



Prepared Remarks

FISCAL 2019 Q1

July 26, 2018

CHRIS:

Thank you.

Welcome to EA's first quarter fiscal 2019 earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO and COO.

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, our financial model, a transcript, and an updated accounting FAQ.

With regards to our calendar, our annual shareholder meeting will be on Thursday, August 2, here in Redwood Shores, and our Q2 fiscal 2019 earnings call is scheduled for Tuesday, October 30.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-K for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, July 26, 2018, and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated. Note that our Q1 results reflect our adoption of ASC 606.

This does not materially impact our net bookings metrics but does change our GAAP reporting

in several ways. Prior periods have not been restated. For more information on this change, please see the accounting FAQ we have posted on our IR website.

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

ANDREW:

Thanks Chris.

We've had a strong start to FY19. We continued to expand our network with creative new games, launched a new mobile game on the WeChat platform, and had deeply engaged communities in our live services. Revenue and earnings for Q1 were above our guidance, and we are looking forward to bringing more new experiences to our players throughout this fiscal year.

Our strategy continues to center on delivering a collection of amazing games and content, wrapped in services, with more ways to play, watch, share, create and connect that enable us to grow our global audience. Among our top titles, *EA SPORTS FIFA* continues to demonstrate the unique ability to engage more than 100 million players across geographies, platforms and generations. During the quarter, we launched our World Cup content update for *FIFA 18*, and engagement was very strong with more than 15 million unique players on PC and console joining in to play. In addition, we launched *FIFA Mobile* in China this quarter, including real-time PvP, culturized live service design and enhanced social features. It's still early days, but this has quickly become our strongest-ever launch in the Chinese market, reaching #1 on the top downloads chart for iOS in China and showing best-in-class engagement on the WeChat platform. We have momentum across all platforms for our FIFA franchise, as we just launched

our latest season update in *FIFA Mobile*, and *FIFA 19*, including the UEFA Champions League, arrives later this quarter.

From existing titles to unique new experiences, we introduced amazing content to our network throughout Q1. Our *Sims 4* community grew 35% in unique players year-over-year as we continue to deliver new content packs and updates as part of our ongoing live service. With the breadth, depth and size of the Sims audience on mobile, we're now fulfilling different motivations across two distinct games, giving fans and newcomers alike more of what they love about the franchise. In another dimension of our portfolio, our EA Originals and EA Partners programs are helping indie developers reach a global audience. More than 2.6 million players experienced the co-op hit *A Way Out* from Hazelight through Q1, and we also launched *Unravel 2*, another beautiful game from Coldwood. As we strive to deliver experiences that amaze and inspire more players around the world, we are continually expanding EA's portfolio.

EA PLAY, our three-day event in early June, was a great success. Fans that joined us in Hollywood were able to go hands-on with demos and other experiences for a dozen different games, including *Anthem*, *Battlefield V*, the EA SPORTS portfolio, *Command & Conquer Rivals* and more. Across the globe, fans viewed the trailers and player-generated content of our games released at EA PLAY more than 165 million times. Media and critics were also excited by what they played, with our games receiving more than 60 awards, including "Best of" awards from the E3 Game Critics for *Anthem*, *Battlefield V*, and *FIFA 19*.

Beginning in late June and into early July, we conducted our first public Alpha test for *Battlefield V*. The results exceeded our expectations, with high demand leading to three times our planned number of participants joining the test. Feedback was highly positive, with players able to truly feel the advancements that DICE has been focused on in the gameplay. This type

of early play opportunity is now foundational to our development process as a great way to engage the community and enable them to provide input we can build on as we move through development. We are planning more hands-on opportunities with *Battlefield V* prior to launch.

We're also pleased with the excitement that is building for *Anthem*, our new IP set to launch in February. Our EA PLAY demo sessions for *Anthem* were packed from beginning to end, and we're continuing to see great interest and anticipation from fans wanting to learn more. BioWare is building incredible depth and gameplay innovation into this new shared-world experience, and we look forward to sharing much more with our players in the months ahead, including pre-launch opportunities to jump into the game.

As we move further into FY19, we are continuing to push the boundaries and pioneer for our players. Origin Access Premier launches next week, a first-of-its-kind subscription service that will include unlimited access to our newest PC titles. We believe strongly in the transformative nature of subscriptions. In a network where subscriptions can reduce friction and help give players ready access to more great content, we are enabling developers from EA and beyond to bring truly amazing and immersive new experiences to a global audience. We're developing more, new IP, and bringing new teams to EA that can deliver more new and unique experiences. And we're continuing to work with more of the best creators across the industry to add more third-party games to our subscription services.

