

ELECTRONIC ARTS
Q3 FY15 PREPARED COMMENTS
January 27, 2015

CHRIS:

Thank you.

Welcome to EA's fiscal 2015 third 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.

A couple of quick notes on our calendar: we'll be presenting at the Stifel Nicolaus conference in San Francisco on Monday February 9, and the date of our next earnings report will be Tuesday, May 5.

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, January 27, 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.

Q3 was an outstanding quarter for Electronic Arts. *Dragon Age: Inquisition* was named to more than 200 “Game of the Year” lists globally. More than six million people on average were playing *FIFA* games every week across the world. *Madden NFL Mobile* had its biggest day in franchise history on Christmas Day, reaching #4 on the Top Grossing charts in the U.S. Apple App Store. And we finished the calendar year as the world’s leading console games publisher, a testament to the strength and breadth of EA’s IP.

Our excellent financial results reflect the strong player engagement and critical success of our titles. Revenue and earnings for Q3 were beyond our guidance, and we delivered another quarter of strong cash flow.

At the core, we continue to focus on putting players first. As we listen, learn, and deliver for our communities with games and services that they love to play, we’re experiencing new milestones in engagement. On console and PC platforms alone, more than 3.1 billion hours were spent playing EA games in Q3.

Dragon Age: Inquisition captivated fans and critics worldwide as it launched in November, and it quickly became the most successful launch in BioWare history. More than 113 million hours have already been spent exploring the depth and detail of the single-player experience in *Dragon Age: Inquisition*, and more players are joining each day. Named “Game of the Year” by 32 media outlets around the world, including IGN, Game Informer and the Associated Press, *Dragon Age: Inquisition* is a true masterpiece from the team at BioWare and a game that is sure to be played for a long time to come.

FIFA 15 and *Madden NFL 15* also continued to deliver for fans in our third quarter. *FIFA 15* was the #1 title in Europe and a top 10 title in the U.S. in 2014, with engagement growing in Q3 – there were nearly 50% more users logging in each week as compared to Q3 last year. Meanwhile, *Madden NFL 15* was the #2 best-selling title in North America for 2014 across all genres, and gameplay hours were up 30% year-over-year in Q3. In our Ultimate Team

services, engagement is deeper than ever. The total number of players entering Ultimate Team across *FIFA 15*, *Madden NFL 15* and *NHL 15* has increased nearly 45% year-over-year.

Our Maxis studio delivered three major game updates to *The Sims 4* during Q3, providing fun new content and adding some of the most-wanted community features. Each update has driven more players to engage with *The Sims 4*, and we have plans to continue delivering fresh content and gameplay to the vibrant Sims community.

EA Mobile had a breakout performance over the holiday period. Our EA SPORTS titles are drawing more sports fans into mobile games, averaging more than 45 million monthly active users during the quarter. *Madden NFL Mobile* and *FIFA 15 Ultimate Team* led the way, averaging 45% more monthly players through Q3, compared to our previous iterations in the same period last year. The newly-launched *SimCity BuildIt* was downloaded more than 22 million times in the first month, reached the top 5 iOS game downloads in more than 100 countries, and to date players have already logged more than 1.2 billion gameplay sessions.

New games like *Madden NFL Mobile*, *FIFA 15 Ultimate Team*, and *SimCity BuildIt*, as well as perennial fan favorites like *Real Racing 3*, *The Sims FreePlay* and *The Simpsons: Tapped Out*, demonstrate one of our key opportunities in mobile: leveraging our IP and specifically designing experiences from the ground-up for players on mobile devices. We are listening and learning from the feedback in our mobile community, tuning the experiences based on testing and soft launch periods, then keeping players entertained with new content and challenges.

Overall, the momentum that we're seeing across different platforms today gives us great reason to be excited for the future. On consoles, the install base on the Xbox One and PlayStation 4 continues to show strong growth, while new players joining on previous-gen consoles are also tapping into our amazing IP catalogue. On mobile, innovative games are opening up new growth genres, like sports, with highly-engaged players. On PC, our Origin service continues to grow fiscal year-to-date and offer exciting new ways to play. Across all of these platforms, live services are extending the experience and bringing players deeper into the games they love.

With the dynamic nature of this industry, platform preferences, player interests, play patterns and game experiences will constantly evolve. We are confident that through our efforts to put players first, to continue to digitally transform our business, and to operate as a faster and more

focused team, EA will be in a position of strength to make these industry changes our greatest opportunity.

I'll now hand the call over to Blake for a deeper look at our Q3 financial performance, then I'll return with a few final thoughts.

BLAKE:

Thanks, Andrew.

