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EA - Q4 2016 Electronic Arts Inc Earnings Call

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**OVERVIEW:**

Co. reported 4Q16 non-GAAP net revenues of $924m and non-GAAP diluted EPS of $0.50. Expects FY17 GAAP net revenues to be $4.75b and GAAP EPS to be $2.53. Expects 1Q17 GAAP revenues to be $1.25b and GAAP diluted EPS to be $1.30.

## CORPORATE PARTICIPANTS

**Chris Evenden** *Electronic Arts Inc. - VP of IR*

**Andrew Wilson** *Electronic Arts Inc. - CEO*

**Blake Jorgensen** *Electronic Arts Inc. - CFO*

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**Chris Merwin** *Barclays Capital - Analyst*

**Stephen Ju** *Credit Suisse - Analyst*

**Colin Sebastian** *Robert W. Baird & Company, Inc. - Analyst*

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## PRESENTATION

**Operator**

Good afternoon. My name is Jennifer, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts fourth-quarter 2016 earnings call.

(Operator Instructions)

Thank you. I'll now turn the conference over to Chris Evenden, Vice President of Investor Relations. Sir, you may begin.

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**Chris Evenden** *- Electronic Arts Inc. - VP of IR*

Thank you, Jennifer. Welcome to EA's FY16 fourth quarter 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. In addition, we have posted earnings slides to accompany our prepared remarks. After the call, we will post our prepared remarks, an audio replay of this call and a transcript.

A couple of quick notes on our calendar: We plan to deliver our next earnings report on Tuesday, August 2, and our press conference at EA PLAY will take place at 1:00 PM Pacific time on Sunday, June 12. Coming up next week, on Tuesday, May 17, is our Investor Day. If you haven't registered already, please contact me, so that we can send you an invitation.

This presentation and our comments include forward-looking statements regarding future events, and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, May 10, 2016 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.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

Thanks, Chris. FY16 was a phenomenal year for Electronic Arts. Our non-GAAP revenue, earnings and cash flow for the year were all at record levels, and exceeded our guidance. It was a year of growth and milestones, demonstrating our unique ability to connect hundreds of millions of players across genres, geographies and platforms, to the games they love, and to each other.

To highlight a few examples, we kicked off a new generation of Star Wars games from Electronic Arts, with extraordinarily successful games on console, PC and mobile. Nearly 54 million unique players engaged in our EA SPORTS console titles during the year, up 65% from last year. Across our portfolio of live services, we launched hundreds of content updates throughout the year, bringing players deeper into their favorite games. Our Sims 4 player base grew by almost two-thirds throughout the year, and our Battlefield franchise saw 9.4 million unique players in Q4 alone.

In addition, players are spending more time with our new games and ongoing franchises on mobile. Engagement in Star Wars: Galaxy of Heroes is exceptional, with players spending two hours per day on average, in the game during Q4. Madden NFL Mobile continues its strong performance, with engagement up more than 30% in Q4 over last year. And The Sims FreePlay has now reached 200 million installs life-to-date.

With all of our games and live services, our focus continues to be on putting players first and delivering unmatched creativity, depth and value. Engagement is critical in today's world, where everyone faces such intense competition for time. Combining great franchises, innovative IP, and sophisticated services, we continue to build networked, global communities for our games, where players can connect to more great content and to their friends, maximizing the fun every time they play.

As we move into FY17, we're incredibly excited to launch a slate of groundbreaking new games and add to the breadth of live services available to our players. Our first new game this fiscal year will be Mirror's Edge Catalyst, launching on June 7, with fluid movement and combat rendered in stunning beauty by our Frostbite engine. The first of our EA SPORTS titles for this year, Madden NFL 17, NHL 17, and FIFA 17 arrive in Q2, each taking a major leap forward in personalization, immersion and competition. We're also working on a new and engaging way to bring players into our NBA LIVE franchise on consoles, and we'll share more on that in the quarters ahead.

In a global livestream last Friday that was watched by more than 2 million people, Battlefield 1 made its debut. Fans got their first look into the intense, visceral combat, and epic scale of this groundbreaking new game from DICE, and the response was immediate and extraordinary. The trailer was viewed more than 21 million times in the first four days, a new record for EA, and it's now our most-liked trailer in history. With Battlefield 1, we've set out to deliver the biggest and most innovative Battlefield game ever, with a deep story and unprecedented variety in the gameplay, powered by our Frostbite engine. Battlefield 1 is set to launch worldwide on October 21.

In partnership with the talented team at Respawn Entertainment, Titanfall 2 will launch in Q3. The first Titanfall delivered a fast, fluid experience that invigorated players and ignited the genre. Titanfall 2 will come to players on PlayStation 4, Xbox One and PC. The excitement from fans since our official announcement of the game has been outstanding, and we can't wait to debut the first gameplay from Titanfall 2 at EA PLAY on June 12.

Late in the fourth quarter, Mass Effect: Andromeda will bring an all new story to the critically-acclaimed RPG series from BioWare. And throughout the year, mobile players will see launches from some of our biggest brands. Building on the continued success of Madden NFL Mobile, we're excited to bring new EA SPORTS experiences from our NBA LIVE and FIFA franchises to players in FY17. Fans of our PopCap franchises will have new experiences as well, with Bejeweled Stars launching today, and Plants vs. Zombies Heroes set to arrive later this year.

