



# Prepared Remarks

FISCAL 2018 Q2

October 31, 2017

**CHRIS:**

Thank you.

Welcome to EA's second 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](http://ir.ea.com). In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar: Blake will be speaking at the UBS Conference in San Francisco on Monday, November 13; the Credit Suisse conference in Scottsdale on Tuesday, November 28; and at the Nasdaq conference in London on Tuesday, December 5. Our Q3 fiscal 18 earnings call is scheduled for Thursday, January 25, 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, October 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.

We have changed the name of our “net sales” operating metric to “net bookings”. This came up in a recent discussion with the SEC as part of their ordinary course periodic review of our filings. We also believe that this change will enable our industry to better align on terminology. We have not changed how it is calculated.

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

**ANDREW:**

Thanks Chris.

It was a strong second quarter for Electronic Arts. Excellent launches for our EA SPORTS titles and growth in our event-driven live services across all major platforms continued our momentum for the fiscal year to date. Revenue and earnings were above our guidance, highlighted by continuing digital growth and strong ongoing execution to deliver for our players around the world.

The impact of the digital transformation is accelerating across the interactive entertainment industry. Players today are looking for more choice, more content, and more fun in experiences that continually evolve with the way they want to play. Capturing these opportunities is at the core of EA's strategy: creating extraordinary new games, content and experiences, wrapped in services, accessed through more platforms and more business models, and powered by innovative technologies. These are the key growth drivers that uniquely position EA to lead this industry.

EA's Q2 results reflected our focus on these growth areas: our new EA SPORTS titles drove more downloads and deep engagement, our mobile portfolio continues to strengthen, and our event-driven live services continue to deliver the experiences our players want.

Beginning with EA SPORTS and *Madden NFL 18*, players are loving the combination of an emotional story mode, greater depth and more competition. We had 25% more players engaged in *Madden Ultimate Team* through Q2 year-over-year, and our competitive player base has grown by over 30% in the same period. *FIFA 18* launched in late September, reaching players across more than 50 countries and igniting the global soccer community. The depth

and precision of the Frostbite-driven gameplay are just the beginning for *FIFA 18*, with much more to come as programs like Squad Battles, FUT ICONS and Ones to Watch are already driving strong FIFA Ultimate Team engagement. *NBA LIVE 18* was a strong re-entry into the market, and continues to captivate a growing base of NBA fans. And with *NHL 18*, the new NHL THREES mode helped us reach an entirely new audience, with 60% more first-time EA players joining through Q2 over the previous game. This quarter was an outstanding demonstration of the ongoing opportunity for our EA SPORTS franchises: to drive growth through expanded reach, new experiences and more competition.

On mobile, our portfolio of deep, high-quality and long-term experiences continues to strengthen in an increasingly competitive market. In Q2, *Madden NFL Mobile* saw unique players grow significantly year-over-year as we kicked off a new season in the game. In-game events in *Star Wars Galaxy of Heroes* throughout the quarter continued to drive high levels of engagement across the community. Both of those games charted in the Top 10 grossing games on the App Store and Google Play dozens of times throughout the quarter. In addition, *FIFA Mobile* topped 113 million players life to date, and fans are anticipating our annual update to that game that comes in Q3. Our communities are expanding, our players are deeply engaged, and our strategy to deliver a portfolio of mobile games that players love to spend time with is showing its strength.

Across our portfolio, event-driven live services are enhancing the experience for players – keeping them together with friends, extending the fun, and giving them choice in how they want to play. The global Battlefield community has tens of millions of unique players continuing to connect and play with their friends across different games in the franchise. In *The Sims 4*, monthly average players are up more than 40% year-over-year, and anticipation is high for the console game launching in Q3. As these communities and many others in our top franchises

continue to thrive, our subscription services like *EA Access* and *Origin Access* are bringing more players from across our network to join in. Our subscription player base continues to grow, and you should expect us to continue driving this model to more platforms going forward.

We are now well-positioned for the holiday quarter, where we'll add to the momentum with two massive new experiences, a new event-driven live service, and more competition.

First is *Need for Speed Payback*, launching on November 10. An all-new story drives this experience, with a narrative, characters, and explosive moments that will excite a broad audience of players. Combined with deep customization, a huge open world, and a rich multiplayer experience, this is one of the biggest *Need for Speed* games ever created. Trailer views are up more than 100% over the previous title, and the community is excited to jump into this new *Need for Speed*.

On November 17, *Star Wars Battlefront II* will launch worldwide. This is a game that is nearly three times the size of the previous *Battlefront*, delivering: an untold *Star Wars* story in our single-player campaign, multiplayer battles, and dozens of ships, settings and heroes from all three *Star Wars* eras. As you will remember, there is no season pass for *Star Wars Battlefront II*. Instead, our event-driven live service will be free for players, delivering new environments, new heroes, in-game events and more to everyone in the community. This new ecosystem of post-launch content is built around player choice, and designed to keep the community together and extend the experience for many years to come. As we run the live service, we will continually work with our player community to ensure the player experience remains rich and balanced. This began with the beta in early October where millions of players got their first taste of 20 vs. 20 multiplayer, enabling us to learn a great deal and make some

key adjustments to balance and progression. Now our sights are set on launch, and delivering a Star Wars game like none other in scale, depth, and service to fans around the world.