EA's non-GAAP net revenue was \$1.43 billion, which was \$153 million, or 12%, above our guidance. The quarter's revenue was only 9% lower than the prior year's, which included the launch of *Battlefield 4*. However, our focus on live services, strong title performance and expense control drove operating margin up significantly this quarter, to 36.3% from 33.8% last year, and this resulted in excellent cash generation and earnings. This extraordinary performance was led by *FIFA 15*, *Madden NFL 15* and *Dragon Age: Inquisition*. In particular, *Dragon Age: Inquisition* had by far the most successful launch in BioWare's history, exceeding our expectations. In addition, game sales for last-generation consoles were also much stronger than we had anticipated.

FX negatively impacted revenue by about \$20 million this quarter, but our hedging program offset about half of this, and, combined with the natural hedging from our international operations, largely neutralized its impact on earnings.

Our non-GAAP digital net revenue for the quarter increased 34% year-over-year to \$693 million, 49% of this quarter's revenue, and a new high. The trailing twelve-month digital net revenue was also a record, up 17% to \$2.18 billion. This is the first time digital sales have generated more than half our revenue in a twelve-month period. Breaking down our digital revenue into its key components highlights the performances of each of these businesses this quarter:

- Extra content and freemium contributed \$314 million, up 47% over the prior year, with Ultimate Team continuing its strong performance across our *FIFA*, *Madden NFL* and *NHL* franchises, up 82% year over year in total. *FIFA Online 3* in Korea continues to grow year over year, and the early indications from our partner in China, Tencent, are that it is already

performing extremely well.

Star Wars: The Old Republic also contributed to the segment, with the expansion, *Shadow of Revan*, attracting many more people into the game with its epic new storyline. Star Wars fans remain deeply engaged with The Old Republic universe, and we're excited to see how that will build as we get closer to the launch of the new Star Wars movie this December.

- Mobile generated a record \$139 million in the quarter, up 13% over the prior year. \$125 million or 90% of this was from digital extra content and advertising. This was up 28% versus the prior year, and continues to more than offset the decline in the premium business. Premium full game download revenue was just \$14 million, down 44% compared to the prior year.

Mobile had a strong December in particular, driven by the success of *SimCity BuildIt*, *Madden NFL Mobile* and *FIFA 15 Ultimate Team Mobile*, as well as continued strength in the rest of our mobile portfolio. Leveraging proven IP like this reduces the cost of player acquisition and drives the long-term profitability of our mobile business. *SimCity BuildIt* has proven to be a highly engaging title that has been a top-ten grossing title on iPhone in 85 countries and on iPad in more than 100.

- Full game PC and console downloads generated \$140 million of revenue, up 22% over the prior year, driven by growth in the installed base of PS4 and Xbox One consoles. Although the percentage varies considerably by title, platform and geography, the trend towards full game downloads continues.
- Subscriptions, advertising, and other digital revenue contributed \$100 million, up 52% over the same period last year. The primary growth driver was *Battlefield 4 Premium* revenues. EA Access, our subscription service for Xbox One, continues to grow and we're seeing subscribers play more games, engaging more broadly with EA's offerings.

Moving on to gross margin: our non-GAAP gross margin for the quarter was 72.8%, an increase from last year's 68.1% and better than our guidance of 70.5%. The increase over the prior year was primarily due to growth in our digital business, strength in current-generation consoles and a one-time benefit from *NHL* revenue deferred from the second quarter. This was

partly offset by the higher proportion of sales from royalty-bearing titles in this quarter compared to last year's Q3.

Outperformance versus our outlook was driven by the record-breaking *Dragon Age: Inquisition* performance. In addition, sell-through was extremely healthy across the market, enabling us to maintain margins above our expectations while keeping channel inventory clean.

Non-GAAP operating expenses for the quarter were \$521 million, down 4% year on year, \$19 million below prior year but \$6 million above our guidance. Compared to last year, we were able to continue to reduce advertising spend by focusing on fewer frontline titles and increasing the efficiency of the way we advertise. This was partially offset by an increase in the accruals we made for variable compensation and legal expenses which were not in our guidance.

The resulting non-GAAP diluted EPS was \$1.22 per share, 32 cents better than guidance due to strong revenue, higher gross margin, and continued cost control.

Our cash and short-term investments at the end of the quarter were \$2.94 billion, or approximately \$9.48 per share. 66% of this cash and short-term investment balance is held onshore.

Net cash provided by operating activities for the quarter was \$682 million. On a trailing twelve month basis, operating cash flow was \$1.15 billion, a record for this period.

During Q3, we repurchased 2.5 million shares at a cost of \$97 million. As a reminder, our \$750 million stock buyback program was initiated in May 2014 and has a two year time frame. The current rate of purchase keeps us on track to complete the full \$750 million in that time.