Our excitement for the year extends well beyond our title slate. The gaming industry continues to rapidly evolve and grow, and in each dimension, EA is at the leading edge. In addition to being the number-one publisher in Western world on Xbox One and PlayStation 4 in FY16, and the most downloaded mobile game publisher in calendar year 2015, we are investing deeply to pioneer new growth opportunities.

Our competitive gaming programs will seek to engage players at all skill levels, with competitions like Madden NFL 16 Championship being just the tip of the iceberg. Our unparalleled Frostbite engine will power more of our games this year, including an all new Star Wars Battlefront experience for PlayStation VR. In addition to delivering strong and stable service architectures, our technology platform teams continue to implement a cross-platform, cross-title identity system to help our players stay connected to their games and their friends.

Across our studio teams, partners like Respawn Entertainment and labs groups, we are working on more new ideas, technologies and IP. And this June in Los Angeles and London, EA PLAY will bring players closer than ever to our games, and help them share those experiences with the world. FY16 was the strongest year in the history of Electronic Arts, and we are just getting started.

Looking to FY17 and beyond, we are confident that our trajectory is even stronger. Now, I'll turn the call over to Blake for a deeper look at our financials.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

Thanks, Andrew. The end of the year is a good point at which to reflect on the progress we've made, and it has been a great year. Using non-GAAP metrics, FY16 revenue at $4.57 billion, was an all-time record.

Our operating margin at just 9.5% four years ago was 28.5% this year, its highest ever. Gross margin at 71.4%, and earnings at over $1 billion were also all-time records, as was operating cash flow at $1.2 billion. We were able to deliver these results despite significant FX headwinds, which impacted our top line by over $300 million.

Digital revenue is now 55% of our business, up from 52% last year. Extra content was a record $1.1 billion. Within that, our Ultimate Team business reached $692 million, up 18% at actual FX, and up 26% at constant currency. Our mobile business delivered another record year at $570 million in revenue. During the year, we returned over $1 billion to shareholders through repurchasing stock, again, a record.

Moving to the specifics of the fourth quarter results, EA's non-GAAP net revenue was $924 million, which was $49 million above our guidance, and $28 million above last year. The quarter's outperformance was driven by digital, particularly Ultimate Team and our mobile live services. Ultimate Team continues to thrive, as do our mobile titles, led by Star Wars: Galaxy of Heroes and Madden NFL Mobile. EA's Q4 non-GAAP digital net revenue was $712 million. This resulted in a full-year digital revenue of more than $2.5 billion.

Breaking down Q4's digital revenue into its key components highlights the performance of each of these businesses. First, extra content and PC free-to-play contributed $310 million, up 26% over the prior year. The key driver was FIFA Ultimate Team, which grew 38% in the face of significant FX headwinds. At constant currency, our FIFA Ultimate Team business would have been up 48% year on year.

Second, our mobile business generated $173 million for the quarter, up 15% over prior year. Growth was led by Star Wars: Galaxy of Heroes, and Madden NFL Mobile. The strength of these mobile live services adds to the broad portfolio of EA Mobile games, which deliver a consistent and profitable revenue stream.

Third, full game downloads added $134 million to the quarter, up 18% year on year. And finally, subscriptions, advertising and other digital revenue totaled $95 million, up $4 million over the same period last year.

Moving on to gross margin, our non-GAAP gross margin for the quarter was 76.9%, 90 basis points above our guidance, due to the strength of digital, particularly Ultimate Team and our mobile business. It was up from 75.4% in Q4 FY15. Non-GAAP operating expenses for the quarter were $499 million, down $14 million from last year, and $1 million lower than our guidance. The resulting non-GAAP diluted EPS for the quarter was $0.50 per share, $0.10 above our guidance, and $0.11 above the prior year.

One note as you review our GAAP operating expenses, relative to our guidance. GAAP earnings for FY16 includes a material income tax credit, due to the reversal of the valuation allowance we had against our US deferred tax assets. This credit of $453 million increased our diluted GAAP EPS for FY16 by $1.37 per share, to a total of $3.50, but it had no effect on non-GAAP earnings or on cash flow.

Net cash provided by operating activities for the quarter was $396 million, compared to $198 million in prior year, primarily due to Star Wars Battlefront. Operating cash flow for the full fiscal year hit its highest level in Company history at $1.22 billion, a 15% increase over last year's cash flow of $1.07 billion, and above our raised guidance. We continue to grow cash flow due to the underlying strength of the business, and the greater profitability unlocked by our digital transformation. FY16 capital expenditures were $93 million, resulting in free cash flow of $1.13 billion.

During the quarter, we raised $1 billion in the form of 5 and 10 year investment grade senior notes. In connection with this, we also announced a $500 million stock repurchase program, over and above the two-year $1 billion program we already have in place. We completed this new program in the quarter, and continued our steady progress on the ongoing program, resulting in a total repurchase this quarter of 9.9 million shares of common stock, at an average price of $63.70 per share.

This leaves $539 million from the two-year program available for repurchases. For the fiscal year, we have returned over $1 billion to shareholders through the repurchase of 15.7 million shares, approximately 5% of shares outstanding. As a result, we estimate that our fiscal non-GAAP diluted share count will be 319 million shares.

During Q4, we settled $177 million in early conversions of our convertible notes. Through March 31, we've redeemed $470 million of the $633 million total, and as of yesterday, we've received notices for an additional $27 million to settle in Q1. Dilutions from these redemptions, the warrants, and future redemptions are already accounted for in our non-GAAP diluted share count.

