

**ELECTRONIC ARTS**  
**Q1 FY15 PREPARED COMMENTS**  
**July 22, 2014**

**ROB:**

Thank you.

Welcome to EA's fiscal 2015 first quarter earnings call. With me on the call today are Andrew Wilson, our CEO and Blake Jorgensen, our CFO. Frank Gibeau, our EVP of Mobile, Peter Moore, our COO and Patrick Soderlund, our EVP of EA Studios, will be joining us for the Q&A portion of the call.

Please note that our SEC filings and our earnings release are available at [ir.ea.com](http://ir.ea.com). In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, and a transcript.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-K for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of July 22, 2014 and disclaims any duty to update them.

During this call unless otherwise stated, the financial metrics will be presented on a non-GAAP basis. Our earnings release and the earnings slides provide a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

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

**ANDREW:**

Thanks, Rob.

Earlier this afternoon, we released our Q1 earnings report detailing a strong start to fiscal year 2015 for Electronic Arts.

At EA, we have a commitment to put our players first – holding at our core that every game, every live service, every EA experience will deliver the entertainment, innovation, creativity and value that our players want. With a strong slate of exciting new titles and fresh content served to players in our live services, we are well-positioned to deliver on that commitment in FY15.

Around the world, more than 300 million registered players are engaging with the long-lasting entertainment provided by EA's games and services today.

In the last quarter, gamers played more than 13.6 billion online sessions of EA games, for a total of nearly 2.4 billion hours played across console, mobile and PC experiences. To put that in context, that's more than 3,000 years of gameplay every single day. On screens from six inches to 60 inches, for sessions of two minutes to two hours or more, EA continues to deliver outstanding entertainment to players.

Our global *FIFA* soccer franchise had a standout quarter as the World Cup drama began to unfold on the pitches in Brazil. More than 53 million matches were played in *FIFA Ultimate Team* World Cup mode alone, during the quarter – that's the equivalent of more than 830,000 World Cup tournaments. The World Cup update to *FIFA 14* on mobile drove engagement to a franchise record high, and in Korea, *FIFA Online 3* had the highest peak concurrent player levels ever for *FIFA Online* since it was launched in 2006.

Fight fans drove sales of *EA SPORTS UFC* to exceed our expectations for the quarter, and the in-game action has been intense: more than 65 million fights have been played since the game launched. With *EA SPORTS UFC* joining our other great games for the new consoles, EA continues to hold the #1 segment share on PlayStation 4 and Xbox One calendar year to date.

Our live services and digital content are reshaping the gaming experience today, helping players enjoy the games they love for longer. During the quarter, "Naval Strike," the third

expansion pack for *Battlefield 4* launched to players in April, while *Titanfall's* first content pack "Expedition" was released to players in May. Our EA SPORTS Ultimate Team modes continue to feed players' insatiable appetites for their favorite sports, with live updates, new content and competitions daily.

Players also continue to get new and fresh experiences in live services for our top EA Mobile games, where we drew more than 140 million monthly active players in Q1. Titles like *The Simpsons: Tapped Out*, *Real Racing 3*, *The Sims FreePlay* and *FIFA 14* demonstrate the success in the approach of our mobile development teams – build top-quality experiences around fun and entertaining IP that can grow over years of play. With innovative new content like the *Real Racing 3* Le Mans update, which drew 2 million entrants, players keep coming back to their favorite games.

All of these factors contributed to a strong fiscal first quarter for EA as we delivered revenue and EPS above our non-GAAP guidance. Our focus is now on the work ahead of us for FY15 as we prepare to launch a slate of new games and live services to our players.

As I said at the top, our commitment to players and the quality of our games is paramount with every game we make. We have some amazing new experiences coming this year – games that will connect, inspire, challenge and entertain players. Games that are packed with creativity, innovation and emotion. Games with vibrant communities giving us feedback to make them even better.