Competitive gaming will continue to grow in our portfolio during Q3, with more ways to play and watch. As you may have seen, the Madden NFL Club Championship is the first esports competition to feature the full roster of teams and players from a U.S. professional sports league, and tournaments to represent all 32 NFL teams are already underway. We have also launched the Madden Ultimate League for elite players, further expanding the Madden NFL competitive footprint for players, sponsors and broadcasters. On the FIFA side, we just announced the EA SPORTS FIFA Global Series that kicks off in November – a landmark ecosystem of online tournaments, official league competitions and all-star events on the road to the FIFA eWorld Cup 2018. And this spring, we will kick off competitions in our third major franchise with *Battlefield 1 Incursions*, a bespoke competitive gaming environment designed in partnership with our community.

We're excited for the holiday quarter, and to continue a strong year of innovation and leadership for our players and for Electronic Arts.

Now I'll hand the call over to Blake.

**BLAKE:**

Thanks, Andrew.

We're pleased with the performance of our business through the second quarter, which added strong digital growth to the dependable results we expect of our sports titles. In particular, we saw a notable shift to digital purchases in our sports titles, and strong growth in our Ultimate Team event-driven live services.

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 \$959 million, compared to \$898 million a year ago, and above our guidance by \$4 million. **Operating expenses** were \$611 million, \$27 million lower than our guidance, driven by the phasing of our marketing investment. **GAAP operating loss** was \$41 million, compared to an operating loss of \$49 million a year ago, and resulted in a **loss per share** of \$0.07, \$0.11 better than our guidance. Note that, given our GAAP result was a loss, our share count was 309 million shares. Had we reported a profit, the diluted share count would have been 312 million shares.

**Operating cash flow** for the quarter was \$52 million, down \$70 million from last year. The decrease was driven by the timing of collections. In contrast, **operating cash flow for the trailing twelve months** was \$1.802 billion, our strongest-ever performance measured at the end of the second quarter, and \$479 million above last year's. **Capital expenditures** for the quarter were \$30 million, resulting in a **free cash flow** of \$22 million. Remember that the FASB rules regarding the treatment of stock-based compensation have changed, and this affects how

we classify our cash flow. However, all of these comparisons are made on a like-for-like basis. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 1.3 million shares at a cost of \$153 million**, leaving \$928 million in our two-year \$1.2 billion buyback program we began in May.

Our **cash and short-term investments** at the end of the quarter were \$4.4 billion, with 35% 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 \$1.179 billion, up \$81 million on the prior year, and \$19 million above our guidance. Exchange rates have improved over the last twelve months but this tailwind is offset by the effect of our hedging program, resulting in a net FX *headwind* of \$10 million compared to the year-ago quarter. Performance over guidance was primarily driven by our mobile live services, *The Sims 4* and by Ultimate Team.

**Digital net bookings** were \$579 million, up 19% on the year-ago period, and a new record for the second quarter. The main drivers of the increase were *Battlefield 1*, Ultimate Team and *Madden NFL 18* full game downloads. Digital net bookings now represent 63% of our business on a trailing twelve-month basis, compared to 57% 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 22% year on year, to \$310 million. The increase was driven by strong growth in *FIFA* and *Madden Ultimate Team*, and in *Battlefield 1*, *FIFA Online 3* in Asia, and *The Sims 4*. In addition, our *EA Access* and *Origin Access* services continue to see rapid growth.
- **Mobile** delivered net bookings of \$150 million, up 9% year on year. This was a Q2 record and also drove the trailing twelve-month net bookings to a new high. Growth was primarily from *Star Wars Galaxy of Heroes* and *Madden Mobile*.
- **Full game PC and console downloads** generated net bookings of \$119 million, 28% higher than last year, driven by *Madden NFL* and *Battlefield 1*. 36% of our unit sales were digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months. This compares to just 30% a year ago. *FIFA 18* launched just days before the end of the quarter, but based on the first three weeks of sales, it was about 25% digital, up from 16% in the comparable period for *FIFA 17*. The digital portion of Madden sales also increased 9 percentage points year on year, to 34%.

**Turning to guidance:** our expectation for full-year GAAP revenue remains \$5.075 billion. However, we are raising our earnings per share guidance for the full year to \$3.63. We are raising our **operating cash flow** guidance from \$1.575 billion to \$1.6 billion. We continue to anticipate capital expenditures of around \$120 million, which would deliver **free cash flow** of about \$1.48 billion. Although our expectations for net revenue are unchanged, we are raising our guidance for **net bookings** from \$5.100 billion to \$5.150 billion, driven by strength in Ultimate Team. The difference between GAAP net revenue and net bookings guidance is driven by revenue deferrals.