Our cash and short-term investments at the end of the quarter were $3.83 billion, or $12.74 per share. Approximately 47% of this was held in the US.

Now onto FY17 guidance. With regards to the market, we expect sales of current-generation consoles to continue at a rapid pace, with another 25 million units to be sold this calendar year, adding to the 55 million units in place at the end of calendar 2015.

In addition to the console growth, we expect our mobile franchises to benefit from the continued expansion of iOS and Android, and we're continuing to see strength in PC gaming. We expect non-GAAP revenue to increase approximately 7% to $4.9 billion. The anticipated strength is broad-based, primarily driven by the launches of Battlefield 1, Titanfall 2, and Mass Effect: Andromeda. Other important drivers include the continued growth of our core sports titles and associated live services, and the expansion of our mobile business.

The expected phasing of our revenue is disclosed in the earnings presentation posted to our website. The non-GAAP gross margin is expected to rise 110 basis points to 72.5%, driven by the increase in digital revenue and improved product mix. The margin benefits from the wholly-owned IP of Battlefield 1 and Mass Effect: Andromeda are partially offset by the royalty fee associated with Titanfall 2.

We expect non-GAAP operating expenses of $2.1 billion, up almost $140 million from FY16. The increase is driven by R&D investments in new franchises, particularly in the action genre; an extension of our partnership with Respawn; our digital player platform; competitive gaming; and new mobile games. These are offset somewhat by FX.

This would deliver an operating margin of 29.7%, and non-GAAP EPS of $3.50, up 11% year on year. This includes the addition of $41 million in new interest expense on our recent debt offering, but is partially offset by a reduction in our non-GAAP tax rate from 22% to 21%, and the reduction in our share count to 319 million.

The change in tax rate is due to the continued growth of our business outside of the United States and the interest on our debt. The change in share count was driven by the additional $500 million repurchased in the quarter, and with regards to forecasted share count, note that our standard practice is to include an estimate of dilution for our employee equity programs, but not to factor in any potential reduction from our ongoing buyback program. The earnings presentation on our investor website contains more information about our exchange rate assumptions for the year.

Segmenting the sales provides further insights to the key drivers of our full-year non-GAAP revenue guidance. Packaged goods and other revenue was forecasted to be approximately $2 billion, down slightly, driven by the continued shift to digital delivery, and offset by growth in sales. Digital revenue is forecasted to be $2.9 billion, up 15%.

Breaking down our digital revenue into its four primary categories, we see the contributions from each group. Our mobile business is expected to grow approximately 15% as we add new titles to our diverse and successful basis of live services. As part of this, we'll leverage the learnings from the success of Madden NFL Mobile to our other sports titles. Revenue from full game downloads is anticipated to grow 25%.

We saw strong growth in digital downloads in FY16. For example, downloads of Madden for all consoles are up 50% year on year, and we expect this trend to continue. Extra content and free to download is expected to grow approximately 10% this year, driven by premium offerings for Star Wars Battlefront, and by the Ultimate Team. Battlefront extra content started to contribute in Q4, and we're expecting an attach rate for Season Pass of around 10%.

Lastly, subscription revenue is expected to grow approximately 10% this year, driven by growth in Origin Access and EA Access, and partially offset by the falloff of Battlefield 4 Premium revenue. On a GAAP basis, guidance is for net revenue of $4.75 billion, gross margin of 71%, and operating expenses around $2.31 billion, and EPS of $2.53.

Finally, cash flow will continue to be a key me metric for us going forward. In FY17, we're forecasting operating cash flow of approximately $1.3 billion, and capital expenses of approximately $110 million, resulting in free cash flow of approximately $1.2 billion, up from $1.1 billion in FY16. The anticipated increase in CapEx is primarily due to upgrades to our platform infrastructure and facilities.

Focusing now on Q1, non-GAAP revenue for the quarter is expected to be $640 million, an 8% decrease compared to last year's $693 million. The year-ago quarter benefited from more favorable exchange rates, Battlefield Hardline catalog, a one-off recognition of revenue from FIFA Online 3 in China and the fact that it was a 14-week quarter versus 13 weeks this year. Non-GAAP gross margin is forecasted to be approximately 74.5%. Non-GAAP operating expenses are expected to be $485 million, $13 million higher than last year, driven by investments in future products, offset by the fact that it's a shorter quarter, and by a stronger dollar.

For the quarter, we expect a non-GAAP loss of $0.05 per share, as compared to earnings of $0.15 per diluted share last year. GAAP revenue is expected to be $1.25 billion, as compared to $1.2 billion in the prior year, and GAAP diluted EPS is expected to be $1.30, as compared to $1.32 per share in the prior year. As we look forward towards Q2, please note that FIFA 16 launched two weeks ahead of the end of Q2 FY16, rather than the usual one week.

The extra weekend enabled us to capture an extra week of FIFA sales. This was primarily high-margin Ultimate Team and digital revenue and boosted the quarter by approximately $75 million. This year, we'll see a return to a more typical pattern, with a much greater concentration of operating income in Q3 and Q4.

In conclusion, it was a great year for EA, with financial and engagement records set across the board. Looking forward, we're embracing digital to continue to drive the business. We expect these trends, along with growing sales of our existing titles and new franchises under development to continue to drive strong revenue, EPS, and cash flow growth into the future. Now, I'll turn the call back to Andrew.

