



Prepared Remarks

FISCAL 2018 Q4

May 8, 2018

CHRIS:

Thank you.

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

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, a transcript, and an updated accounting Q&A.

With regards to our calendar: our Q1 fiscal 19 earnings call is scheduled for Thursday, July 26, 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, May 8, 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.

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

ANDREW:

Thanks, Chris.

FY18 was a year of growth and continued transformation for Electronic Arts, and a year where our commitment to putting Players First grew even stronger. We expanded our global player base, grew engagement in our leading games, live services and subscriptions, and continued our focus on listening and learning from our communities. Our revenue and earnings for Q4 and the full fiscal year 2018 were above our guidance given in January, and we are well positioned for continued growth in FY19.

Our strategy is to deliver a collection of amazing games and content, wrapped in services, with new and innovative ways to reach an expanding global audience. Here are a few of our achievements in the year just completed:

- Our EA SPORTS franchises *FIFA*, *Madden NFL*, *NBA LIVE*, *NHL* and *UFC* continue to be some of the most powerful sports brands in the world. In FY18, our EA SPORTS player base grew to nearly 90 million players life-to-date on current-generation consoles, and many tens of millions more across mobile and PC.
- Our sports games are also powerful platforms for competitive gaming. Nearly 18 million players engaged in competition across *FIFA 18* and *Madden NFL 18* this season – up more than 75% year-over-year – and viewership of our top-level competitions continues to break records on networks and digital channels.
- We are growing our reach across all platforms. Our *Battlefield* ecosystem of games has more than 54 million players life to date across current generation consoles and PC, as fans continue to play their favorite *Battlefield* titles for years after launch.

- Our *Sims* community spans across generations and platforms, with more than 80 million active *Sims* players across PC and mobile in FY18. Our *Sims 4* community continues to grow nearly four years after launch, and we have a great deal more content coming to our PC players this year. Alongside the ongoing success of *The Sims FreePlay*, we've had strong early growth in the player base for *The Sims Mobile*, giving us two games on mobile delivering the breath of experiences that *Sims* fans are looking for.
- FY18 was our strongest year ever for the EA Mobile portfolio. *Star Wars Galaxy of Heroes* continues to have one of our most committed and deeply-engaged fan bases, driving player satisfaction scores to an all-time high in Q4. Our EA SPORTS titles, *SimCity BuildIt*, *Real Racing 3* and more continue to entertain global communities on a daily basis, and we will add more breadth and depth to our portfolio in FY19.
- We also helped players experience more games, including innovative new IP. Our EA Access and Origin Access subscriber totals continue to grow, and we have expanded Origin Access to include dozens of third-party titles in addition to EA's PC portfolio. And with our EA Originals program, we saw outstanding success with *A Way Out*, the innovative co-op game from Hazelight that engaged nearly two million players in the first four weeks after launch.

Through all of these examples and many more, we hold an unfaltering commitment to our communities. We will always push forward to innovate and create new experiences; that's in our DNA. We also continue to listen, learn and act in service of our players. We have a deep appreciation and commitment to our *Star Wars* fans, and as promised we delivered a major re-design of the progression in *Star Wars Battlefront 2* in Q4, updating it to a more linear system that our players wanted. We've also brought new content, modes and fan-requested updates to the game, and we have much more coming through the launch of the new movie, *Solo: A Star Wars Story*.

As we begin FY19, EA is uniquely positioned to lead. Through our investments in IP, technology, competition and new ways to play, our talented teams continue to deliver new experiences that will disrupt and expand the future of play.

There is no bigger event in sports than the World Cup, and we're excited to kick off an unprecedented year of new experiences across our *FIFA* franchise with our new World Cup content in *FIFA 18*. As we announced last week, we are bringing all of the teams, match-ups, and so much more of the World Cup experience, and making it all free for *FIFA 18* players. Building on the momentum of World Cup, we then have some very exciting plans for *FIFA 19*, which we'll speak to at EA PLAY in June. This is a major year for EA SPORTS across all platforms, with more innovation coming to *Madden NFL*, *NBA LIVE*, and *NHL*, as well as our EA SPORTS titles on Mobile, and *FIFA Online 4* going live soon in China and Korea.

This year, we also plan to deliver two massive new games – our next *Battlefield* title, and our new IP, *Anthem*. Both of these experiences are introducing new dynamics that begin to change the way fans interact with their games, and with each other.