In Q2, we will also launch new EA SPORTS titles on console and PC, major content and gameplay updates to our EA SPORTS Mobile games, and continued updates to *FIFA Online 4*. In Competitive Gaming, our franchises are uniquely fulfilling the tremendous demand, widespread appeal and longevity of traditional sports in the context of esports. Next week is the FIFA eWorld Cup Grand Final, the pinnacle of this year's competitive *FIFA* season that has

seen participation from more than 20 million players from 60 countries, and 80% more average viewers so far over last season. Our next season of *Madden NFL* competitive gaming also kicks off this quarter with the second year of the 32-team Madden NFL Club Championship, and broadcasts set for the ESPN network. We are continuing to evolve and grow our competitive leagues and programs at an accelerated pace.

With every game, every service and every experience, we are continuing to take steps towards our vision to connect a billion people in play. We look forward to sharing more updates in the quarters to come.

Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

We started another year strongly, with a first-quarter beat on net bookings and on profitability. We continued to deliver on our growth strategies, with a focus on new genres, on China, and on building new live services. This quarter, at EA PLAY, we announced significant progress along all three vectors: we gave players a deep look at *Anthem*, our upcoming action game; we launched *FIFA Mobile* on the WeChat platform in China; and we announced *Origin Access Premier*, a new subscription service that will include access to EA games from the day of launch or earlier.

I'll report the specifics of our results on a GAAP basis, then use our operational measure of net bookings to discuss the dynamics of our business. To compare this quarter's results to historically-reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

EA's **net revenue** was \$1.14 billion, compared to \$1.45 billion a year ago, and above our guidance by \$57 million. **Operating expenses** were \$622 million, compared to \$552 million a year ago, primarily driven by new product development as we continue to invest in new IP. **Operating income** was \$300 million, and diluted **earnings per share** was \$0.95, \$0.31 above our guidance.

Operating cash flow for the quarter was \$120 million, down \$56 million from last year, driven by additional investment in R&D, the timing of cash receipts and higher cash taxes. **Capital expenditures** for the quarter were \$32 million, resulting in a **free cash flow** of \$88 million. **Operating cash flow for the last twelve months** was \$1.6 billion. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 2.3 million shares at a cost of \$300 million**, leaving \$2.2 billion available in our buyback program.

Our **cash and short-term investments** at the end of the quarter were \$5.0 billion, up 11% year on year.

Now, I'd like to turn to the key drivers of our business this quarter.

Net bookings for the quarter were \$749 million, down \$26 million from the prior year, but \$29 million above our guidance. The outperformance relative to guidance was driven by *FIFA Online 3*, *A Way Out* and *Battlefield 1*. The year-on-year delta was driven by the *Mass Effect: Andromeda* sales captured in the year-ago quarter, partially offset by *FIFA Online 4*, *The Sims 4* and *A Way Out*.

Digital net bookings were \$693 million, up \$12 million on the year-ago period. The increase was driven by *FIFA Online 4*, *The Sims 4* and *A Way Out*, partially offset by *Mass Effect*:

Andromeda. On a trailing twelve-month basis, digital net bookings now represent 69% of our business, compared to 63% a year ago.

Looking at each of the components of this quarter's digital bookings in turn:

- **Live services** net bookings were up 7% year on year, to \$450 million. The growth was driven by *FIFA Online 4* and *The Sims 4* as we look to broaden our base of recurring revenue. Millions more people played *FIFA 18* as a result of the World Cup mode in FIFA Ultimate Team. Engagement was up, players were up, but ARPU was lower than we had expected due to the World Cup mode's focus on acquiring new players. Sales of the base game rose above our expectations, and we had the highest daily active users in the game's history. We're pleased that it was so successful at both bringing back lapsed players and at introducing new players to the FIFA game and to Ultimate Team, and this positions the franchise well as we prepare to launch FIFA 19 and look to the European leagues kicking off. Both *EA Access* and *Origin Access* continue to grow. We reach a significant milestone in our subscription strategy next week, on July 30, when we launch *Origin Access Premier*. We look forward to discussing its performance as we add frontline titles to the subscription.
- **Mobile** delivered net bookings of \$147 million, down 2% year on year due to slight declines in older titles, partially offset by the ramp of *FIFA Mobile* in Asia. Monetization in *The Sims Mobile* has started slowly, consistent with prior Sims launches, and the team continues to grow the game by adding exciting new careers, activities, events and other attractive new content, based on feedback from our community of millions of Sims Mobile fans. We are encouraged by the performance of *FIFA Mobile* on the WeChat platform in China. It is still early days, but the game delivered one of the highest grossing days ever for any of our mobile titles and hit number one in the iOS download charts. We worked very closely with

Tencent to bring it to market and we're taking our learnings from this into *FIFA Mobile* worldwide.