**Andrew Wilson** - *Electronic Arts Inc. - CEO*

Thanks, Blake. Our industry continues to grow. Across the world, more players are engaging in more games, on more platforms, across more geographies and business models.

Yet as our audience expands, it is evolving as well. The competition for time means there is no room for transient experiences. Players today expect more from the games they play, and in return, they will spend more time with the games they love.

In a world where discovery is increasingly difficult and engagement decisions are made every second, connecting players with the right experience, when and where they want to play, is critical. In this transforming world, our focus continues to be on meeting and exceeding our players' needs through direct relationships that add value at every turn. Today, Electronic Arts engages hundreds of millions of players, and in the future, potentially billions. Through great games and live services in our powerful brands like Battlefield, FIFA, Star Wars, The Sims, Plants vs. Zombies, Mass Effect and more. This portfolio of IP, combined with great talent and robust technology in our underlying platform differentiates EA in our ability to connect players to more games, to more friends, and more ways to engage in a global network of play.

It always begins with great games, and in FY17, we will deliver some of the most creative, engaging, and biggest experiences to date from Electronic Arts. We also continue to foster and grow thriving communities across our portfolio of live services. Our teams are leveraging technologies like Frostbite to deliver new experiences across more devices. As we evolve our core platform, we are learning more about our players, and adding capabilities to unlock greater value for them.

New programs, including competitive gaming, will help us reach and connect more players around the world. These are the dimensions of connected play that today's players seek, and that Electronic Arts is positioned to lead. These are foundational times for the future of games, and how we play them.

We're excited for FY17 and beyond, and look forward to sharing more with you in the quarters ahead. With that, Blake and I are here for your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

And our first question comes from the line of Justin Post with Bank of America-Merrill Lynch.

**Justin Post** - *BofA Merrill Lynch - Analyst*

Great. Thank you for taking my question. Two questions. Can you talk about your investment this year and your guidance for the action adventure titles, and could we see something as soon as FY18 on that front? Large competitor, maybe this is for Andrew, has talked a lot about e-sports. How do you see that opportunity for your first-person shooters and also your big sports titles? Thank you.

**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

Justin, thanks for the question. Why don't I start with the investment piece. We're making broad investments that fuel the growth of the Company, well beyond FY18 and 2019.

Really today we're building an action genre product that's probably in our FY20 or FY21, as well as action oriented games around the Star Wars genre. Most of what we're investing in that's incremental now probably comes in FY19 and FY20. But clearly, some of our investment is to grow out the product base for what we're going on, as well.

We do have a new IP coming next year. We haven't yet announced it, but it's something that you'll see probably coming up soon, and clearly that's part of our investment for the franchise as well as continuing out, building out Battlefront franchise with Star Wars for FY18 as well.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

As it relates to competitive gaming, Peter Moore, our head of our competitive gaming group is going to deliver a lot more, in terms of understanding at our upcoming Investor Day. The group overall is focused on enabling global communities through great games, so this absolutely includes the elite division. But we also believe there is an opportunity to celebrate the talent and skill at every level of gameplay. So for some, that will mean elite play. For others, that will just mean the joy of competition with friends, and we believe there is going to be a robust community and resultant engagement that we can build as a result of that.

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**Justin Post** - *BofA Merrill Lynch - Analyst*

Great. Thank you.

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**Operator**

Your next question is from Chris Merwin with Barclays.

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**Chris Merwin** - *Barclays Capital - Analyst*

Great. Thank you. Just had a couple questions. First of all, on extra content, that reaccelerated really nicely in the fiscal fourth quarter. Was wondering if you could provide a bit more color about what drove the improvement there. I think you called out mid-20% constant currency growth for Ultimate Team, but was also curious what lift you got from the Star Wars DLC as well.

Just a second question on non-GAAP gross margins. I think you guided to about 100 basis points of margin expansion year on year, which is consistent with the long-term guidance. But just was curious what that assumed for digital downloads as a percentage of total for the year, and how the download patterns for Battlefield 1 might differ from Star Wars Battlefront. Thanks.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

Extra content obviously was dominated by Ultimate Team, but also FIFA Online 3 in Asia continues to grow, which falls in that. We saw continued growth of our original Star Wars product, Star Wars: The Old Republic, as well as extra content associated with The Sims, with Battlefield, Battlefield 4, and obviously the start of the Battlefront extra content. The bulk of that, though, is on the components I just mentioned, really drove the outsized performance in the quarter for extra content.

In terms of guidance going forward, assumptions around full game downloads, we assume that we're continuing to see growth that we saw, like we saw in the past year. Industry now is above 30%. I think it's reaching 32%. And we're fairly consistent with that, with some titles, as we mentioned in the script, that are well north of that.

Gen 4 Madden, for example, is well north of 50% when you look at a full-year number. You're starting to see dramatic movements there. We should see greater improvement next year, because we won't have the skewing towards physical that we saw in the Battlefront gift giving, that we saw around the holiday, and we mentioned in our last quarter. And that forecast has driven what we're seeing in our uptick, of about 110% in gross margin growth year-over-year.

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**Chris Merwin** - *Barclays Capital - Analyst*

Great. Thank you.

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**Operator**

Your next question is from Stephen Ju with Credit Suisse.

