

ELECTRONIC ARTS
Q2 FY15 PREPARED COMMENTS
OCTOBER 28, 2014

CHRIS:

Thank you.

Welcome to EA's fiscal 2015 second 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 and 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. 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-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 October 28, 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, Chris.

I'm pleased to report excellent results for EA's second quarter of fiscal year 2015, exceeding guidance for non-GAAP revenue and earnings and generating record Q2 operating cash flow. Strong new titles, deep player engagement in our live services and ongoing digital growth drove continued momentum for EA.

Putting players first is our top priority at EA, and that begins with delivering incredible experiences for gamers every day. Our players on console and PC logged more than 1.9 billion hours of gameplay through the quarter. We also reached more mobile gamers this quarter, with an average of over 155 million monthly active users for EA mobile games. Across the biggest platforms and most popular genres, EA is delivering long-lasting fun and enduring value for our players.

During the second quarter, EA launched a slate of new games and services across console, PC and mobile. To call out a few highlights:

- *Madden NFL 15* kicked off in August and quickly registered as one of the most successful Madden titles in recent years among players and critics. To date, players have logged more than 89 million games of Madden, up 48% year-over-year.
- *The Sims 4* and *NHL 15* launched in September. We have already delivered major content updates to players in both of these games with new features and game modes.
- *FIFA 15* had only one week in our Q2, but within that week it surpassed 3.4 million unique players in one day, a launch record for our FIFA games – and it continues to be strong. On average, we're seeing nearly 50% more players engaged online in *FIFA 15* over *FIFA 14* last year. With engagement this strong this early, we're very excited about the opportunity we have with *FIFA 15* through the soccer season and beyond.
- The Ultimate Team modes for *Madden NFL 15*, *NHL 15* and *FIFA 15* continue to see explosive growth – our aggregate *Ultimate Team* player base has already increased by more than 40% over FY14.

- *Madden NFL Mobile* and *FIFA 15 Ultimate Team* for mobile also launched for iOS and Android this quarter. Along with our *EA SPORTS King of the Course* golf game, these are new experiences that have ignited the sports category on mobile. Our EA SPORTS mobile games averaged over 40 million monthly active users in Q2, up 250% year-over-year.

Our digital transformation strategy continues to drive EA as we innovate and provide more ways to play our industry-leading portfolio of games and IP. Last quarter we launched EA Access, our new digital service for Xbox One players that allows unlimited play across a selection of EA titles and other valuable benefits for a monthly or annual fee. EA Access membership has grown well beyond our early expectations, and we anticipate continued momentum in the months ahead.

Digital is driving our growth in Asia, as well. *FIFA Online 3* revenue grew 89% year-over-year in Q2. In Korea – one of the most competitive free-to-play markets in the world – *FIFA Online 3* was one of the top mid-session games by revenue in Q2, and the beta in China has already reached the top 10 for mid-session games as well. Korea and China are exciting growth opportunities for EA, and we continue to explore new ways to reach more players with our biggest IP.

Across EA's portfolio, our second quarter results demonstrated the value we can deliver across different experiences, platforms and geographies. Our slate of new titles and services for this year and beyond will continue to emphasize new experiences that allow players to spend more time immersed in their favorite games.

Looking ahead into Q3 and the holiday season, *NBA LIVE 15* launched today with stunning visuals and a new gameplay experience, and excitement is building for the release of *Dragon Age: Inquisition* in November. With more than 150 hours of gameplay, *Dragon Age: Inquisition* is shaping up to be a true BioWare epic. We believe the additional time that we gave the development team has paid off with a game that is immense, polished and fun to play. Both IGN and GameSpot have *Dragon Age: Inquisition* as one of the most anticipated games coming this quarter, and we're excited to have fans experience the deep story and gameplay when it launches in just a few weeks.

We expect momentum from Q2 to continue across our portfolio as more players join in our top titles across console, PC and mobile. Live services for our EA SPORTS games will continue to deliver new updates, content and challenges to players, connecting the real world events of the NFL, NHL, soccer, and NBA seasons directly to the player experience in our games. We also expect continued engagement in *The Sims 4*, as players in the game receive two more rich content updates before the end of the calendar year.

On mobile devices, EA will launch two new games in Q3: *SimCity BuildIt* and *Peggle Blast*. Both games are free-to-play and took advantage of EA's new Sandbox program, where our employees from around the world play-test early versions of titles still in development. The data and feedback we collect from The Sandbox helps us bring innovative, high-quality new mobile experiences to our players.

Battlefield 4 will release its fifth expansion pack, *Final Stand*, during Q3, adding to the massive experience in that game. *Battlefield 4* continues to add new players and engage existing fans a year after launch. As a result of the extended services and content updates that we provide, it's clear that players want to experience the games we're delivering for longer periods of time.

