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EDITED TRANSCRIPT

EA - Q3 2017 Electronic Arts Inc Earnings Call

EVENT DATE/TIME: JANUARY 31, 2017 / 10:00PM GMT

OVERVIEW:

Co. reported 3Q17 GAAP net revenue of \$1.15b. Expects FY17 net revenues to be \$4.8b and EPS to be \$2.91. Expects 4Q17 net revenues to be \$1.482b and EPS to be \$1.64.



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PRESENTATION

Operator

Good afternoon. My name is Jennifer, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts third-quarter 2017 earnings call.

(Operator Instructions)

Thank you, and I would like to turn the call over to Chris Evenden, Vice President of Investor Relations.

Sir, you may begin.

Chris Evenden - *Electronic Arts Inc. - VP of IR*

Thank you, Jennifer.

Welcome to EA's third-quarter FY17 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 www.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 regard to our calendar, Blake will be speaking at the Morgan Stanley Conference in San Francisco on Tuesday, February 28; and our Q4 earnings call is scheduled for Tuesday, May 9, 2017.



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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 31, 2017, 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.

Now I'll turn the call over to Andrew.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Thanks, Chris.

Electronic Arts was the leading console games publisher and most downloaded mobile games publisher in the world for Q3 FY17, driven by high-performing titles and tremendous engagement from our players. Our net sales and digital sales reached record levels for the quarter, and we exceeded our Q3 guidance for revenue and earnings. The excellent holiday quarter for EA was a demonstration of the strength of our portfolio, with new titles, new content, and new competitive gaming tournaments delivering great entertainment to players worldwide.

To touch on a few highlights, FIFA 17 was the top-selling console title in the world for 2016. We grew our FIFA player base significantly year over year through the addition of a new story mode, The Journey; Frostbite-powered gameplay; and new experiences in FIFA Ultimate Team. More than 10 million fans have played The Journey, and FUT players are up nearly 10% year over year.

It was also an excellent year for FIFA competitive gaming. Our eSports competitions for players at all levels have led to dramatic increases in engagement among competitive players. Through Q3, FIFA 17 competitors were playing nearly three times more than the rest of the FIFA community. We expect the excitement will continue as we add more competitions, more broadcasts, and more content in the year ahead.

Battlefield 1 was our biggest Battlefield launch ever, delivering innovation, creativity, and all-out warfare that players were looking for. The team at DICE created a truly groundbreaking experience that is driving massive engagement and growing our global Battlefield community. The unique player base of Battlefield 1 is more than 50% larger than that of Battlefield 4 in its comparable launch quarter, with more than one-third of the players being new to the franchise or new to EA.

We also have a lot of excitement ahead for our Battlefield 1 community. Battlefield 1 Premium players will have early access to our first expansion pack coming in March. We'll continue to bring more maps, more armies, and more amazing content to the game in the months to come.

Titanfall 2 delivered the next important step in this new franchise we are building with our partners at Respawn, a highly rated, action-packed experience that has thrilled players in the year's biggest category. Player satisfaction scores for Titanfall 2 are among the highest in our portfolio, showing just how much fun players are having with the game. Titanfall 2 will be played for a long time to come, with new maps, modes, and content updates continuing to expand the experience and engage our players. We're excited about our long-term plans for the Titanfall franchise.

We are building our mobile games today to have a long life with players through outstanding live services and dynamic content updates. For example, Star Wars Galaxy of Heroes added ship battles and Rogue One content in Q3, driving average gameplay time per player to an unprecedented total of 155 minutes per day.

Our EA SPORTS titles on mobile are also great demonstrations of this strategy. Madden NFL Mobile continues to perform at the top of the iOS app store charts in its third season. NBA LIVE Mobile and FIFA Mobile are also growing thriving communities with strong engagement. The combination of authenticity, great gameplay, and live services in these games is igniting the passion of sports fans worldwide. We will continue growing these communities with more sport-specific and geo-specific experiences.



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These examples show our unwavering focus on connecting players to more amazing experiences across more devices and in more geographies. With fans playing the games they love for longer, we are building and supporting deep communities that thrive for many years after launch. Players in Battlefield 1, Titanfall 2, and our EA Mobile titles are just beginning to engage in these long-term experiences.

Moving to Q4, we're excited to deliver the highly-anticipated Mass Effect Andromeda beginning on March 21. This all-new story of exploration in the Mass Effect universe will be brought to life in stunning detail using our Frostbite engine, with new characters, new environments, and a whole new set of possibilities to excite players around the world.

Looking further ahead, we would like to provide you with a view of our top titles and plans for FY18. We're thrilled to bring a new Star Wars Battlefront game to fans worldwide in the 2017 holiday season. In the past two years, Rogue One and The Force Awakens have opened new storylines, and captured the imagination of hundreds of millions of Star Wars fans. We've listened closely to our passionate Star Wars Battlefront community, and have expanded our existing game with more great content and experiences since its launch.

As that game continues to thrive, we have also heard our players' desire for even more depth and progression. Our next Star Wars Battlefront will be even bigger, taking players into more locations, and allowing them to play with more heroes and characters across multiple Star Wars eras. There will be new ways to play, including an all-new single player campaign, and much, much more that we're excited to share with our players in the months ahead. To build a game of this magnitude, we've brought together three great studios -- DICE, Motive, and Criterion -- and aligned their areas of expertise to deliver an amazing experience in the next Star Wars Battlefront.