*Dragon Age: Inquisition* is the biggest RPG that BioWare has ever created in its rich history. It will deliver an epic open-world experience, powered by Frostbite 3 and combining combat, compelling characters and rich storytelling. The game was a huge hit with fans and critics at E3, taking home 25 awards, including Best RPG from the E3 Game Critics. The team has crafted an absolutely amazing game for players. They want this to be the best *Dragon Age* experience ever delivered, so they are taking a little more time to put the final touches on the game. *Dragon Age: Inquisition* now launches on November 18.

The live multiplayer beta for *Battlefield Hardline* that launched at E3 was a powerful opportunity to bring our players into the game earlier than ever before. With 1.7 million players joining the beta on PS4 and PC and logging more than 4.2 million session hours over two weeks, the beta

delivered a very stable experience that also helped the Visceral Games team gather valuable player feedback.

Additional player testing has shown great excitement for this new world of cops and criminals inside the Battlefield franchise. It also showed us how, with more time, we could go deeper and innovate more. Visceral is testing and implementing several new features that will help to make *Battlefield Hardline* a game that players can enjoy for many years to come. We are moving the release of *Battlefield Hardline* out to Q4 FY15, and the team will be keeping players regularly updated on progress. We'll also have an all-new beta opportunity in the months ahead for players to experience more of *Battlefield Hardline*.

Of course, Battlefield fans don't need to wait until then, as *Battlefield 4* continues to provide a dynamic live service today. Many more hours of new *Battlefield 4* content and gameplay are yet to come, including the expansion packs "Dragon's Teeth," launching worldwide on July 29, and "Final Stand" coming in Q3. The DICE team continues to deliver new updates and features for *Battlefield 4* players, and recently introduced a Community Test Environment for players to provide feedback on new additions to the game before they launch.

With breakthrough gameplay innovation, stunning visuals, and immersive depth and detail, this year's EA SPORTS lineup will capture an unprecedented level of excitement and emotion. *Madden NFL 15*, *FIFA 15* and *NBA LIVE 15* are all making big strides in the second year of the new console generation, while the *NHL* and *PGA TOUR* franchises will make their next gen debuts this year. *NHL 15* took home Best Sports Game from the E3 Game Critics, and *EA SPORTS PGA TOUR* takes golf to places it has never been as the first sports game to be powered by Frostbite 3.

Maxis will launch *The Sims 4* in early September to an eager fan base ready to get their hands on this rich new Sims experience. Everything about *The Sims 4* is exciting, from the massive technical innovation that gives these new Sims emotions and unique personalities, to the beautiful and vibrant new neighborhoods in which they live, to the weird and fun stories that players will tell. For both veteran fans and newcomers alike, *The Sims 4* will open up a whole new world of gameplay possibilities. Players can pre-load *The Sims 4* on Origin and be the first to play.

We will deliver entertaining new experiences from some of EA's biggest brands to players on mobile devices. New FIFA and Madden NFL experiences are set to launch during Q2, as well as a big and really fun new update for *The Simpsons: Tapped Out*. A much-anticipated new *Peggle* game from PopCap is moving through a test period in preparation for launch, and our EA Mobile studios have four more exciting new experiences from other major franchises in development. We're excited to share more about all of these new titles for iOS and Android players in the coming months.

EA enters our second quarter in a strong position. We are committed to delivering top-quality games and services to our players throughout the year. I'll now hand the call over to Blake for a deeper look at our Q1 financial performance and FY15 outlook.

**BLAKE:**

Thanks, Andrew.

**Starting with our Q1 results, EA's non-GAAP net revenue** was \$775 million, which was 57% higher than prior year's results and 11% above our guidance. Digital continues to be a major contributor, but this quarter also saw three new launches – *EA Sports UFC*, *FIFA World Cup 2014*, and the Xbox 360 version of *Titanfall*. In addition, *FIFA 2014*, *Battlefield 4*, *Madden NFL 25*, and the rest of our catalog titles had solid performances.