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**Stephen Ju** - *Credit Suisse - Analyst*

Thanks. Andrew, I'm looking at the proposed release slate for 2017. I think you have Titanfall launching alongside Battlefield, and NBA launching during the basketball season. So obviously this brings up concerns around cannibalization, and missed timing.

So I'm wondering if you can offer some additional perspective there. Also, what do you think the underlying factors were that drove success for Madden mobile and Galaxy of Heroes, and how much of this can be replicated in your other mobile sports or action movies? Thanks.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

So in terms of the Titanfall, Battlefield 1 question, this is a giant category in our industry, a $4.5 billion category. There's a very broad and diverse set of players who play games in that category, who are looking to fulfill different gameplay motivations. Some people play very quick play, some a little more strategic play. Some people want both in different contexts.

The result of that is we feel we actually have a really strong position to deliver the broadest set of gameplay mechanics, as it relates to first person shooter genre across the two titles, and feel very confident that we are well positioned to do very well in that category in the year. Certainly, as you see, the reception around Battlefield 1, we feel very good about that. The energy around Titanfall 2 is also building very nicely, and we look forward to showing more of both of those titles at EA PLAY in June.

As it relates to Madden mobile and Galaxy of Heroes, there's really a couple of things that we believe we are in a place to better understand now. One is how to best manifest sports IP, or in fact, large scale IP like Star Wars in the mobile space, and what that means in terms of screen size, session time, UI, and just general gameplay mechanics. But perhaps the bigger opportunity that we feel like we're capturing now is the opportunity for live service.

These are not fire and forget games. The teams launch what is a spectacular game, and then work diligently with the community to make that game bigger, better, more dynamic, and more diverse, on every given day. We believe we have an opportunity across our sports games certainly, but also across some of our other very well-known and well-recognized IP in the industry.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

Steven, I think the good analogy is the successful formula that drives Ultimate Team is continual events and activities. Team of the week, example, would be -- a great example. We're using that same approach in many of our mobile games, to drive that same type of engagement, where people are continually coming back, because we're making the game exciting, fresh and new, and competitive, and that's exactly what people want to get out of an experience that they've invested time in. And it's a great formula, and we certainly, as we mentioned on the call, hope to be able to leverage that in our other sports games, as well as non-sports games.

**Stephen Ju** - *Credit Suisse - Analyst*

Thank you.

**Operator**

Our next question comes from Colin Sebastian with Robert W. Baird.

**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Thanks. Congratulations on a good quarter. I have a couple of questions. First one to ask, a follow-up on Battlefield 1 and the selection of World War I as the background setting. On one hand, this sounds quite intriguing, and we know that the World War II genres in the past did quite well. Notwithstanding that the initial reception sounds very positive here. I wonder what your consumer testing says about the appeal of this historical event in a genre that's been dominated by futuristic backdrops? Then I have one follow-up.

**Andrew Wilson** - *Electronic Arts Inc. - CEO*

I think it's a great question and certainly one we've been asked a number of times. When the team set out to deliver the next version of Battlefield, they wanted to do a lot of things with the game. They wanted to be the biggest Battlefield game, they wanted to be the most diverse Battlefield game.

They wanted fundamentally new gameplay mechanics with evolution of story, interwoven characters, story lines, evolution of machinery, evolution of weaponry, a real opportunity to build and grow inside of a Battlefield universe. When they took a step back and asked themselves what was the best place to set a game that had that kind of ambition, World War I was really the only place to do it. What very few people remember from their history classes, I guess, is that people rode into World War I on horses and came out on planes and tanks and submarines. We think that level of innovation and evolution of battle in a shorter period of time gives us a tremendous opportunity to deliver a very epic and full-scale experience, and I think what we've shown so far is a small taste of that, and we look forward to spending time and giving people even more information and a deeper look at that as we come to EA PLAY in June.

**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, Andrew. And then looking ahead in terms of the Star Wars franchise, I wonder if you could you update on the progress and the potential timing of the titles from Motive and Respawn, and how they fit into the release cadence for that license over the next few years? Thank you.

**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

We'll most likely have at least one Star Wars title a year over the next three to four years. Next year, we will see Star Wars Battlefront back, with bigger and better worlds, because we now have the new movies to work off, not just the historical movies that we used before. We also are working on a Star Wars action game, that part of the Motive team is working on as well as the Visceral team, and that's most likely the following year. And as we've announced, we're working with our partners Respawn to work on another Star Wars game.

They're very excited about that. They were asking us to include them in the franchise and we felt that they could add a huge amount to a new title there. The cadence should be at least every year, along with the cadence of the large and small movies that Disney's doing -- relative to -- or size of movies that Disney's doing relative to Star Wars. Then obviously, we'll continue to layer in mobile titles where possible as well, to try to have a diverse Star Wars activity from shooters, all the way through action and strategy, but at the same time, taking advantage of all the new great IP that's being developed by our partners at Disney.

**Colin Sebastian** - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Great. Thanks, Blake.

**Operator**

Your next question is from Brian Pitz with Jefferies.

**Brian Pitz** - *Jefferies LLC - Analyst*

Thanks so much. One more on Battlefield. It's getting very positive reception on YouTube and other online forums, so far to date. We don't actually recall such strong early interest in the franchise. Are there other internal metrics that you would provide to give us confidence that this game is truly tracking ahead of the previous versions? Thanks.