We'll continue to drive innovation and competition in our EA SPORTS franchises. FIFA 18 will build on the foundation we've created with story mode this year, bringing players back to The Journey with Season 2, featuring new characters and new storylines. Our development team in Vancouver is delivering deeply innovative new experiences across this year's game, including in Ultimate Team, and creating the most emotionally immersive and connected FIFA we have ever produced.

Our Madden NFL franchise will transition to the Frostbite engine with Madden NFL 18, unlocking major visual advancements and new gameplay experiences that will excite dedicated Madden players, football fans, and sports fans overall. Our complete roster of EA SPORTS titles in FY18 will also include NHL 18, a new chapter of our UFC franchise, and an all-new NBA LIVE game launching in the fall.

Our focus for EA's Competitive Game Division is to grow engagement in some of our biggest global franchises. With strong results to date, we will now expand EA competitive gaming even further in FY18, fueled by more competitions, new sponsors and broadcast partners, and original programming.

Players will be able to compete in dozens of competitions, from online leagues to massive regional championships like our FIFA Online 3 championship in Korea, to our biggest events yet on a global stage, including the FUT Championship Finals and the Madden Championship. We're also very excited to kick off competitive gaming events for Battlefield later in the year.

We're also excited to have a new Need for Speed title launching in FY18. We've given the game an extended development cycle to focus on innovation. The Need for Speed team is pushing the boundaries of action driving with what we believe is the most exciting and best-looking Need for Speed game we've ever produced.

We will continue to build our Mobile portfolio, expanding on our success to deliver more engaging and fun mobile games in mass-market franchises with global audience appeal. Thriving player bases in our existing live services for Star Wars Galaxy of Heroes, EA SPORTS, and more will receive major new content updates throughout the year, and more in-game events will keep the games fresh, engaging and fun.

We are deeply committed to players in our Battlefield 1 and Titanfall 2 communities. Throughout the year ahead, we'll continue to launch new content and new experiences to expand these vast and dynamic games.

At the end of the fiscal year, our BioWare studio will be delivering an all-new IP, a clean-sheet design with new concepts, new gameplay mechanics, and new stories set in a unique new universe. This game has the potential to fundamentally disrupt the way people think about an action title,

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bringing friends together to play in an exhilarating new way. We're very excited about the future of this new franchise and its ability to attract a large global audience.

Our industry is poised for continued growth. The console market continues to strengthen, mobile continues its expansion, and more companies are entering the space and investing in new platforms. These moves bring more choices to players, and EA is in a unique position of strength.

With our Frostbite engine powering more of our portfolio, EA's games are some of the most highly-rated in the industry. Engagement in our titles continues to deepen, and our global reach is expanding through competition and new ways to play.

We're also making games more personal, leveraging deep learning to build intelligence into our EA Player Network that will help players find their friends and connect with more of the games they want to play.

We look forward to continuing our momentum through Q4 and beyond. Now I'll turn the call over to Blake.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Thanks, Andrew.

I'll start by reporting our results on a GAAP basis, then use our new operational measure of net sales to discuss the dynamics of our business. In addition, please reference the tables in our press release, as we discuss GAAP results and the GAAP adjustments that may be applied to compare them with our historical non-GAAP results. These can be used in conjunction with the financial model we have posted on our Investor Relations website to calculate measures comparable with our historical results.

We are delighted with our third quarter, which was driven by the blockbuster launch of Battlefield 1 and continued strong performance from FIFA 17 and FIFA 17 Ultimate Team. In mobile, Star Wars Galaxy of Heroes outperformed our expectations. This resulted in record-setting performance for the Company, including our first-ever billion-dollar cash flow quarter. I will highlight other records as we go through the details.

EA's GAAP net revenue was \$1.15 billion, compared to \$1.07 billion last year. Net revenue was above our guidance by \$24 million. Year-on-year growth was driven by Battlefield 1. If you wish to compare our current results to our historical non-GAAP revenue, you will need to add the change in deferred net revenue of \$921 million to the \$1.15 billion of GAAP revenue.

Our cost of revenue was \$516 million, including a historic acquisition-related expenses of \$18 million.

Gross margin for the quarter was 55.1%, up 6.1 percentage points over last year. The gross margin for our underlying business continues to grow, driven by product mix and the shift to digital.

Operating expenses were \$637 million, up \$82 million or 15% year on year, driven by increased marketing activities around the launches this Q3. The \$637 million includes \$48 million in stock-based compensation and \$2 million in acquisition-related expenses.

Moving on to EPS. Because the GAAP revenue recognition standards require us to defer most of the revenue out of the quarter, but recognize the expense of launching games in the quarter, Q3 is only a breakeven quarter on a GAAP basis. GAAP adjustments to derive a measure comparable to our historical non-GAAP EPS include the \$921 million change in deferred net revenue; \$20 million in acquisition-related expenses; \$48 million of stock-based compensation; and a management reporting tax rate of 21%. Note that, had we reported a GAAP profit, our share count would have been 313 million.

