

**ELECTRONIC ARTS**  
**Q2 FY16 PREPARED COMMENTS**  
**October 29, 2015**

**CHRIS:**

Thank you.

Welcome to EA's fiscal 2016 second quarter earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO. Peter Moore, our COO, 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.

A quick calendar note: our Q3 earnings call is scheduled for Thursday, January 28, 2016.

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 29, 2015 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, Chris.

Q2 FY16 was a strong quarter for Electronic Arts as we delivered new EA SPORTS experiences and dynamic live services for our players. Revenue, margin and earnings were above our guidance, and we are raising our full-year outlook to reflect continuing strength in our business and excitement for our upcoming titles, including *Star Wars Battlefront*.

To understand how Electronic Arts is delivering for our players today, we look at player engagement in our games and services. We see our opportunity along three key vectors: bringing in more players to experience our games and services; enabling them to spend more time with the games they love; and making it possible to connect through more platforms and delivery models. Time is the most valuable commodity we have in today's digital world. With every new game, every update in our live services, and every community interaction, we are focused on delivering more value for our players through deep and personal engagement.

Highlights from our second quarter demonstrate how more players are spending more time, on more platforms in our games today:

- Monthly average players increased 30% year-over-year across our annual **EA SPORTS** franchises that launched new titles in Q2 – *Madden NFL 16*, *NHL 16* and *FIFA 16*.
- Our live services for ***Battlefield Hardline*** and ***Battlefield 4*** are thriving many months after launch, with more than 6 million monthly average players across the two experiences.
- ***Madden NFL Mobile*** launched a full game update this year instead of a new app download. The result was a seamless experience for players, which increased retention and resulted in game sessions up more than 300% over last year.
- And last but not least, **EA Access** is accelerating. The subscriber base more than doubled in the last two quarters, we've added five new games to The Vault this year, and we're excited about what we're learning as players engage through the service.

These titles and live services, as well as many more in our portfolio, are giving us strong momentum moving into the holiday season. Looking ahead, they will be joined in Q3 by two of our most exciting and groundbreaking new experiences:

- First, the return of ***Need for Speed*** is here, with players able to join a trial via EA Access today, and launching for everyone on Xbox One and PlayStation 4 beginning November 3<sup>rd</sup>. Excitement in the community has been growing as fans learn more about the cars, customization and unique stories in the game. The game looks fantastic, and after a closed beta conducted earlier in October, the Ghost Games team has been working directly with community feedback to deliver the experience our players want. With more than 70 different customization categories and twice the amount of road to race as our previous game, the passion for speed and car culture will be unleashed in the new *Need for Speed*.
- Starting in just nineteen days, the galaxy far, far away will once again be at the center of our universe as ***Star Wars Battlefront*** launches around the world. Engagement in and around the record-breaking beta was huge, with more than 9.5 million players logging on to play, 19 million viewers tuning into video streams, and almost three mentions per second on social networks during the beta week.

Stability and scalability of our online services continues to be a top focus for us. In addition to our extensive internal testing, the millions of gameplay hours logged during the beta across multiplayer, single-player and co-op modes further tested our infrastructure to help prepare a stable experience for our players at launch and beyond.

Over the next few weeks, innovative new experiences will allow players to connect and learn more about *Star Wars Battlefront*. Our most avid *Star Wars Battlefront* fans can sign-up for free to receive exclusive content and advance access to new information about the game. Through the largest user-generated content program we've ever launched, awesome and inspiring moments from the game will be shared with millions in the player community. And a fully-immersive Web experience will put fans right into the world of *Star Wars Battlefront*. Through it all, our integration with the upcoming film will ensure we're fully connected to the rising passion for *Star Wars* that is captivating the world. Come join us in *Star Wars Battlefront* beginning November 17, or November 12 for EA Access members.

As we continue our focus on putting players first at Electronic Arts, we strive for quality and innovation in every experience. In addition to stability, security and availability, we are taking creative leaps to make each game memorable and fun. We'll always work to take the necessary time to get that combination right for our players, and earlier this afternoon we announced that we are shifting *Mirror's Edge Catalyst* to release on May 24, 2016. We're going to take a few additional months to make the City of Glass and the unique first-person action in *Mirror's Edge Catalyst* even more spectacular.

With players spending more time in our games and live services, and two stunning new experiences launching this quarter, we're looking forward to the holiday season and the remainder of the fiscal year for Electronic Arts. Now, I'll hand the call over to Blake for a deeper look at our financials.