**Andrew Wilson** - *Electronic Arts Inc. - CEO*

Yes. And again, we have been delighted with the reception. It's our most-liked trailer to date, and depending on what metrics you look at from YouTube, it may be the most-liked trailer ever on YouTube. And we see that as a real positive sign for the franchise.

The community's been asking for innovation. The community's been asking for something different, and our DICE team did step out and build something truly epic, and respond to the community's demands. And the feedback has been resoundingly positive.

As it relates to how the game is tracking, the game is doing really, really well. We recently had key franchise reviews, where more of the game is playable at this stage than has ever been the case in Battlefield before. The Frostbite engine is robust in its foundation, and this is a very tried and true team, who build unbelievable experiences. So we have deep confidence in them, to execute against their ambition, and we look forward to demonstrating more of that at EA PLAY in June.

**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

And like most of our large titles, you'll tend to see more and more during the summer, Gamescom late in the summertime, most likely some further gameplay in the form of a beta or something to that extent. So you'll have plenty of ways to better understand the depth of the product and excitement around the product, as the next few months come by, and we'll try to keep you informed in our next earnings call on how we see the demand developing for the product.

**Brian Pitz** - *Jefferies LLC - Analyst*

Great. Thanks.

**Operator**

Your next question is from Arvind Bhatia with Sterne Agee.

**Arvind Bhatia** - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you. Great quarter. I was wondering if you could talk about Titanfall 2 a little bit, and how we should think about the title, relative to its predecessor, in terms of units, perhaps. Obviously the previous one was very successful, but it had some unique circumstances. It wasn't in all platforms, but I know it had a high attach rate, as in one of the key early titles, so if you could put that in perspective. Thank you.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

Clearly, we're very excited about it. We've seen it a couple of times over the last few months, and it's well along the way, and has evolved substantially from the first Titanfall. The first Titanfall was fantastic. This has added a whole new level to the game, and the experience.

It will be on both platforms, which obviously means a bigger audience for Titanfall, particularly with the Sony platform as the one that hasn't experienced it. They'll get a chance to experience the game. But at the same time, obviously the attach won't be anywhere near as high as it was, because it was one of the first AAA titles for the new Xbox One. So obviously a lower attach. We think you're going to see numbers clearly larger than our Titanfall 1 franchise, and we've got good expectations for it, but we try to be prudent in how we forecast that in our guidance.

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**Arvind Bhatia** - *Sterne, Agee & Leach, Inc. - Analyst*

Great. Thank you. Good luck.

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**Operator**

Your next question is from Michael Olson with Piper Jaffray.

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**Michael Olson** - *Piper Jaffray & Co. - Analyst*

I had couple questions, if I could. First, you might dive into this at the analyst day, but in addition to continued mix shift towards full game downloads and digital add-on content, how do you think about the evolution of revenue mix over the next few years, related to subscription, free to play, et cetera? I guess, should we anticipate much of a change, or will it be primarily a continuation of growth in full game downloads and add on content that we're seeing today?

And then second, regarding past comments that you've made on revenue growth consistency, how disciplined do you plan to be on keeping revenue growth in the single digits? In other words, if it appears that it could be tracking towards double digits part way through the year, would you push titles into FY18 in order to manage the growth rate? Thanks.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

On the first piece, I think we will continue to see subscriptions grow, particularly with EA Access and the strength of that product, and obviously based on the strength of that, we rolled out Origin Access, which is our Origin-based PC-based gaming, with a similar structure as EA Access. We'll continue to push that. We think subscriptions are an important part of the future of this business, and you'll see that continue to grow.

In the past, remember we've had some accounting differences between products, where something that looks like DLC might have been booked as a subscription, because it was a series of DLCs over time, and that's what made the subscription number go up and down over time. You'll continue to probably see some of that as we have different accounting methods, but I think the combination of extra content and subscriptions should continue to be a larger and larger portion of our business over time. I think that's an important piece of the mix.

I think also, as you look at the business, you'll see greater mobile concentration of growth and the combination of mobile plus extra content subscriptions is now starting to create a very nice foundation for the business. With that, plus full game downloads, we mentioned we're at $2.5 billion. That's a wonderful foundation to make the revenue much smoother over time.

On the revenue growth, let me be clear. It's not our aspiration to have single digit revenue growth. It's our focus to try to maintain discipline on the operating model in the Company. We don't want to over-invest, and not deliver the revenue. That was the problem we had historically.

So we talk about single digit revenue growth, simply because that's how we think about our investment, but we're trying to drive higher revenue growth, if possible. And we'll do that on a case by case basis, and decide if revenue -- if we can push the revenue harder or not. And sometimes products get moved based on when those products are ready, or timing in the marketplace. But our goal is to try to drive both revenue, top line growth, and drive earnings growth, and if we can get both of those in double digits, that would be fantastic. We've been lucky enough to drive double-digit bottom line growth, and we'll continue to see that over the next few years, we believe.

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**Michael Olson** - *Piper Jaffray & Co. - Analyst*

Thank you.

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**Operator**

Your next question comes from Drew Crum with Stifel Nicolaus.

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**Drew Crum** - *Stifel Nicolaus - Analyst*

Good afternoon, everyone. So the guidance for OpEx this year is $2.1 billion. You ran through the details behind that. Is that a new normal, or the run rate we should expect beyond FY17?