**Our non-GAAP digital net revenue** for the quarter increased by 28% year-over-year to \$482 million and accounted for more than 60% of this quarter's revenue. The trailing twelve-month digital net revenue was up 10% to a record \$1.9 billion. Breaking down our digital revenue into its key components highlights the performances of each of these businesses:

- Extra content and free-to-play contributed \$211 million, up 19% over the prior year, led by sustained momentum and approaching 90% growth in our *Ultimate Team* business. We saw *NHL Ultimate Team* grow 50%, *FIFA Ultimate Team* grow nearly 80% and *Madden Ultimate Team* grow over 350% year-over-year. *Star Wars: The Old Republic* and *FIFA Online 3* also continue to be significant contributors. As a reminder, this revenue relates to businesses on PC or consoles, where consumers can enhance or extend their gaming experience by buying additional digital content.

- Mobile generated \$120 million for the quarter, up 18% over the prior year. Smartphones and tablets continue to represent a majority of the revenue, accounting for \$109 million, or 90% of our total mobile revenue.

Going into a little more detail, we break out our mobile revenues into two streams: first, digital extra content and advertising revenues, which is also known as freemium; and second, full game or one-time download revenues, also known as premium.

In the quarter, \$105 million or 87% of our mobile revenues were comprised of digital extra content and advertising revenue, reflecting the shift to the freemium business model. This freemium business was up 39% versus the prior year, more than offsetting the decline in the premium business. Premium full game download revenue was \$15 million, down 43% compared to the prior year.

We attribute our freemium growth to the strength of our portfolio of live service games. We continue to view mobile as a business with tremendous opportunity as the market is experiencing significant global growth in smartphones and tablets. And as this market base expands, we continue to release new content in our live service games and execute against our launch roadmap.

- Full game PC and console downloads represented \$71 million, up nearly 90% over the prior year. Historically, full game downloads were primarily driven by PC-centric products. However, we continue to see full game download growth on the new consoles. *Titanfall*, *Battlefield 4* and *FIFA 14* were key PC and console titles that contributed to the increase in full game downloads in addition to other catalog titles.
- Subscriptions, advertising, and other digital revenue contributed \$80 million, up 31% over the same period last year. The ratable recognition of *Battlefield 4 Premium* is a key contributor to the increase in our subscription revenue this quarter.

**Moving on to gross margin:** our non-GAAP gross margin for the quarter was 70%, an increase from last year's 64% and better than our guidance of 67%. The increase was primarily due to solid results from our digital revenue offerings and a continued focus on reducing online processing fees and support costs.

**Operating expenses** for the quarter were \$459 million, \$18 million below prior year and \$26 million lower than our guidance. Our lower operating expenses are due to continued cost discipline, but some portion of the reduction is due to quarterly phasing of key expenses in marketing and contracted services and we expect these costs to be incurred in future quarters. **The resulting non-GAAP EPS was \$0.19 per share**, exceeding our guidance and prior year due to strong revenues, higher gross margin, and lower operating expenses.

**Our cash and short-term investments** at the end of the quarter were \$2.32 billion, or approximately \$7.40 per share. Roughly 68% of this cash and short-term investment balance is held onshore.

**Net cash provided by operating activities** for the quarter was \$4 million, versus last year's use of \$248 million for operating activities. Year-over-year this is a \$252 million improvement in cash flows. On a trailing twelve month basis, operating cash flow hit a company record high of \$964 million demonstrating our ability to generate higher cash flows.

**During Q1, we repurchased 1.4 million shares at a cost of \$50 million.** As a reminder, our \$750 million stock buyback program was initiated in May and has a 2 year time frame.

**Before we discuss guidance, we want to address a couple of items.** First, we recently completed a review of our portfolio of licenses and agreements and we decided not to use on a going-forward basis certain licensed intellectual property. This decision resulted in a GAAP-only charge of \$122 million to cost of goods sold due to the loss on the corresponding royalty commitment. Going forward, our non-GAAP P&L will benefit from this decision not to use the IP. It should also be noted that this decision will not impact any of our core licensed products.