**BLAKE:**

Thanks, Andrew.

**EA's non-GAAP net revenue** was \$1.15 billion, which was \$71 million, or 7%, above our guidance. The quarter's revenue was 6% lower than the prior year's, as a result of an FX headwind of \$110 million and *The Sims 4* launch last year. However, on a constant currency basis, revenue would have been 3% greater than last year's, thanks to strong launches of our EA SPORTS titles, led by *FIFA 16* and *Madden NFL 16*, and from their associated *Ultimate Team* Live Services. As well as frontline success, we saw ongoing strength from our catalog, particularly from *The Sims 4* and *Battlefield*.

In addition to our strong performance, this quarter's revenue includes a \$30 million benefit from the recognition of some revenue from special editions of sports games sold in the quarter. It relates to *Ultimate Team* content included in these versions, and we had originally forecast to recognize this amount in Q3.

**Our non-GAAP digital net revenue** for the quarter increased 6% year-over-year to \$480 million, 42% of this quarter's revenue. The trailing twelve-month digital net revenue was up 15% to a record \$2.31 billion. Breaking down our digital revenue into its key components highlights the performance of each of these businesses this quarter:

- Extra content and freemium contributed \$195 million, up 27% over the prior year. The principal driver of the growth was *Ultimate Team* across our sports franchises. In addition to the strength of these Live Services, we benefitted from an extra week of *FIFA 16* sales in the quarter compared to last year. The new game modes we added to *Madden NFL 16* and *FIFA 16* are proving effective in deepening engagement. In addition, *FIFA Online 3*, our PC free-to-play title for China and Korea, continues to perform well and is tracking to our expectations.
- Mobile generated \$113 million in the quarter. The free-to-download component was up 2%, or 9% up at constant currency. During the quarter, we launched *Need for Speed No Limits*, *EA SPORTS FIFA 16 Ultimate Team*, and a full-game update for *Madden NFL Mobile*. *Madden* has been a top-five grossing game in the U.S. on the iPhone Apple app store in October. These new titles, together with the just-launched *Minions Paradise*, the upcoming *Star Wars Galaxy of Heroes* and our existing Live Services, will help continue to grow our mobile business.
- Full game PC and console downloads generated \$89 million of revenue, down 5% over the prior year, due in part to FX. At constant currency, this revenue would have increased, as the growth in console downloads more than offset the absence of *The Sims 4* this year. Our new titles in the quarter averaged around 20% full game downloads, with the exception of *FIFA*, which skews lower due to strong retail sales in Europe.
- Subscriptions, advertising, and other digital revenue contributed \$83 million, down 9% from last year, due to the natural decline in *Battlefield 4 Premium* revenues. EA Access is delivering strong, sustained growth. Finally with regards to subscriptions, we launched a major expansion for *Star Wars: The Old Republic* on Tuesday. Subscribers are up 33% since the expansion was announced, to their highest level since February 2014. We're optimistic about its continued performance, in terms of both subscribers and free-to-play, in the run up to the first new *Star Wars* movie in a decade.

**Moving on to gross margin:** our non-GAAP gross margin for the quarter was 65.4%, a decrease from last year's 66.1% but above our guidance of 63.0%. Last year's Q2 gross margin was exceptionally strong due to *The Sims 4*. About 100 basis points of the margin outperformance this quarter was driven by the recognition of \$30 million in high-margin revenue

mentioned earlier. A stronger-than-expected product and services mix also drove margins above our guidance.

**Non-GAAP operating expenses** for the quarter were \$479 million, down \$18 million year on year, driven by FX. The improvement on guidance was driven by phasing and continued cost control. At constant currency, opex would have been up \$16 million, chiefly driven by increased investment in R&D.

**The resulting non-GAAP diluted EPS** was \$0.65 per share, which is \$0.25 better than guidance due to our strong top line performance, continued cost management and the revenue phasing described earlier. At constant currency, EPS would have grown over last year.

**Our cash and short-term investments** at the end of the quarter were \$2.59 billion, or approximately \$8.32 per share. 57% of this cash and short-term investment balance is held onshore. This is down from 64% held onshore last quarter, the difference being driven by redemptions of our convertible notes and stock repurchases.

During Q2, we **settled close to \$200 million in early conversions** of our convertible notes. And as of yesterday, we've received notices of an additional \$95 million to settle in Q3. We have updated the dilution table on our website accordingly.

We also **repurchased 1.8 million shares at a cost of \$126 million**, leaving \$798 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.