Turning to guidance, we are increasing our full year guidance. For fiscal year 2015, our non-GAAP guidance for revenue will increase by \$78 million to \$4.253 billion and our non-GAAP EPS will increase by \$0.30 to \$2.35 per share. This results in an expected operating margin of nearly 24%.

Although this guidance passes through essentially all of the Q3 earnings outperformance to the full year, it does not pass through all of the revenue. The reduction in our Q4 revenue expectation is based on uncertainty around future currency movements and the decision to

move *EA SPORTS PGA TOUR* and the first *Sims 4* expansion pack to FY16. In addition, there is uncertainty as to when we will start to recognize revenue from *FIFA Online 3* in China. However, gross margin improvements and continued expense control offset this conservatism in revenue, allowing us to substantially reaffirm our Q4 earnings expectations.

The GAAP guidance becomes \$4.485 billion in revenue, and \$2.57 of fully diluted EPS.

Regarding cash flow for the full fiscal year, we are increasing our operating cash flow guidance to approximately \$1.05 billion, which would be the largest fiscal year cash flow in the company's history. Our capital expense forecast remains approximately \$100 million, resulting in a new free cash flow forecast of approximately \$950 million.

Guidance for our fourth quarter is now for non-GAAP net revenue to be \$830 million, a 9% decrease compared to last year's \$914 million. The year-on-year difference is largely driven by *Battlefield 4* catalog sales, which were very strong in Q4 fiscal 14, the quarter immediately after its launch. Our next major launch title, *Battlefield Hardline*, will start to ship the third week of March, so its impact on the quarter will be limited, even though we expect it to build into a significant title through next fiscal year.

Non-GAAP gross margin is forecasted to be 74.0%.

We expect our **Q4 operating expenses** to be \$515 million on a non-GAAP basis.

This results in a non-GAAP diluted **EPS** of \$0.22 per share, as compared to \$0.48 last year.

Our Q4 guidance for GAAP net revenue is expected to be \$1.16 billion, as compared to \$1.12 billion in the prior year.

GAAP earnings per share is expected to be \$1.07, as compared to \$1.15 per share in the prior year.

We're pleased with our third quarter results and, most importantly, with the consistent growth of cash flow and earnings. We're well ahead of where we expected to be in this stage of our transformation, largely as a result of the strength of our digital live services strategy, our ability to control costs, and the continued great commitment of our employees to drive performance.

But there's plenty more opportunity ahead of us. We expect these factors will continue to drive growth in cash flow and earnings, and to be augmented by a growing mobile business as we continue to apply our core IP to this platform.

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

ANDREW CLOSING:

Thanks Blake.

It was a great Q3, and there's more to be excited about as we look to Q4 and beyond.

The launch of *Battlefield Hardline* will be the culmination of efforts by the team at Visceral and across EA to engage our players and deliver a rich and innovative new experience. *Battlefield Hardline* is a fresh combination of speed, story and strategy – a mix of an engaging single-player campaign inspired by popular TV dramas, new speed-based multiplayer experiences, and classic *Battlefield* multiplayer modes. We're getting great response to the game in recent playtests, and we look forward to opening it up to the community with the upcoming multiplayer beta. This is a fast, fun and intense new experience, and we think players are going to love it. We look forward to launching this new take on *Battlefield* beginning on March 17.

Our slate for the coming year demonstrates EA's commitment to exciting players through brand-new experiences as well as our live services. Players in our current experiences, including *Dragon Age: Inquisition*, *The Sims 4*, the EA SPORTS portfolio and *Battlefield 4* will continue to see updates and new content in the future. We will now launch *PGA TOUR* in Q1 FY16, in line with some of golf's biggest tournaments, and it will be joined by our line-up of annual EA SPORTS titles next year. Our *Need for Speed* franchise will return in FY16 with a game that is already looking spectacular. And, of course, the new blockbuster *Star Wars Battlefront* is set to release in the holiday quarter this year. We'll share our full FY16 calendar, including a slate of new mobile games, during our next quarterly call.

I said earlier in the call that the very nature of the games industry is that it is dynamic and constantly evolving. That plays to the strengths of Electronic Arts. Change is one of the constants in the history of this company, and we continue to challenge ourselves to listen, learn and lead an exciting new future for gaming and our players. You'll see us focus on our player

relationships, to engage and understand what inspires each gamer to play. You'll see us investing in new IP and innovation, from ground-up new experiences to cutting-edge digital services. And you'll see us focus on quality at every turn, stability in our services and delivery of long-lasting fun with games that are played for months and years, not just days or weeks.

Throughout FY15, EA has focused on putting our players first and strengthening the foundation of our business. We now look forward to a strong finish in Q4, and carrying momentum from FY15 into FY16.

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 January 27, 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 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 September 30, 2014.

These forward-looking statements are current as of January 27, 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 December 31, 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 December 31, 2014.