Second, with regard to our share count, for the first time since the issuance of our convertible notes in 2011, our average stock price for the quarter was above the \$31.74 exercise price of the notes. However, at the time of the issuance of the notes, EA also entered into bond hedge and warrant transactions to effectively raise the exercise price to \$41.14. Under GAAP, we are required to include only the dilutive effect of the convertible notes and warrants in determining our diluted share count. However, on a non-GAAP basis, we also include the effect of the offsetting bond hedge transactions in order to provide a complete view of the economic dilution to earnings. On our website, we have posted a table that illustrates the potential share count dilution on both a GAAP and a non-GAAP basis.

**Turning to Q2 guidance:** **GAAP net revenue** is expected to be \$965 million, as compared to \$695 million in the prior year.

**GAAP loss per share** is expected to be (\$0.12), as compared to (\$0.89) loss per share in the prior year.

**Non-GAAP net revenue** for the quarter is expected to be \$1.14 billion, a 10% increase over last year's \$1.04 billion. This quarter, we will launch *The Sims 4*, which we expect to more than offset last year's college football game. In addition, we will launch *FIFA 15*, *Madden NFL 15* and *NHL 15*.

**Non-GAAP gross margin** is forecasted to be 65.5%, better than prior year's 62%, driven by the positive impact of *The Sims 4*, a PC-centric, wholly owned IP.

**Operating expenses** will be impacted by the phasing of some operating expenses from Q1. We expect our total non-GAAP operating expenses to be \$530 million.

This results in a non-GAAP diluted EPS of \$0.50 per share, as compared to \$0.33 last year.

**For fiscal year 2015**, we are reiterating our non-GAAP guidance announced at the beginning of the year – net revenue of \$4.10 billion and \$1.85 of fully diluted EPS. We expect our positive Q1 results to offset any impact of delaying *Battlefield Hardline* to the fourth quarter.

The GAAP guidance is \$4.30 billion in revenue, and \$1.78 of fully diluted EPS. The updated GAAP estimate reflects the impact of the \$122 million GAAP charge I mentioned, as well as the delayed launch of *Battlefield Hardline*.

**Regarding cash flow for the fiscal year**, we continue to forecast operating cash flows of approximately \$800 million, and capital expenses of approximately \$100 million, resulting in free cash flow of approximately \$700 million.

We remain very positive about the trends in our industry and business – growth of the new generation consoles, trends toward a greater digital business and growth in mobile and PC free-to-play.

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

**ANDREW CLOSING:**

Thanks Blake.

We have an exciting year ahead of us.

We raised the curtain at E3 on rich new experiences in development at EA today, providing a view into our future and the breadth of games and services from favorite brands and new IP. Now we head to Gamescom in Cologne, an event that is all about giving millions of gamers worldwide the next view into our games coming this year. For more than 300,000 gamers attending in Cologne, it will also be an opportunity to get up close with our biggest titles including, *FIFA 15*, *The Sims 4*, *Dragon Age: Inquisition* and *Battlefield Hardline*. We look forward to hearing more of their passionate feedback.

We greatly value that open interaction and dialogue with our players. It is what drives us to lead with innovation, to explore new ideas, and pursue creative new experiences with every one of our games. The opportunity in front of us is to build entertainment on a truly epic scale – to captivate with amazing experiences that hundreds of millions of players want to play.

There's a lot more to come from Electronic Arts in FY15, and I look forward to sharing more updates in the months ahead. For now, Blake, Patrick, Peter, Frank and I are here for your questions.

## Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss), non-GAAP diluted earnings (loss) per share and non-GAAP diluted shares. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount
- Change in deferred net revenue (online-enabled games)
- College football settlement expenses
- Income tax adjustments
- Loss (gain) on strategic investments
- Loss on licensed intellectual property commitment (COGS)
- Restructuring charges
- Shares from Convertible Bond Hedge
- Stock-based compensation

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. The Company's management team is evaluated on the basis of non-GAAP financial measures and these measures also facilitate comparisons of the Company's performance to prior periods.

In its earnings press release dated July 22, 2014, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to the non-GAAP measures.

## **Forward-Looking Statements**

Some statements set forth in this document, including the information relating to EA's fiscal 2015 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

These forward-looking statements are current as of July 22, 2014. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended June 30, 2014.