2019.

In addition, because the new legislation changes the tax treatment for cash earned outside the United States, it provides an opportunity for us repatriate most of our foreign earnings. During the coming months we will re-evaluate our capital return and investment strategy, including our stock repurchase program, and whether we should consider a dividend. We would expect to announce any changes on our next earnings call.

On to guidance: we are raising our full-year GAAP revenue guidance from \$5.075 billion to \$5.100 billion on the strength of our live services. Our guidance for full-year EPS becomes \$3.25. Excluding the impact of \$0.48 from tax reform, this represents a \$0.10 increase on our previous guidance. We are reaffirming our **operating cash flow** guidance of \$1.6 billion. We continue to anticipate capital expenditures of around \$120 million, which would deliver **free cash flow** of about \$1.48 billion. We are reaffirming our guidance for **net bookings** at \$5.150 billion, but, owing to the strength of our lives services, we expect this to skew more digital than originally anticipated, increasing our profitability.

For the **fourth quarter**, we expect net revenue of \$1.532 billion, **cost of revenue** to be \$234 million, and **operating expenses** of \$619 million. Q4 opex is up slightly from our previous expectations, driven by phasing of investment from Q3 and stock-based compensation expense related to the Respawn acquisition. It is up year on year, primarily due to continued investment in existing and new genres, and in live services. This results in **earnings per share** of \$1.86 for the fourth quarter, using the diluted share count of 311 million.

We anticipate **net bookings for the quarter** to be \$1.225 billion. This is a raise on our previous expectations, and up 12% year-on-year, driven by strength in live services.

We continue to be excited about our opportunities for the future. Through the fourth quarter and fiscal 2019 we'll be launching games across five different genres: sports, action, shooter, real-time strategy and sim. We will launch them across three platforms: PC, console and mobile. And we will reach players in all corners of the world. We expect full-game downloads to continue to grow, and to see growth in subscriptions, extra content and in our mobile business. We expect esports will continue to drive growth in Ultimate Team as well as Battlefield and other titles. This will also grow our broadcast, sponsorship and advertising deals associated with our

esports activities. This diversity in portfolio, platforms, geographies and business models is the foundation of a robust business that enables us to deliver dependable cashflow.

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

ANDREW CLOSING:

Thanks Blake.

Across the world, more people are playing more games, in more geographies, through more devices and more ways to connect. It's a vast and growing audience in the billions, with increasingly diverse interests and high expectations. Reaching players with the fun and meaningful experiences they seek requires the best games and content available across multiple platforms. It requires more ways to engage with that content, including competition. And it requires a strong connection to the community – the openness and dialogue that make this industry so unique and powerful in the entertainment world.

Today, EA has one of the most wide-reaching portfolios of top games and franchises in the industry. Through FY19 and beyond, we are planning stunning new additions that will continue to grow the depth, breadth and quality of experiences we bring to fans around the world. Our DICE studio will deliver the next Battlefield, with innovation at every level, incredible stories at the core, astonishing visuals and gameplay that will captivate every Battlefield fan. Building on one of the strongest years ever for EA SPORTS, we're setting our sights to excite even more players, and deliver even more advanced experiences, with our next slate of games. *Anthem* will bring a rich and dramatic new world to players, built from the ground up by BioWare as a new IP that we believe will reach a wide audience and foster a long-term community. We'll take major leaps in our mobile portfolio with two new titles set for this year, and more to follow as we continue to focus on high-quality, long-lasting games. And there is so much more to come in the years ahead, with new projects in development at Motive, Respawn, and our other studios, as well as more games from indie developers in our EA Originals program.

We're also creating more ways to connect with our franchises, including competitive gaming that reaches tens of millions of players and spectators. With FIFA and Madden, we've broken new ground, bringing global competition to some of the most passionate fan bases in all of

sports. Now with league partnerships, broadcast partners and sponsors on board, we're driving even larger audiences with thrilling, high-stakes competition. Competitive Battlefield will open up a brand-new dimension of our esports programs beginning next fiscal year, and by the end of FY19 we will launch competition in a fourth title as well. Esports is also fueling opportunities for us in growth regions of the world, driving excitement with our players across China, Korea, the Middle East and more.

In all of this, we are leading in service of our players, and strengthening the connections at the heart of our global network. We are constantly listening, learning, and working to make every player experience better. With our subscription services, we're removing friction so players can enjoy more of the games they love, and in FY19 we'll be doubling down with new offerings. By leveraging the cloud, we're exploring ways that streaming and other technologies will enable those experiences to be even more seamless. And through our Frostbite technology, we are pushing the boundaries in every aspect of games today.

With an amazing collection of games and content, thrilling competitions for a global audience, and a network built on the strength of our player connections, EA is uniquely positioned to lead in the expansion and evolution of this industry that we love.

Now Blake and I are here for your questions.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2018 guidance information and fiscal 2018 and fiscal 2019 title slates 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 develop and support digital products and services, including managing online security and privacy; 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 develop and implement new technology; foreign currency exchange rate fluctuations; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2017.

These forward-looking statements are current as of January 30, 2018. 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 December 31, 2017. 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 December 31, 2017.