Looking into next year, we will ensure that our players have enough time between releases to fully explore the depth and innovation in our shooter titles. Beginning on March 17, 2015 in North America, and a few days later in Europe, we will launch *Battlefield Hardline*, packed with innovation and set in an entirely new environment that will excite fans of *Battlefield* and new players as well. Following this launch, our next *Battlefield* experience is planned for launch in Q3 FY17. We want to give *Battlefield 4* and *Battlefield Hardline* players more time to enjoy these games and immerse themselves in the game, the live service and the community.

Next holiday we'll launch a new blockbuster. *Star Wars Battlefront* from our DICE studio is slated to release in EA's third quarter FY16. We'll detail more of our upcoming title plans in the quarters ahead, as it's shaping up to be an exciting year.

For now, I'll hand the call over to Blake for a deeper look at our Q2 financial performance.

BLAKE:

Thanks, Andrew.

EA's non-GAAP net revenue was \$1.22 billion, which was 17% higher than the prior year's results and 7% above our guidance. The excellent performance was led by *FIFA 15*, *Madden 15* and *The Sims 4*. In addition to these key titles, catalog titles including *FIFA 14*, *Battlefield 4* and *Plants vs. Zombies Garden Warfare* continued to perform well. On a trailing twelve-month non-GAAP basis, we delivered record net revenue, record earnings and record operating cash flow.

Our non-GAAP digital net revenue for the quarter increased by 30% year-over-year to \$453 million, 37% of this quarter's revenue. The trailing twelve-month digital net revenue was another record, up 14% to \$2 billion. Breaking down our digital revenue into its key components highlights the performances of each of these businesses this quarter:

- Extra content and free-to-play contributed \$153 million, up 20% over the prior year, led by sustained momentum in our FIFA, Madden and Hockey *Ultimate Team* services, which were up 96% year on year. Over the same period we have grown *FIFA Ultimate Team* 61%, *Madden Ultimate Team* 277% and *Hockey Ultimate Team* 113%. In addition, we saw great success in Asia with the continued growth of *FIFA Online 3*, up 89% year on year. *Star Wars: The Old Republic* also contributed to the free-to-play segment. As a reminder, *FIFA Online* is still in beta in China with our partner Tencent, thus we are not yet recognizing revenue.

The financial success of our digital business follows directly from the strategy Andrew discussed in his remarks, of building live services to engage players. These live services are also increasing the longevity of our games. The strength of *Ultimate Team* in Q2 was mainly due to catalog titles, and *Ultimate Team* revenue associated with the new releases of *FIFA*, *Madden* and *NHL* is expected to start contributing meaningfully in Q3.

- Mobile generated \$115 million for the quarter, up 11% over the prior year. \$105 million or 91% of this was from digital extra content and advertising. This was up 35% versus the prior year, and continues to more than offset the decline in the premium business. Premium full game download revenue was just \$10 million, down 62% compared to the prior year.

- Full game PC and console downloads generated \$94 million, up 71% over the prior year. Although the percentage varies considerably by title, platform and geography, the trend towards full game downloads continues.
- Subscriptions, advertising, and other digital revenue contributed \$91 million, up 47% over the same period last year. The ratable recognition of *Battlefield 4 Premium* continues to be a driver behind the year-on-year comparison. EA Access is performing above expectations, although little revenue was recognized in Q2 following its launch in the middle of the quarter.

Moving on to gross margin: our non-GAAP gross margin for the quarter was 66.1%, an increase from last year's 61.7% and better than our guidance of 65.5%. The increase over the prior year was primarily due to growth in our digital business, both full game downloads and extra content, and by the Sims 4 launch.

Non-GAAP operating expenses for the quarter were \$497 million, \$2 million below prior year and \$33 million better than our guidance. Our lower operating expenses compared to guidance were largely driven by quarterly phasing of key expenses in marketing and contracted services, combined with continued cost discipline. We expect some of these marketing and services costs to be incurred in future quarters. With regards to the year over year comparison, bear in mind that the *Sims 4* drove more marketing expense than the titles in the same quarter last year. In addition, some marketing expenses originally planned for *Battlefield: Hardline* have shifted into Q4 as we refined our launch plans for that title.

More generally with regard to expenses, we believe there are still many opportunities to improve our profitability. We're focused on generating operating profit as well as revenues, and this has increased our emphasis on driving our digital and live services businesses.

The resulting non-GAAP diluted EPS was \$0.73 per share, far exceeding our guidance and prior year due to strong revenues, higher gross margin, and continued cost control. The beat was primarily driven by the strength of our key franchises, outperformance in our digital business, and the power of our deep catalog, coupled with continued spending discipline.

Our cash and short-term investments at the end of the quarter were \$2.39 billion, or approximately \$7.65 per share. 67% of this cash and short-term investment balance is held onshore.