**Net cash provided by operating activities** for the quarter was \$9 million. Operating cash flow was down \$174 million from last year, as a result of fewer launches in Q1 of this year compared to last, and also the timing of various items. On a trailing twelve month basis, operating cash flow was \$818 million.

**Turning to guidance**, due to our continued strong performance, we are again increasing our full year outlook.

The open beta for *Star Wars* Battlefront was exceptionally well-received by players. Consequently, we're raising our unit forecast for sell-in during fiscal year 2016 to approximately

13 million units. This is partially offset by increased FX headwinds, and our decision to move *Mirror's Edge Catalyst* into fiscal 2017. And remember that \$30 million of the beat this quarter was already in our annual outlook as part of our anticipated Q3 revenue.

Our new full year guidance is for non-GAAP revenue to be \$4.50 billion, up \$50 million on our prior outlook.

Our guidance for non-GAAP EPS increases by \$0.15 to \$3.00 per share. We anticipate an operating margin of approximately 28%. Since the start of the fiscal year, we've raised guidance by \$100 million on revenue and by \$0.25 on earnings.

The GAAP guidance becomes \$4.4 billion in revenue, and \$2.32 of fully diluted EPS.

**Regarding cash flow for the full fiscal year**, we are increasing our operating cash flow guidance to approximately \$1.2 billion. Our capital expense forecast remains approximately \$100 million, resulting in a free cash flow forecast of approximately \$1.1 billion.

**Guidance for our third quarter is for non-GAAP net revenue** to be \$1.78 billion, 24% higher than last year's. Growth is driven by the launches of *Star Wars Battlefront* and *Need for Speed*, plus growth of live services, particularly Ultimate Team. FX presents a year-on-year headwind of around \$110 million to Q3 revenues.

**Non-GAAP gross margin** is forecast to be 71.5%.

We expect our **Q3 non-GAAP operating expenses** to be \$540 million, up slightly year on year, driven by increased investment in R&D and phasing from Q2, offset by FX.

This results in a **non-GAAP diluted EPS** of \$1.75 per share, as compared to \$1.22 last year.

**Our Q3 GAAP net revenue** is expected to be \$1.08 billion, as compared to \$1.13 billion in the prior year.

**GAAP earnings per share** is expected to be a loss of \$0.17, as compared to earnings of \$0.44 per diluted share in the prior year.

Our business exceeded our expectations again this quarter. FIFA 16 in particular had a very successful launch, as measured both by number of unit sales and by engagement level. This has provided a solid foundation upon which to grow our Live Services through the product cycle. Reception of the *Star Wars* Battlefront beta has led us to increase our unit forecast, and early indications for *Need for Speed* are excellent. The growth of the console installed base and powerful mobile devices continue to fuel the growth of our business. We're looking forward to an excellent holiday season and another year of strong earnings and cashflow growth.

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

### **ANDREW CLOSING:**

Thanks, Blake.

Around the world, billions of hours a week are spent playing video games. No matter what device you're playing on, what type of experience you seek, or where you are in the world, games are becoming a more meaningful part of our lives. The opportunity to connect more people to amazing experiences and to each other through play has never been more profound.

At Electronic Arts, we are focused on delivering more stunning games and groundbreaking services that will inspire the world to play together. Epic fantasies like *Star Wars* Battlefront that span generations of fans. EA SPORTS experiences that unite millions of passionate players. Mobile titles like *Need for Speed No Limits*, *SimCity BuildIt* and *Madden NFL Mobile* that can immerse you no matter where you are or how much time you have. And services like EA Access and Origin that are helping players try more games and share the play experience with friends.

It's been a strong first half of FY16 for Electronic Arts, and we have amazing opportunities still ahead of us. The games and services we are delivering represent EA's greatest strengths – pioneering, creativity and passion – channeled into experiences that will inspire play for a long time to come.

We're excited for the road ahead. Now Blake, Peter 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, non-GAAP net income, non-GAAP diluted earnings per share and non-GAAP diluted shares. These non-GAAP financial measures exclude the following items (other than Shares from Convertible Bond Hedge, which are included), as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount and loss on conversion of notes
- Change in deferred net revenue (online-enabled games)
- College football settlement expenses
- Income tax adjustments
- Loss on licensed intellectual property commitment (COGS)
- Restructuring and other
- 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 October 29, 2015, 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 2016 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 Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015.

These forward-looking statements are current as of October 29, 2015. 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, 2015. 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, 2015.