Net cash generated by operating activities for the quarter was \$1.11 billion, a new record for the Company, and \$226 million higher than the record set in the same quarter last year. The trailing 12 months' operating cash flow was also a record, at \$1.37 billion. With capital expenditures of \$124 million over the last 12 months, free cash flow was \$1.25 billion in the same period. Please see our earnings slides for further cash flow information.



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During the quarter, we also repurchased 1.5 million shares at a cost of \$127 million, leaving \$156 million in our two-year \$1 billion buyback program we began in May 2015. The current rate of repurchases keeps us on track to complete the full \$1 billion in that time. Our cash and short-term investments at the end of the quarter was \$4.22 billion, with 42% of this balance held onshore. This is down slightly from 43% last quarter, with the change driven primarily by the share repurchase and the greater cash generation offshore.

Now I would like to turn the key drivers of our business this quarter.

Net sales for the quarter were \$2.07 billion, a new record for the Company. The outperformance versus our expectation was driven by Battlefield 1 and FIFA 17, offset by Titanfall 2. Battlefield 1 is on course to be our best Battlefield ever. Sell-through of FIFA 17 during Q2 and Q3 was 8% higher than FIFA 16 in the same period last year, and FIFA Ultimate Team sales continue to grow strongly. Like Battlefield 1, FIFA 17 is on course to be our best-selling FIFA of all time.

Digital net sales were a record \$1.1 billion, up \$288 million on the year-ago quarter. The increase reflects strong growth in digital downloads, and about \$50 million of digital net sales from FIFA launch captured this quarter rather than in Q2 as was in the case in FY16. Digital sales now represent about 60% of our business on a trailing 12-month basis.

Looking at each of the components of this quarter's digital sales in turn. First, extra content and freemium net sales were up 28% year on year to \$462 million. As mentioned last quarter, this includes launch sales of FIFA Ultimate Team that were not captured in the same quarter a year ago. Using Q2 plus Q3 as the measurement period, FIFA 17 Ultimate Team grew 22% over FIFA 16 Ultimate Team, despite ongoing currency headwinds.

At constant currency, year-on-year growth would have been 30%. This extraordinary growth in a major business is driven by innovations, such as the story mode we added to the FIFA, and by enthusiasm for the competitive gaming mode, FUT Champions.

In China, FIFA Online 3, our PC free-to-play game continues to benefit from the growing interest and investment in soccer there.

In Mobile, we had a record quarter. Net sales were \$174 million, up 7% year on year, with growth again led by Star Wars Galaxy of Heroes. Madden NFL Mobile, SimCity BuildIt and The Sims FreePlay also made strong contributions to the quarter. NBA LIVE Mobile and FIFA Mobile are delivering strong installs and engagement, which we believe can translate into greater monetization over time.

Net sales of full game PC and console downloads were \$355 million, another record, and 82% higher than last year. As anticipated, digital downloads for Battlefield 1 were much stronger than for Star Wars Battlefront in the year-ago quarter. 32% of our unit sales are now digital rather than physical, measured on current generation consoles over the last 12 months. This is ahead of our fiscal year target of 29%, and is likely to be driven slightly higher again by the fourth quarter, which is dominated by catalog sales.

Subscriptions, advertising, and other digital purchases contributed \$104 million to net sales, up 16% year on year. EA Access and Origin Access continue to grow.

Turning to guidance, we are raising our full-year guidance to \$4.800 billion in net revenue and a \$125 million increase in deferred revenue. We anticipate cost of revenues to be \$1.338 billion, including \$43 million of historical acquisition-related costs and \$2 million of stock-based compensation. Operating expenses are expected to be \$2.306 billion, including \$192 million in stock-based comp, and \$6 million in acquisition-related costs.

Our investment in future revenue continues through development of a new IP, including building out our Motive studios in Montreal, building our Player Network infrastructure, and expanding our eSports footprint. This results in earnings per share of \$2.91 for the year, a \$0.22 increase from prior guidance. GAAP adjustments to derive measures comparable to our historical non-GAAP EPS include the \$125 million change in deferred net revenue; \$194 million of stock-based compensation attributed to operating expenses and cost of revenue; \$49 million in acquisition-related costs; \$2 million in debt-related expenses; and the reduction of 1 million shares for the convertible bond hedge.



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Regarding cash flow for the full fiscal year, we're raising our operating cash flow guidance to be approximately \$1.35 billion. Our capital expense forecast remains approximately \$110 million, resulting in a free cash flow forecast of approximately \$1.25 billion. We expect FY17 to be our biggest cashflow year ever.

We continue to anticipate net sales for the year to be approximately \$4.925 billion. However, the underlying profitability is up significantly, due particularly to the success of Battlefield 1 and FIFA Ultimate Team.

Guidance for the fourth quarter is for net revenue of \$1.482 billion, including the recognition of \$407 million in deferred net revenue. We anticipate cost of revenue to be \$242 million. Operating expenses are expected to be \$591 million, including \$50 million in stock-based compensation, and \$1 million in acquisition-related costs. Expenses are up year-on-year, chiefly driven by increased investment in new franchises and our Player Network.