With our next *Battlefield* game, the team at DICE is bringing the intensity of combat to life in new and unexpected ways. Every battle is unique, and every mode brings its own challenges – from the way you interact with the environment around you, to compelling single-player stories, to the next level of large-scale multiplayer that spans across multiple maps and modes. This will be a deep and fully-featured shooter and ongoing service that will evolve with major new experiences for our community, beginning right from launch. Building on the success of *Battlefield 1* and taking inspiration from DICE's core DNA, this new game will advance the state of the art for the

franchise, while still delivering the signature gameplay and *Battlefield* moments that have captivated and grown our global community.

Later in the fiscal year, we will launch our stunning and ambitious new IP, *Anthem*. Every dimension of this game will offer something entirely new for a wide audience of players – from a new universe with unique stories that BioWare is creating, to the cooperative gameplay, to the epic and beautiful environment that constantly evolves around players. *Anthem* is a fundamentally social experience, and we will open new ways for fans to join the community and play early, enabling us to shape and refine the game with their input and feedback. We're deeply excited to launch this brand new franchise, and equally excited to work with our players to make *Anthem* a game they can't wait to play and share with their friends for years to come.

EA's mobile portfolio will continue to grow in FY19. In recent years, our mobile games have been some of the most engaging new games to enter the marketplace. We are doubling down in FY19 with two new titles – *Star Wars Rise to Power*, and another game we'll reveal at EA PLAY – both unlike anything else in our mobile line-up today. Each game crosses into new genres, with social layers designed to bring together global communities.

In competitive gaming, we continue to expand our global esports audience of viewers and players that are experiencing the thrill of high-stakes competition through FIFA and Madden NFL. This year, we will grow our competitive footprint with more franchises, events, broadcast content and sponsorship. We'll hold our first *Battlefield* competitions in FY19, and we're set to bring competition to another new title later this year.

In FY19, we will also continue to lead with innovation in our subscriptions and new technologies. We will introduce a new offering to one of our industry-leading subscription programs, delivering

unprecedented access and value. Our advanced technology development, including cloud gaming, A.I., and Frostbite, will enable us to create and deliver next-generation experiences at scale. All of these and more continue to fuel the future of our Player Network that will connect players across games and devices.

There has never been a more exciting time to be making games. Our industry is dynamic, evolving, and full of new opportunities. With the updates to our organization and structure that we announced last month, EA is positioned for continued growth and leadership. We will push the boundaries of entertainment in a world where change is accelerating. We will strive to be the disruptors shaping the future of play.

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

BLAKE:

Thanks, Andrew.

Fiscal 2018 was a record year for Electronic Arts, as measured against almost every major financial metric, from revenue, to operating income to cash flow. Our success is driven by the way we have changed, and continue to change, our relationship with players. They want more depth in their favorite games, and fresh content that can hold their attention year-round. As a result, we've gone from one-off interactions at a moment in time, to ongoing engagements within constantly changing dynamic worlds. It's a situation analogous to the transition we've seen in the software-as-a-service industry. Consequently, our business already looks very SaaS-like, with live services and subscriptions making up a greater and greater portion of our revenue. This has made our business much more stable and enabled us to deliver a dependable and growing cash flow to investors.

Now I'll provide our results on a GAAP basis before using our operational metric of net bookings to discuss the dynamics of our business.

EA had a record year, with **net revenue** of \$5.2 billion, **cost of revenue** \$1.3 billion, and **operating income** \$1.4 billion. These results enabled us to deliver record **operating cash flow** of almost \$1.7 billion. We also returned **over \$600 million to shareholders** through our share repurchase program.

Total **net bookings for the year were \$5.2 billion**, a record. **Digital net bookings** accounted for 68% of this, up 7 percentage points year on year. **Live services net bookings** were a record \$2.2 billion. Net of hedges, FX was immaterial to net bookings and a slight headwind to underlying profitability.

Moving on to the details of our fourth quarter:

GAAP net revenue was \$1.6 billion, \$50 million above our guidance and \$55 million above the year ago period. **Cost of revenue** was \$233 million, in-line with our guidance of \$234 million and up from \$202 million last year. **Operating expenses** were \$596 million, \$23 million below our expectations, and \$12 million less year-over-year.

This drove diluted **earnings per share** of \$1.95, \$0.09 higher than guidance and \$0.14 higher than last year.

Net cash provided by operating activities was \$615 million.

Operating cash flow for the full fiscal year was a record \$1.69 billion, beating our guidance of \$1.60 billion and up 7% over last year's. Fiscal year 2018 **capital expenditures** were \$107 million, resulting in **free cash flow** of \$1.59 billion. See our earnings slides for further cash flow information.