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

It's probably in that zone, could be plus or minus $25 million or $30 million. I remind people, there's a couple components of that. One is our marketing and sales. We've tried to target that number between 12% and 13% of revenue. So obviously in a bigger revenue year like this year, we're going to spend more on marketing and sales to support things like Battlefield and Titanfall. So that's going to see a flux up and down, based on the revenue component.

Our R&D expenses, we've tried to target around 21% to 22% of revenue, and we're tracking around that level now. And we feel like there's a huge opportunity for us to continue to invest in new areas of the business, like the action genre, where we haven't completed historically. It's a very ripe opportunity for us, and we've been able to bring great talent in to try to build out that part of the business. Our new mobile areas, with new studios coming on, has also been important for us. And we'll continue to invest there.

And then last but not least, continuing to build out the platform in which we operate all our games on and we're trying to leverage through that network will continue to be a key part of our investment. You'll probably see that rough level, as a percentage of sales, be the focus going forward. Which is a combination of the R&D level around 21% to 22%, marketing in the 12% to 13% and G&A in the 7% to 8% range.

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**Drew Crum** - *Stifel Nicolaus - Analyst*

Got it. Okay. And then one question for Andrew, perhaps. Some of your competitors have talked about plans or initiatives around advertising in their mobile titles. Is that something that's contemplated in your 2017 guidance? Talk about any targeted advertising you're doing or would like to do in some our sports titles going forward. Thanks.

**Andrew Wilson** - *Electronic Arts Inc. - CEO*

Yes, it's again, a great question. Advertising is certainly an important part of our business, both now and going forward. We have been -- we have had ads in both our console games and our mobile games for some years, and that business has continued to grow. We often walk the fine line between maintaining the integrity of the entertainment experience, with the provision of advertising inside those experiences.

Right now, we have ad technology that we are implementing in some of our key mobile titles that is very targeted in nature, and we believe is additive to the overall experience, in the long term, and players have been responding positively to that. So there is some advertising in our FY17 number. I would expect that as our network continues to grow beyond the hundreds of millions that we have today, that it will become a more meaningful part of our business in the future.

**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

One thing to remember there, particularly for us, is that there's both the ability to sell advertising, but maybe equally or more important, is the ability to cross-promote to players, to keep them in your network. And as we have a broader and broader portfolio of games, particularly in mobile, that cross-promotion advertising is very valuable to us. Holding onto a player in your network is very powerful, and so you'll see take type of advertising, which may be less obvious to the average user than a traditional ad that you might see in a game.

**Operator**

Your next question is from Ben Schachter with Macquarie Research.

**Ben Schachter** - *Macquarie Research - Analyst*

Congratulations on a great year. On the full game downloads, anything you are going to do to try to increase it, via discounts or other promotions, or are you pretty happy to see it grow organically? And also if you're already over 30%, where do you think that number will be in FY17, and the next few years? Separately on Battlefield 1, any notable increases in end game monetization, or will it be continued, more maps and those kind of things?

**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

Let me take the first one and then I'll have Andrew talk a little about Battlefield. It's a difficult prediction, right? We know that PCs took about eight years to go from 0% to 75% in full game downloads. There's a lot of differences between the PC business and the console business. We do know that the consumer is very interested in convenience, and we want to have product wherever the consumer wants to shop, be it a retail store, or a console.

We obviously have great partners in retail, and we want to continue to have great partners over time, and so we'll support them with great in-store merchandise and training and support, and at the same time, try to help educate our console partners as well, on how to best market the products digitally. Our best guess today is that growth continues at about the pace that it has over the last couple of years, since Gen 4 consoles were rolled out.

So could we see another 5% pop, meaning going from, say, the high 20s to the mid-30s, we do think that's possible. I think the big issues remain bandwidth, they remain cashless transactions. Many of our customers may not have a credit card, and they need a cashless transaction method to be able to pay digitally, as well as obviously the residual value that some game retailers provide.

All of those things are changing over time, and we see that will continue to help support the growth of full game downloads. But we want to allow the consumer to decide. We'll give them opportunities to buy certain things digitally, that they may not be able to buy physically, special digital-only offers. But at the end of the day, we really want to make sure we're allowing the consumer to buy the product wherever the consumer wishes to do that, and we want to make sure we're there.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

As relates to Battlefield 1 and extra monetization opportunity, taking a step back, any time we think about extra monetization inside an experience, we really think about it on two vectors: One, are we able to provide value to the gamer, in terms of extending and enhancing their experience? And two, are we able to do that in a world where we give them choice? We never want to be in a place where there's a belief that we are providing a pay to win mechanic inside of one of our games.

I think what you've seen from us over the last couple of years is our ability to balance this and deliver tremendous value through choice to our player, which is why our extra content line of business has continued to grow healthily. As we look at FY17, we are forecasting, again, continued growth in that category.

Given that in Battlefield 1, you will see both macro monetization opportunities from us like maps and large scale content, as well as micro monetization opportunities, smaller increments of gameplay, and then over time, what you will see from us is elements of gameplay that allow gamers to engage and drive, and extend and enhance their experience, much the way people do with FIFA Ultimate Team or Madden Ultimate Team today. We feel very confident in our ability to deliver that in a way that is deemed valuable by our player, and drives increased engagement over time with them.