This results in an earnings per share of \$1.64 for the quarter. GAAP adjustments to derive measures comparable to our historical non-GAAP EPS include the \$[470] million (sic -- see press release, "\$407 million") change in deferred net revenue; \$50 million in stock-based compensation attributed to operating expenses; and \$1 million in acquisition-related expenses.

We anticipate net sales for the quarter to be \$1.07 billion. This is up 16% year on year by Battlefield 1 and Mass Effect Andromeda. FX continues to be a drag on year-on-year comparisons. Although our hedging program mitigates the effects of short-term movements in exchange rate, no hedging program can wholly protect a company from long-term structural changes in exchange rates. So that builds a headwind for FY17 versus FY16 in comparison, and it looks like we'll face an even greater headwind in FY18.

In conclusion, we had our best-ever holiday quarter, driven by record performances from our two largest franchises, Battlefield and FIFA. This was supported by a record quarter in Mobile, led by Star Wars Galaxy of Heroes. All three of these titles have strong live service components, and these position us well going into FY18.

Andrew introduced our FY18 slate today, and we'll be providing you with detailed financial guidance in May. Our results demonstrate the cash and earnings power of our business model, and we look forward to an exciting 2018 and beyond.

Now I'll turn the call back to Andrew.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Thanks, Blake.

FY17 has been an extraordinary year to date. EA has delivered some of the top games in the industry, we've grown engagement, and continued to exceed our guidance. Now we have more exciting plans ahead.

Creating amazing games and pioneering new ways to play will always be at our core. As games continue to touch the lives of more and more people around the world, through more devices and more platforms, the deep engagement of games uniquely delivered becomes increasingly valuable. Maintaining that engagement in a crowded world where players are continually challenged for time requires solving fundamental challenges to remove friction in a digital, networked world.

Our EA Player Network is designed for those challenges, to help players stay connected to their friends and their favorite games, whenever and wherever they are ready to play. It redefines the player value proposition from one that depends on each player building a network inside every new game, to one that moves seamlessly from experience to experience, across devices, with their friends, and with their achievements.

The EA Player Network is coming to life today. Our Battlefield games now have a central user interface that dynamically solves for the needs of our players. It will recommend experiences relevant to them based on the modes they're playing -- new community challenges, new events or content



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to help them improve their skills. More powerfully, the interface helps players find their friends faster and jump into games together, an essential service for multiplayer games.

This is the true power of the Player Network, keeping players connected with their friends and the games they love, and applying deep learning to bring layers of personalization that will make every experience meaningful. It enables us to help our players move fluidly across different games, genres, and platforms, all inside our network.

With great games like Battlefield 1, Titanfall 2 and our EA SPORTS experiences on console and mobile, we are connecting with more players around the world. Through our live services like Ultimate Team and global Competitive Gaming tournaments and events, we are giving them deep and dynamic ways to engage.

Through subscription services like EA Access and Origin Access, we are giving players more choice and great value. The Player Network becomes the consistent thread through all of these experiences and more, helping our players navigate a crowded world, and helping us deliver a truly connected future of play.

We're looking forward to finishing FY17 with a strong fourth quarter, and delivering more great entertainment to our global network of players. Now Blake and I are here for your questions.

QUESTIONS AND ANSWERS

Andrew Wilson - *Electronic Arts Inc. - CEO*

(Operator Instructions)

Brian Nowak, Morgan Stanley.

Brian Nowak - *Morgan Stanley - Analyst*

Thanks for taking my questions. I've got two. So the first one on FIFA Ultimate Team being up 30% ex FX, it's really strong. Understanding it's from campaign mode and Frostbite. Could you help us understand a little bit more the breakdown of paying user growth, versus spend per user? And then at this point, what do you see as being the main point of friction that holds back paying Ultimate Team adoption? Thanks.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Yes, thanks, Brian. I think the metrics have not changed dramatically between paying users and non-paying users. What we've done is brought many more players into Ultimate Team, which is really the goal of what we're trying to do. We want people to have a great experience, more people to play, the experience gets better.

And we also want to give people to have new ways to play the game, which we've shown drives more excitement and more interest into the game, as well as the connection into our competitive gaming activity. Over time, we've seen the spend levels climb, but our focus is really on bringing more and more people into the atmosphere, or the game to play it.

Operator

Stephen Ju, Credit Suisse



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Stephen Ju - *Credit Suisse - Analyst*

Thank you. So Andrew, I think you called out Need for Speed -- a new Need for Speed for FY18. There also seems to be a Need for Speed Edge, which seems to be an online version that's being published by Nexon. So we're wondering if you can add further perspective there? And will this game follow the path that FIFA Online set, of getting exported to other markets like China? And Blake, the 32% of sales for Battlefield coming from download, I think we're used to thinking about a pick up of about 5%, in terms of the mix shift from physical to downloads. I'm wondering if there's anything you can highlight in terms of consumer behavior there, is the shift accelerating, or is this something specific to Battlefield? Thank you.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Yes. So on the Need for Speed question, one of the things that is wonderful about having such a deep portfolio of global brands, is that they have tremendous appeal around the world. And Need for Speed like FIFA is one of those brands that has tremendous appeal in North America, Europe, South America and throughout Asia. However, as we think about different markets, it's really important for us to establish games according to a modality of play that makes sense for that market.