At the end of the quarter, we held \$5.33 billion in **cash and short-term investments**.

During the quarter, **we repurchased** 1.2 million shares at a cost of \$148 million. Today, we announced that we have replaced our old repurchase program with a new \$2.4 billion, two-year stock repurchase program. We returned about 38% of our free cash flow to investors in fiscal 2018; this new program aims to return approximately three-quarters of our annual free cash flow. We believe this is the appropriate target based on our current cash needs, our ability to access international cash, and our desire to maintain flexibility for future growth investments.

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

Net bookings were \$1.26 billion, above our guidance of \$1.23 billion, and up from \$1.09 billion last year.

Digital net bookings delivered \$1.05 billion of the \$1.26 billion, up from \$885 million last year. This increase was driven by our ongoing success with our event-driven live services.

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

- **Live services** net bookings were up 31% year on year, to \$679 million. The increase was driven by Ultimate Team, *The Sims 4* and *Battlefield 1*. By adding features to broaden

Ultimate Team's appeal, layering in a packed calendar of events, and building esports on top of that, the team is continuing to grow fun and engaging games that players want to come back to time after time.

- **Mobile** delivered net bookings of \$176 million, roughly flat year on year. Strength in *Star Wars Galaxy of Heroes* and *FIFA Mobile* was offset by anticipated decline in some of our older games.
- **Full game PC and console downloads** generated net bookings of \$193 million, roughly flat year on year, driven by *Star Wars Battlefront II* and strength in *FIFA 18*, offset by the success of *Battlefield 1* in the prior year. The long-term trend towards downloading games continues, and, across the portfolio, 39% of our full game unit sales were digital, measured on Xbox One and PlayStation 4 over the last twelve months. This compares to 33% a year ago.

Turning to our **expectations for fiscal 2019**: we expect sales of current generation consoles from Microsoft and Sony to continue to be strong, with the installed base growing to 130 million consoles by the end of calendar 2018, from 103 million at the end of calendar 2017. The Nintendo Switch is expected have built an installed base of over 30 million by the end of calendar 2018. In dollar terms, we expect the PC gaming software market to be approximately flat, and the mobile market to grow in the mid-teens in the calendar year.

A note on accounting for fiscal 2019: As mentioned, we have adopted ASC 606 going forward. This does not materially impact our net bookings metric, but does change our GAAP reporting in several ways. Most significantly, more of our revenue will be recognized up front, bringing GAAP reported numbers closer to our historical non-GAAP reporting. Also, as a result of the

introduction of ASC 606, we will now be reporting most of our mobile GAAP revenue on a gross, not net, basis. We will continue to report the metrics that enable you to bridge back to measures comparable to our historically reported numbers, including mobile net bookings. These and other issues are discussed in more detail in the expanded accounting FAQ posted on our IR website today.

Primarily as a result of the changes to U.S. tax law, we are reducing our management tax rate from 21% to 18%.

Guidance for fiscal 2019 is for **GAAP net revenue** of \$5.6 billion, **cost of revenue** \$1.6 billion and **GAAP EPS** of \$3.55. This outlook was prepared in accordance with the new ASC 606 standard, and includes approximately \$300 million of additional mobile revenue resulting from the accounting change to reporting mobile revenue on a gross, not net, basis.

With regards to cash flow, for fiscal 2019, we expect operating cash flow to be approximately \$1.825 billion. We anticipate **capital expenditures** of around \$125 million, which would deliver **free cash flow** of about \$1.7 billion. Capex is up year on year as we invest in IT infrastructure for our player network, and upgrading facilities, including Respawn's offices in Los Angeles.

Turning to business drivers, we anticipate net bookings for the year to be \$5.55 billion, up 7% year on year. This is driven by growth in live services, mobile and Battlefield. We have disclosed the phasing of net bookings through the year in our slide deck. As a result of the timing of launches, we expect this year to be more back-end loaded than fiscal 2018. We're excited about how both *Anthem* and Battlefield are shaping up and we look forward to sharing more with you about them soon.

Our projections assume a **benefit from FX** to net bookings of over \$100 million and an extra \$30 million to opex relative to last year's rates. Both of these numbers are net of hedges. Our currency assumptions are disclosed in our earnings presentation on our website.

Drilling down further into the key drivers of our full-year net bookings guidance:

- Net bookings for **packaged goods and other** are forecast to be approximately \$1.5 billion, down 9% year on year, driven by the shift to digital.
- **Digital net bookings** are expected to contribute \$4.1 billion, up 14% year on year.