For the **third quarter**, we expect net revenue of \$1.135 billion, **cost of revenue** to be \$521 million, and **operating expenses** of \$690 million. Opex is up year on year, primarily due to continued investment in existing and new genres, and in live services. This results in a **loss per share** of \$0.21 for the third quarter. Note that this is calculated using the basic share count of 309 million. Should EA report a profit, the diluted share count of 313 million would be used.

We anticipate **net bookings for the quarter** to be \$2 billion. This is down 3% year-on-year, with growth in live services offset by the effect of different product launches.

Looking further ahead, our growth priorities continue to be: the expansion of our live services, including integration with our esports business; the addition of new genres, such as action; new business models like our subscription business; and to continue to deliver profitable growth in our mobile business.

The core of our fiscal 2019 is a full slate of sports titles and their associated live services, plus new live services from *Star Wars Battlefront II*. We will add the next Battlefield game, and move into the action genre with *Anthem*. We expect our subscriber base to continue to grow, and for our new mobile titles to benefit from players looking for deeper experiences with higher production values.

As you build your fiscal 2019 model, remember that our event-driven live services continue to be the bedrock of our business. Live services, including mobile live services, were nearly half of our net bookings over the last twelve months. Including our recurring sports titles and catalog sales in the calculation takes the total to over 75% of our annual net bookings, leaving less than a quarter of net bookings delivered through the sale of the remaining frontline titles. In addition,

our live services are growing strongly; we forecast 10% to 15% growth in fiscal 2018 and we're tracking well ahead of that. We're excited by the progress we are making, and the impact it will have on fiscal 2019, particularly given the success we are already seeing with esports driving Ultimate Team revenues, and next year's FIFA World Cup in Russia, which is sure to drive interest in soccer around the globe.

In conclusion, our sports titles have once again shown their value in delivering a stable and dependable performance. In addition, this quarter demonstrates how they can also drive the digital transition within our business, both with regards to downloads and highly enjoyable event-driven live services. As such, they offer a window into how all our games will evolve over the months and years to come.

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

**ANDREW CLOSING:**

Thanks Blake.

Today, we reach a global, connected community of more than 350 million players worldwide. In the future, we envision a global network that engages more than a billion people in play. Our path to achieve this is clear: continually deliver amazing games and content across more platforms, offer dynamic services that enhance the experience, engage a global audience through competition and more content, and drive disruptive new opportunities to expand how the world plays and watches games. In each of these growth vectors, EA is uniquely positioned with the talented teams, creativity and technology to lead our industry.

Creating groundbreaking experiences for our players across more platforms and more geographies continues to be at our core. From visually-stunning, deeply immersive games like *Star Wars* Battlefront II and our next Battlefield, to ongoing innovation in our EA SPORTS titles, we are advancing the state of the art. We will continue to expand our mobile portfolio with more high-quality experiences, and games that can reach a larger audience of players around the world. We are also producing experiences that will blur the lines of how people play, like our shared-world action title, *Anthem*, and our new IP in development at Motive. Through this growing portfolio of games that push the boundaries forward, we are positioned to offer some of the most captivating experiences in all of entertainment.

Surrounding these games are services that power the choice, connection and community that our players seek. Event-driven live services like Ultimate Team, *Star Wars* Battlefront II seasons, and our EA SPORTS mobile titles continue to enhance and expand our games for many years of play. Our global communities for The Sims and other franchises thrive on the connections, interactions and creations shared between players. And for players seeking new

communities and the next great experience, our subscription services will continue to expand and remove friction in a crowded, digital world.

Competitive gaming and esports then introduce more opportunities for the world to engage with our games and content. Today, our Madden NFL and FIFA tournaments are elevating competitive sports gaming to the world stage with the energy and drama of high-stakes competition. Next, official competitions will ignite our Battlefield community. Competitive gaming will integrate into more of our experiences and more of our franchises in the future, continuing our focus to make stars of all of our players, and expanding our ecosystem of content to engage the massive esports audience.

We are also building for the future, continuing to invest in our technology platform, our Frostbite engine, and our Player Network to deliver this growing collection of content, wrapped in services. Our labs and central technology teams are also exploring disruptive new concepts to advance the way we play – including supergames, the notion of a metaverse, and how the cloud can deliver dynamic experiences to players on every platform.

At EA, we believe that entertainment is a fundamental human need. We also believe that games, by their ability to drive social connection, self-actualization and competition, are the single best form of entertainment. With amazing games that reach across more platforms, more geographies, and more business models; with live services that provide many years of fun; with competitions that engage a global audience; and disruptive innovations that will continue to evolve the way we play – we believe EA is well-positioned to be the entertainment platform of the future.

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 title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to 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 June 30, 2017.

These forward-looking statements are current as of October 31, 2017. 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 September 30, 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 September 30, 2017.