Net cash provided by operating activities for the quarter was \$183 million, versus last year's use of \$6 million. On a trailing twelve month basis, operating cash flow was a record \$1.15 billion.

During Q2, we repurchased 2.6 million shares at a cost of \$95 million. As a reminder, our \$750 million stock buyback program was initiated in May and has a 2 year time frame. The current rate of purchase keeps us on track to complete the full \$750 million in that time.

Turning to guidance, due to our strong first half of the year performance, we are increasing our full year guidance. For fiscal year 2015, our non-GAAP guidance for revenue will increase by \$75 million to \$4.175 billion and our non-GAAP EPS will increase by \$0.20 to \$2.05 per share. This results in an expected operating margin of approximately 21%. This increase in total year guidance is driven by the continued strength of our core titles, our catalog business, our digital live services and our continued focus on operating expenses. In addition, this guidance reflects our plan to ship Battlefield Hardline during the third week of March 2015.

The GAAP guidance becomes \$4.375 billion in revenue, and \$2.06 of fully diluted EPS.

Regarding cash flow for the full fiscal year, we are increasing our operating cash flows guidance to approximately \$850 million. Our capital expense forecast remains approximately \$100 million, resulting in a new free cash flow forecast of approximately \$750 million.

Guidance for our third quarter is now for non-GAAP net revenue to be \$1.275 billion, a 19% decrease compared to last year's \$1.57 billion. Last year's third quarter was exceptional in that it saw the launch of the PlayStation 4, Xbox One and six major next-gen titles from EA. Launches this Q3 include *Dragon Age: Inquisition*, *NBA LIVE 15* and, on mobile, *Peggle Blast* and *SimCity BuildIt*.

Non-GAAP gross margin is forecasted to be 70.5%.

Q3 operating expenses will be impacted by the phasing of some operating expenses from Q2. We expect our total non-GAAP operating expenses to be \$515 million.

This results in a non-GAAP diluted EPS of \$0.90 per share, as compared to \$1.26 last year.

Our Q3 guidance for GAAP net revenue is expected to be \$1.1 billion, as compared to \$808 million in the prior year.

GAAP earnings per share is expected to be \$0.41, as compared to (\$1.00) loss per share in the prior year.

As a follow-up to Andrew's comments on our title slate in FY16 and FY17, we are planning to release *Star Wars Battlefront* in Q3 FY16 and our next Battlefield title in Q3 FY17. This provides us with a major FPS title each year and allows us to focus on steady earnings progression in the coming years. This also allows our Battlefield titles to enjoy the long life we have seen historically through core game play and extended services.

We will provide detailed yearly guidance on our title slate as we normally do during our fourth quarter earnings call, but we felt more clarity around our plans for Battlefield and Star Wars franchises would be useful at this time.

In the last two years, we've achieved major improvements in the company's operating model, dramatically increasing cash generation and profitability. We're building a solid foundation for steady earnings growth as we focus on player engagement, our continued digital transformation, intelligent investment in new IP and the leverage of our catalog in an increasingly digital and mobile world. We are very excited about the future of the industry and of Electronic Arts.

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

ANDREW CLOSING:

Thanks Blake.

Looking ahead, there are three distinct principles that drive our strategy today.

As I said at the outset, we are constantly focused on our commitment to put our players first. The foundation of this commitment is delivering amazing and innovative new experiences for our players, both from fan favorite brands and new IP. *Battlefield Hardline* will be a fresh new direction in the *Battlefield* universe coming in Q4, we are excited to deliver *Star Wars Battlefront*

to fans next year, and in recent months we've shown new projects in development from studios across EA. We continue to invest deeply in new experiences, both near-term and long-term.

Second, as we accelerate towards our digital future, we are transforming the way people play games. For the past several years, we have been developing EA's digital platform – the technology foundation that allows us to deliver live services for games like FIFA and Battlefield while building player relationships that can last for years instead of days or weeks. That same foundation also enables new player-centric ways to discover and try new experiences, including EA Access and Origin's Great Game Guarantee, Game Time and On The House programs. The digital transformation is unlocking new potential in platforms, content models and modalities of play, and with our investments in technology and services, we feel well-prepared to continue delivering new opportunities for our players.

Third, the pursuit of our goals requires that we operate as one team that is faster, more focused and constantly evolving. We are changing how we develop, engaging with players through alphas, betas and other programs to seek out more feedback. We are changing the shape and skillset of our workforce, and combining the art of game-making with the science of managing dynamic live services. We continue to increase our speed while improving discipline in our operations. As an organization, we are learning, adapting, and evolving to not only be an innovative leader in gaming, but also to build meaningful long-term relationships with our players.

After a dynamic and rewarding first year as CEO, I'm even more energized for the future of Electronic Arts and this great industry. Now Blake, 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

(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
- 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 October 28, 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 future titles 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, 2014.

These forward-looking statements are current as of October 28, 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 September 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 September 30, 2014.