Further breaking down digital net bookings:

- We expect **live services** to grow 10% to 15%, led by Ultimate Team, The Sims 4 expansion packs for PC and console versions of the game, and by growth in our subscriptions business. The World Cup will have a positive effect on FIFA Ultimate Team engagement, but it is only a four-week event split across Q1 and Q2, and we have modeled accordingly.
- With regards to our **mobile** business, The Sims Mobile launched just before the year started, and we have two games coming in the second half of the year. Thus, we expect our mobile business to grow strongly, of the order of 15-20%, led by The Sims Mobile, FIFA Mobile, Star Wars: Rise to Power, and an unannounced title. Note that this growth forecast is based off of our net bookings metric, not gross revenue or gross bookings.
- Net bookings from **full-game downloads** are expected to grow 10 to 15%, driven by product mix and the ongoing change in consumer behavior. We continue to model an underlying shift of around five percentage points a year to digital.

Focusing on Q1: we are expecting GAAP net revenue of \$1.1 billion, GAAP cost of revenue \$226 million and GAAP EPS of \$0.64.

We expect **Q1 net bookings** to be \$720 million, slightly down year on year. As discussed on our last call, Q1 fiscal 2018 benefitted from the deferral of over \$50 million in net bookings from *Mass Effect Andromeda* and some other one-time events.

On a management reporting basis, opex will grow year on year, as we continue to invest in line with our growth drivers.

As we look ahead to Q2, we see growth in FIFA and mobile partially offset by declines in other areas, including a difficult comp against Battlefield 1's performance in fiscal 2018.

We discussed the idea of recurring revenue at our analyst day two years ago. At the time, about 75% of our net bookings fit into this category. Since then, we have continued to push our business in that direction and our guidance implies that 85% of our net bookings in fiscal 2019 are expected to be recurring.

Our drive to greater recurring revenue and cash flow will be fueled by our investments in subscriptions, live services, esports, broadcasting and cloud gaming. These are all components of our Player Network strategy, and we look forward to updating you on our progress as we continue to pioneer their adoption.

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

ANDREW CLOSING:

Thanks Blake.

We're excited to begin another year in our journey at Electronic Arts, at a time where there is so much passion for games around the world. As an industry, we are reaching an amazing nexus, where the creative energy in game making is intensifying, and converging with technology innovation that is unlocking gateways to access, delivery and sharing of game experiences on a global scale. Games are becoming a truly ubiquitous form of entertainment – we believe the best form of entertainment – and through the evolutions to come, we are seeking to connect more players to amazing games, and to each other.

Creativity is the central strand of everything we do at EA. Every experience begins with creating something new and unexpected. That's why you'll see new dynamics in gameplay, new social layers, and new ways to interact with the worlds we create in games like *Anthem*, our next *Battlefield*, or our new mobile titles. It's powering new projects in development at Respawn, Motive, EA Vancouver, Criterion and more. It's behind our EA Originals program, and our commitment to support indie developers with amazing ideas. It drives us to continually evolve and update our games through live services – because the creative cycle in service of our players never ends.

This isn't just a creative revolution – it's also a revolution of access and choice. New forms of content, new consumption models, and advanced technology investments are accelerating how we will reach more players in a networked world, and satisfy their unique needs. Whether you're a player or a viewer, our competitive gaming experiences for games like *FIFA*, *Madden NFL* and more are becoming must-see programming for fans around the world. With more games and content available to players today, subscription services like EA Access and Origin

Access are continuing to build momentum, and we are pioneering new offerings that will expand how players can experience more of the best games. Looking further ahead, the combination of subscriptions and cloud gaming capabilities, combined with our Frostbite engine and digital platform, will power the growth of our Player Network that scales across games, devices and geographies.

At the center of this are our players and our global communities. Everything we do is in service of our players, and we grow stronger in this commitment every day. This year, we will continue to expand how we connect with our players early and often, from thousands of hours with our studio teams and playtesting, to large-scale soft-launches and early play opportunities. One month from now, we'll open up our annual EA PLAY event, in what has become a cultural moment for games and our communities. We'll welcome tens of thousands of players that join us in Hollywood to go hands-on, and millions more that join us online around the world to hear more about our games and services, our commitments, and our plans for the future. At every touchpoint with our players, in our games, in our network, in our communities and beyond, we are constantly working to bring them closer to the games they love.

In FY19, we are set to take major steps towards our vision of a networked future, and our opportunity to connect a billion people in play. We look forward to sharing more updates with you in the months to come.

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 2019 guidance information 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 December 31, 2017.

These forward-looking statements are current as of May 8, 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2018. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2018.