So again, with Need for Speed Edge, it is effectively the same track that we took with FIFA Online 3, which is the core component of gameplay, which is fast cars, amazing chases, and over-the-top driving action, will form the centerplace of Need for Speed Edge, but it will be done in a free-to-play environment the same way FIFA is. It's early days for Need for Speed Edge, but you might imagine that as we continue to grow that property in Asia, that it would follow a similar path to that which we've taken with FIFA Online 3.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

And Stephen, your question on full game downloads, just to clarify, the 32% number is a trailing 12 month number for all of our titles on gen 4 consoles. And as comparison, in FY15, that number was 20%, FY16 it was 24%, and this year, it's running at 32%. We thought it would be probably 29% for the full year, our full fiscal year. So we're running ahead of that.

The Battlefield numbers -- we don't disclose those, but since is a very popular PC title, which north of 75% of those games are sold digitally, you should assume that the Battlefield full game download numbers skewed higher than what we've seen. In contrast to the last year, when we saw Battlefront which skewed lower, because it was less of a PC-based tile so.

Stephen Ju - *Credit Suisse - Analyst*

Okay, thank you.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Next question?

Operator

Chris Merwin, Barclays Capital

Chris Merwin - *Barclays Capital - Analyst*

Hey, great. Thank you. Just had a couple. So just to follow up on that download question. Gross margins were obviously very strong in 3Q, and Blake as you mentioned, that was I guess, due mostly to Battlefield, and perhaps lower royalties from Titanfall.



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But it looks like you've guided to more than 250 basis points of margin expansion in FY17, which is well ahead of the 100 basis point annual target. So just as we start to think about FY18, could you say how much of the benefit that we're seeing this year is one-time in nature? And what that might mean for next year, obviously, without giving guidance there?

And then, just a second question. You mentioned in the prepared remarks, the strength of engagement you've seen with Battlefield 1. So I was just wondering, if you could talk about how that's manifested itself in DLC and MTX, and maybe more specifically, what the attach rate of all extra content sales looks like for Battlefield 1 relative to Battlefield 4? Thank you.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Yes. So clearly, we saw a very large gross margin improvement in the quarter. That's a combination of higher digital as we just discussed, both in terms of full game downloads, and higher extra content, in the form of Ultimate Team. It also is, as you called out, we sold less Titanfall 2 than we expected, and we sold more Battlefield 1 than we expected. And Battlefield 1 is a higher margin product for us. And so, that acted as a way of improving the margin.

We will see some pressure next year, because we'll flip back to a large royalty-bearing title in the form of Battlefront. And as we saw last year, that puts somewhat of a damper on the OpEx -- or on the, excuse me, on the gross margins. I don't yet have the numbers to give you for guidance. We'll do that in May, and we'll try to call out the impact. But you should assume that we will have the benefits from continued mix change, more digital, more digital live services, as well as more digital full game downloads. And some of that could be offset by royalty-bearing titles, but probably not fully offset by. We should continue to see some gross margin improvement.

In terms of Battlefield 1 extra content, we're just getting going on our extra content plan. Our first deal DLC ships in March, the end of March. There's virtually no revenue this year for that, that will all come next year.

So I will give you a better sense of the attach and the revenue associated with that, when we do guidance. But we're very excited about the potential, because we have such an engaged and large consumer base playing the game.

We will look to DLC, MTX, and many different methods for people to continue to enjoy the game, and deepen their experience. We'll tell you more about that in the months to come.

Chris Merwin - *Barclays Capital - Analyst*

All right. Thank you.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thanks, guys. Maybe a couple quick ones. The new BioWare game, I think you mentioned it was action and adventure in the description. Is that an RPG game, we should assume coming from BioWare's history? And then, we may have missed this, but is that owned IP or will that be royalty-bearing licensed IP?



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Andrew Wilson - *Electronic Arts Inc. - CEO*

So it's an action adventure, not RPG. So what we're starting to see more and more in game genres, kind of genre-melding which is great components of a number of different genres, really kind of coming together into single games.

And so, when you think about this game, you should be thinking about the great RPG character development and storyline progression that BioWare is known for, but in a world of greater action and greater adventure which is growing to be one of the larger categories in games. It will be a wholly owned IP. We're very excited about it, and we'll share more in the year to come.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thank you, Andrew.

Andrew Wilson - *Electronic Arts Inc. - CEO*

We're ready for the next question.

Operator

Justin Post, Merrill Lynch.

Justin Post - *BofA Merrill Lynch - Analyst*

Great. Thank you. Blake, you did a really good job kind of guiding the units for Battlefield and Titanfall. I wonder just to help us think about how big those were, and digital potential, if you can give us any sense of how many units have sold through, or just the number of players in Battlefield? And Andrew, you've got Battlefront coming next year. You've mentioned a lot of new features and a single-player campaign.