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**Ben Schachter** - *Macquarie Research - Analyst*

If I could get one more in. I don't want to front-run the analyst day too much, but what are the key areas that you want to spend more time on with investors? Thanks.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

I think, again, we have been undergoing a fairly fundamental transformation of our business over the last few years. We feel like we're in a very, very strong place. We feel like we have a strong and predictable revenue source, and that the Company's operating very well right now, and the management team are doing great things, in a world where our industry continues to grow. And we want to take the opportunity to share our vision for the future, how we see the industry growing, where we think the vectors for growth exist inside that industry, and how we believe Electronic Arts is uniquely well-positioned to benefit from those vectors of growth in the years ahead.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

I think part of that, the goal is to make sure we're giving both the sell-side and the buy-side exposure to the broader management team, and the chance to see the depth of what we've developed here, as we feel very confident of it, and we're excited to make sure we showcase that next week.

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**Operator**

Your next question comes from Mike Hickey with The Benchmark Company.

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**Mike Hickey** - *The Benchmark Company - Analyst*

Great quarter. Blake, you gave the 25 million units growth for calendar year 2016. I'm curious if your assumption, if you were expecting any new consoles this year, any price cuts to existing hardware, or maybe any other sort of key considerations to that estimate? And then I realize obviously you can't announce any new hardware plans from your partners, but there's been wide speculation that you have a mid-cycle upgrade coming.

And I was curious if you could shape for us why a mid-cycle upgrade could be positive for the industry? And also if there's any potential development expense to developing games in 4K. Thanks.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

I can't tell you a lot about what Microsoft or Sony or other console makers' plans are. I think we've all seen some of the discounting that's been going on in the industry, both through the holidays and post holidays. And there's continued aggressive bundling across the industry, and I think all of that acts to continue to drive people into consoles.

I think the other thing that's important to remember is there are very few Gen 3 titles being still made. Most of the new titles that we're talking about, as well as the industry's talking about are Gen 4 only, and that is -- will clearly start to push people to ultimately buy a new console, if they've resisted, because they've had a choice to play a game on either Gen 3 or Gen 4.

In terms of any mid-cycle upgrades, once again I can't predict, but what I can tell you is that what we've heard, I think, publicly from the console makers, is they're realizing that the compatibility issue across consoles is an important consumer issue. As Microsoft has shown, they've tried to do with some backward compatibility on older titles and new titles. I think that's going to be an important part of what a mid-cycle might look like, if there is one, which removes a lot of the risk associated with what we've seen historically with console cycles.

We don't spend a lot of time worrying about it because we feel like our ability to develop for whatever new technology comes, the risk of that's been minimized, because we've moved towards one single engine, Frostbite, and we're able to port that to whatever platform, or point that to whatever platform is evolving or is upgraded. In addition, our business model is so much more diverse now than it has been historically, that the notion of a console cycle becomes somewhat irrelevant in our ability to generate strong earnings and cash flow. So we'll all be interested to see where Microsoft and Sony come out, if they do something at E3, or sometime in the year to come. But we're excited about the continued growth in the business and not afraid of a cycle change, if that was to occur.

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**Mike Hickey** - *The Benchmark Company - Analyst*

Thanks, Blake. Best of luck.

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**Operator**

Your next question is from Neil Doshi with Mizuho Securities.

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**Neil Doshi** - *Mizuho Securities Co., Ltd. - Analyst*

Great. Thanks for taking the questions. First, on mobile, we've seen a couple quarters of very strong mid-teens year-over-year growth. Is the plan there really to focus around the core AAA titles and develop a mobile ecosystem around those games, or could we see some original IP on the mobile front? Secondly with the fairly healthy cash balance, Blake, how do you think about M&A as another way of putting that cash to use? Thanks.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

As it relates to mobile, again, when you have the benefit of the depth and breadth of our portfolio of great brands and IP, in a world where discovery is becoming challenged, and the mobile market is increasingly fraught with competition, utilization of those brands is certainly a great strength for us. And as you heard us in our prepared comments, we had the most installs of any publisher in calendar year 2015, and a lot of that is driven around the recognition of our brand and our IP, and the quality of experiences that come as part of those brands.

As we look forward, certainly you will see more great experience from us that are based around the depth and breadth of our IP portfolio. But at the same time, like in our console business and our PC business, we also look at opportunities to develop new IP in this space. And so you would expect from us in the future, a balanced approach to the marketplace. But certainly, we're not turning our back on our existing portfolio.

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**Blake Jorgensen** - *Electronic Arts Inc. - CFO*

In terms of M&A, I think over the last three years, we've gone through quite a transformation as a Company. And three years ago, we could not have talked about M&A without having most of you throw something at us. And we feel like we've now at least earned the right to talk about it. The reality is, there's not a lot of things out there to buy.

This is an industry that's fairly consolidated already. We look at everything that is -- that's being considered to be sold out there, or shopped. Most of them, either we're not interested in, or are at a price that doesn't make sense to us, to create value for shareholders. But we'll continue to do that, and we'll continue to look for ways to bring in new talent and new properties, over time, if those are an opportunity. But we're certainly listening probably more than we did three years ago, and we're well aware of the opportunities out there, and we'll continue to look at them.

With that, I think we're wrapped up. So I want to thank everyone and we'll see people here next week for analyst day and if not, we hope to see you at EA PLAY in June. Thanks for your time.

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**Andrew Wilson** - *Electronic Arts Inc. - CEO*

Thank you.

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**Operator**

Thank you for your participation. This does conclude today's conference call, and you may now disconnect.

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