Can we think about that growing versus the first one? Just wondering what your thoughts there? And then, the last one, Blake on Ultimate Team, I think the last update was \$500 million or so. Just wondering if you can give us any thoughts on the size of revenue this fiscal year? Thank you.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Yes. So let me hit the first two, and then I will let Andrew jump in, or the first and the last one. The units -- we're going to actually spend less time talking about units going forward in the future, for one real simple thing, which is the business is becoming far less important around units sold. We're very excited. We sold more units than we expected to sell in Battlefield, and we sold less units than we expected in Titanfall.

The Battlefield units are on track to be one of the biggest titles in the shooter market in the world, and we're very excited about that. And that means there's a lot of people playing, and the engagement levels they're playing at, are things that -- are at a point, that we've not even seen in our past. A highly engaged audience, an incredible depth of gameplay that's going on.

And so, you should assume that we'll give units probably upfront when we give guidance, to give people sizing, but we're going to try to spend less time talking about the units, and more time talking about the revenue associated with the game, because we think that's more important. And in terms of -- let's see -- your last question was?

Justin Post - *BofA Merrill Lynch - Analyst*

Ultimate Team?



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Andrew Wilson - *Electronic Arts Inc. - CEO*

Ultimate Team.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Oh, Ultimate team, yes. So we're now tracking close to \$800 million a year on Ultimate Team, between the three sports. Obviously, FIFA is the largest, followed by Madden, and then followed by hockey. But it's very encouraging at the continued excitement around that business, and our ability to continue to grow it, despite its extremely large size already.

Andrew Wilson - *Electronic Arts Inc. - CEO*

So on Star Wars Battlefront, again we're not in a place where we're going to give unit guidance or revenue guidance at this juncture. But here is what I would leave you with, this is going to be a big game. The first game was very well-received. It was widely regarded as a game that fulfilled people's Star Wars fantasies in ways they could never imagine.

But it was also a game where people asked for a lot more, and a lot more depth, and a lot more of the greatness of the game, kind of embodied. This game, again, is going to be in more locations, more game modes, more eras, more ships, ultimately including a full single player campaign which is very, very exciting. So we have every reason to believe we're delivering fans exactly what they're asking for with respect to a Star Wars game.

We've also had another movie since we launched the last one, and another one coming later this year, and we would expect that the global fan base for Star Wars will continue to grow. So we feel great about the game. We feel great about the overall community, and we feel great about the energy that the movie will generate in and around the launch of the game.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Operator

Colin Sebastian, Robert W. Baird.

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

Great. Thanks for taking my questions. I have a couple. First off, I was hoping you could talk a little about the relationship with Respawn, in terms of the future of Titanfall? It sounds like from your comments, Andrew, that there will be a future sequel.

And then secondly, was hoping you could address the level of support for the Nintendo Switch, if there's been any change since the last call in terms of our R&D commitment, and any titles in development? Thank you.

Andrew Wilson - *Electronic Arts Inc. - CEO*

So we have a great relationship with Respawn. I was actually down there with them recently, spending time with -- we're very excited about Titanfall 2. We think that game is going to sell for a really long time. And as we said in the prepared remarks, it's one of the highest rated shooters of the generation. It's also got some of the highest NPS scores across our portfolio, so people playing the game, and having a great time.



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We remain committed to that relationship. We remain committed to Titanfall, and we look forward to doing a lot more with Titanfall 2 over the year to come.

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

Okay. And the Nintendo Switch?

Andrew Wilson - *Electronic Arts Inc. - CEO*

The Nintendo Switch, no change. As we've announced, we're going to launch FIFA for the Nintendo Switch later this year.

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

Blake, just to slip another one in, just to clarify, it looks like NBA LIVE was in the release slate for March in the last presentation. It does not appear in this presentation. Can you just clarify if that was a change?

Blake Jorgensen - *Electronic Arts Inc. - CFO*

It was a good catch, Colin. I'll let Andrew give you the development view of NBA LIVE.

Andrew Wilson - *Electronic Arts Inc. - CEO*

Yes, we, as everyone knows, we have been on a journey with NBA LIVE. It's something that we remain, again very committed to, with our partnership with the NBA, and want to deliver something that's truly innovative and disruptive in the marketplace. We had planned a launch in the not too distant future, with what we believe was going to be the first step towards that level of innovation and creativity to create a disruption in the marketplace.

In all honesty, we got the game, and it's really, really good, and a lot of fun. And we feel like we are better positioned to launch that with the fullness of the NBA season ahead of us, and have decided to double down on that, add to it, and launch it as a [fall bid] later in the year.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

So you'll hear more about that, and see more coming up over the next six months. As Andrew said, we're extremely excited about it, and I've been able to beat Andrew a couple of times, as long as I am playing as Steve and Seth Curry. (laughter).

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

All right. Thanks, guys.

Operator

Eric Sheridan, UBS.



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Eric Sheridan - UBS - Analyst

Thank you for the questions. Maybe one on mobile, just want to understand what you're seeing in terms of both player engagement and monetization on the key sports titles in the mobile format, whether you are seeing any difference between phone and tablet, in the way people are sort of engaging with those titles?

And then second, maybe more for Blake, but just an updated view on the way you're thinking about the balance sheet, deploying cash, looking at the M&A landscape, sort of an update on your balance sheet view? Thanks so much, guys.

Andrew Wilson - Electronic Arts Inc. - CEO

So two things, of monetization you were talking about there, which was across different sports titles, and then I think you layered in mobile and tablet in the end. Again, what we're seeing more broadly in mobile is that, great titles with great brands are holding their position at the top of the charts, and Madden is a great example of that. We're also seeing that the expectations of gamers now is growing, and the games need to be bigger and deeper, and offer new and interesting ways to play.

And what we're seeing now with Madden even in its third season, it's reaching that level of depth and breadth, and really engaging players in a big way. We are early days in the FIFA and NBA mobile games. And what we're looking at now is, while the core infrastructure was very similar to Madden, and we're very happy with their performance to date -- again, they're in line with our expectations, we are looking at sports-specific and geo-specific tuning of the feature set and the experience, that we think over the coming years we'll continue to grow those businesses, as we have done with Madden.

In terms of phone versus tablet -- I don't have any exact stats with me now, but we see a lot more play still happening on mobile phones versus tablets. But we do get players playing across both, and monetizing on both.

Blake Jorgensen - Electronic Arts Inc. - CFO

On the balance sheet, obviously, the great news is that our cash flow continues to grow, which means our cash balance continues to grow. We will be talking next quarter about what our next view of a share buyback program will be, because our current program will be up in May. We think we'll finish the current buyback, the \$1 billion buyback right around that time. We're also, as we've talked about before, looking at everything that is out in the marketplace. Being one of the largest players in the market, we get a chance to look at virtually everything.

We're very disciplined on price as we've talked about, and we want to make sure it fits the model and culture of the EA, to consider anything. Don't have anything to tell you today, other than that we'll continue to look, and we're very open to continuing to try to grow the franchise.

But the good news is, as Andrew has discussed today with the new BioWare title, we feel like we have substantial opportunities internally, to continue to grow this business around great IP, great creative talent, and great ways to play games, that we don't even think that have fully been scratched the surface, as we've proven with Ultimate Team, but we think can be done with other franchises inside the organization.

Eric Sheridan - UBS - Analyst

Great. Thank you.

Operator

Drew Crum, Stifel Nicholas



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Drew Crum - *Stifel Nicolaus - Analyst*

Thanks, guys. Just want to ask about the fourth quarter, some of the titles and content you have scheduled to release? And as it relates to the digital revenue, you mentioned the Battlefield expansion pack late in the quarter, Mass Effect is March 21, I believe in North America, and March 23 in Europe. Given those dates, and the revenue recognition, I think you recognize digital revenue 10 to 14 days in arrears, is it possible that that gets pushed to FY18?

And my second question relates to Titanfall. Just want to understand if you have any thoughts as to why you think it underperformed? And going forward, what the digital monetization strategy will be with that franchise? Thanks.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

So I'll address the first one, Drew, and then Andrew can address the Titanfall question. We, our digital cut-off is typically about 5 to 7 days, depending on the calendar, more than the actual days. But so we will get some digital from the first few days of sales for Mass Effect.

We will get very little revenue, just because of the way we book the revenue for the DLCs on Battlefield 1. So you can assume that's close to zero, and assume Mass Effect is going to be anywhere between 30% to 50% of the lifetime of that title. And the last Mass Effect did close to 6 million units, so you'll probably see something like around 3 million units in the quarter, depending on the exact timing so.

Andrew Wilson - *Electronic Arts Inc. - CEO*

And on Titanfall, well, as Blake highlighted earlier, it sold less than we expected in the time frame. We're not seeing it as underperformance at this juncture. What we've demonstrated as an organization, is that with great games we can sell them for many months, and often many years.

Again, look at the sales curve of Battlefield 4. We were still selling lots of units three years post, and still had nearly 10 million people playing that game right in the lead up to Battlefield 1. So the way we think about Titanfall is that we have what is one of the best games of this year, and certainly one of the best games of this generation of consoles, in what is this year's largest category. And we've got a development team who have unbelievable pedigree, and a commitment to continue to support the community. And we expect to continue to grow that community through the coming fiscal year.

Drew Crum - *Stifel Nicolaus - Analyst*

Thanks, guys.

Operator

Neil Doshi, Mizuho.

Neil Doshi - *Mizuho Securities Co., Ltd. - Analyst*

Great. Thanks, guys. Just a quick question on mobile, Blake. I think mobile grew around 7%, it's kind of well below the double-digit growth we've seen over the past few quarters. Any color on what drove that slow down, and whether we should kind of see that rebound back to a double-digit growth again?



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Blake Jorgensen - *Electronic Arts Inc. - CFO*

Yes, I think the growth in mobile, remember is driven oftentimes by when new titles come out. So you have to be careful not to get too hung up on that. And then instead, think about the broad portfolio. And so, if you get a big title coming in, and then you get a lot of activity early on, you're going to bump the level.

I think one thing to note is, that's the largest mobile quarter we've had in our history, which is what we're really focused on, which is how do we have a continued growth of franchises inside mobile? Seeing titles like Star Wars Galaxy of Heroes grow, but also titles like SimCity BuildIt!, or Sims FreePlay, or the sports titles. Our goal is, how do we continue to build the footprint that we have on console in the sports world, also on mobile?

We're pretty confident we can do that, but we know it takes time. So I can't predict today what the growth rate is going to look like for the full year next year. But I would say that, focus more on the annual growth, and on the size of the franchises, and really important, the stability of those franchises.

And as we've talked about before, our focus is to have a very profitable mobile business, which means we're not going to over-monetize or overspend just to try to monetize, and we're trying to build long-term franchises. And we're pretty excited about where that's going.

Neil Doshi - *Mizuho Securities Co., Ltd. - Analyst*

All right. Thank you.

Operator

Eric Handler, MKM Partners

Eric Handler - *MKM Partners - Analyst*

Yes, thanks for taking my questions. Two questions for you. First, the guidance for the fourth quarter. If you sort of parse out what was implied of last quarter's guidance, and where we are now, is much of that change, about a \$0.05 impact to the downside, is a lot of that just because of Mass Effect [happen] later in the quarter, release date? Is it FX or is there's something else?

And then secondly, just from a big picture macro perspective, overall retail had a very difficult December quarter, and GameStop included, but just all of retail in general, foot traffic was way down. And I am curious seeing that, does that maybe get you to focus more on accelerating the digital migration, and trying to get people to do more full game digital downloads? Or how do you read those tea leaves over the next one to two years?

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Yes, so first on guidance, I remind everybody, we started the year with using -- if you prefer back to our -- translate it back to the non-GAAP guidance that we had -- in the way we've given it historically, we started the year at \$3.50. We raised it to \$3.65, and we just now raised it to \$3.80. And so, I wouldn't get overly hung up on how that's phased by quarter.

We had an extremely strong third quarter, much stronger than we thought. That gives us caution around the fourth quarter. We don't want to get ahead of ourselves. And thus we've held the top line essentially flat, using those old measures or our net sales measure. But we've passed through a large portion of that on the bottom line, because we're very confident about the profitability, and the ongoing profitability of the business.

We're also investigating in the future, and so you see that in the OpEx number. That's not just for the quarter. That's for titles that are coming, in the coming years, to come both in terms of marketing and development expenses.

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On the digital side, I think we're focused on doing everything we can to deliver the best games, and the best experience for our consumers. If the consumer chooses to do that digitally or through physical, we don't spend a lot of time worrying about that. We're just trying to deliver great experiences.

But critical to those experiences are the ongoing live services where we're running events every week. We're bringing people back every week, and those experiences are all developed digitally, and delivered digitally. And that's where we think the future of the business continues to go.

And so, that means less and less about individual games sold, and more and more about engagement in the games. And I don't know how that ultimately plays out to the retailers out there, but our focus is on really deepening the engagement for the consumer, and delivering that in a way, as the easiest possible way for the consumer to consume it, which is digitally.

Eric Handler - *MKM Partners - Analyst*

Great. Thanks, Blake.

Operator

Mike Hickey, The Benchmark.

Mike Hickey - *The Benchmark Company - Analyst*

Hey, Andrew and Blake. Congrats on your quarter. Two questions from me. Curious on the FY18 slate. The transparency that you gave us, Andrew, is that sort of a full slate now, or are there some games unannounced? There's been some recent chatter on maybe Escape 4. And I think we also sort of were thinking about Remasters as a possibility for FY18?

And the second question, curious if you've seen, or maybe worry about physical retail over-buying product, and maybe under-appreciate share loss to full game download. If you think that's creating, or could create sort of an elevated promotional burden, as retail attempts to clean their channel? Thanks, guys.

Andrew Wilson - *Electronic Arts Inc. - CEO*

And so, I'll take the first part. So the slate that we talked about today, you should see as our core foundational slate. There are always other things that we might do, depending upon what the market looks like, whether it is Remasters or otherwise, but you should see that as the core foundational slate. Much to the dismay of the many people who email me on a fairly regular basis, we are not presently making Escape 4. And so, that will not be in FY18.

Blake Jorgensen - *Electronic Arts Inc. - CFO*

Despite my disappointment, that's one of my favorite titles. So in terms of, and I think to add to that, we always can add a few things during the year. It may be something gets pulled in faster than we thought, or we move something out of test in mobile more than we thought. But I think for purposes of guidance, we really wanted to give people a full understanding of the master slate that we're planning. So don't assume that there's another big title looming out there, that's going to drop into the year.

In terms of the retail channel, I would remind you guys that we reserve upfront, it's the difference between our gross sales and our net sales. What you see as net sales, above that, we reserve a sales reserve, to make sure that we have plenty of money available to keep the channel clean. And that results in planned promotions during the year around specific holidays, or events, or launches, or whatever it might be.



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And our process is to make sure we work with the retailers to keep that channel clean. So we're not worried about it. And we watch it very carefully, because it's critical to make sure that they're successful, as well as we're successful. And so, I don't think that there's any issues that are different than we've seen in the last 5 or 10 years on that.

Mike Hickey - *The Benchmark Company* - Analyst

Thanks, guys.

Blake Jorgensen - *Electronic Arts Inc.* - CFO

I think that's the last question, appreciate it. We'll talk to everyone else, or everyone in the coming months. Thanks very much.

Operator

Thank you for your participation. This does conclude today's conference call, and you may now disconnect.

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