- **Full game PC and console downloads** generated net bookings of \$96 million, 14% lower than last year due to the *Mass Effect: Andromeda* sales captured in the year-ago quarter. 40% of our unit sales are now digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months, up from 34% a year ago.

Now, turning to guidance: we are reiterating our guidance for the full year, despite the strengthening of the dollar since last quarter. At the time, exchange rates were a \$100 million tailwind relative to the prior year. At today's exchange rates, that has returned to zero, suggesting a \$100 million headwind to our net bookings guidance. However, our current guidance assumes this headwind will be offset by either a general weakening of the dollar through the remainder of the year or improved bookings from our business. It should also be noted that there is less risk to the bottom line, because of our hedging strategy.

We are holding our **operating cash flow** guidance at approximately \$1.825 billion, with **capex** still expected to be \$125 million and so **free cash flow** of about \$1.7 billion.

For the **second quarter**, we expect **net revenue** of \$1.27 billion, **cost of revenue** to be \$436 million, and **operating expenses** of \$674 million. Opex is up 10%, driven by continued investments in our growth strategies. This results in **earnings per share** of \$0.48 for the second quarter.

We anticipate **net bookings for the quarter** to be \$1.16 billion. This is down slightly year-on-year, driven by the strength of our *Battlefield 1* sales in the prior year, and the timing of the recognition of bookings in Asia.

We're pleased with how we've started the year, the progress we are making on our growth strategies and the continued growth of our recurring revenue. And there is a lot to look forward to in the coming months. We'll launch *Madden NFL 19* in August, and *FIFA 19* at the end of September. *Battlefield V* is coming in October, and all three will be available in *Origin Access Premier* several days ahead of their launches. Incidentally, this is the first time in over a decade that we are making Madden available on PC. *FIFA Online 4* continues to ramp in Asia, as does *FIFA Mobile*. And we'll continue to build excitement for *Anthem* ahead of its launch in February. In esports, as Andrew mentioned, we will conclude the EA SPORTS FIFA 18 Global Series with the final in London next week and have a full schedule of events coming up for FIFA, Madden and more. Looking further into the future, we will continue our pioneering work in cloud gaming and other advanced technologies.

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

ANDREW CLOSING:

Thanks, Blake.

This is an amazing time to be making games and entertainment. As we saw last month at EA PLAY and E3, the energy and creativity that defines this industry continues to reach new heights. Innovation is enabling us to break through barriers, to expand the accessibility of games and grow an audience in the billions. Through more ways to play, create, compete, watch and share, the thread of social connection that is unique to games is becoming even stronger, and bringing players deeper into global communities. The digital transformation continues to take games from finite to infinite experiences, and each day our opportunity at EA is to turn incredible ideas into entertainment that will inspire the world to play.

In this world, creativity moves quickly, and we constantly keep focus on our players. New IP and fresh new experiences are our lifeblood. In addition to amazing games coming this year like *Battlefield V*, *Anthem*, our latest EA SPORTS titles and *Command & Conquer Rivals*, we have new IP development for all platforms. Across EA Worldwide Studios, Respawn is developing *Star Wars Jedi: Fallen Order* for FY20 along with another new project in the pipeline, Motive is developing a new IP, our mobile studios are working on several new titles, and we have more projects underway. At the foundation of every experience will be choice, fairness, value, and fun that ensure we are delivering for our broad and diverse player audience.

We are also pushing to think farther as the expansion and transformation of games continues. Subscriptions will bring more choice, reduce friction and add value in a world of ever-increasing content, and with *Origin Access Premier* we are breaking new ground for the industry. Esports is bringing massive audiences into the excitement of competitive gaming, and through our leading IP we have global momentum that we will continue to expand with new competitions, new broadcasts and more partners. Technologies like cloud gaming, advanced A.I. and machine learning will change the way that games are made and played. We are continuing to invest in these areas at the core of our Player Network to connect players around the world to the best entertainment, and to each other.

We're excited for the future, as we seek to amaze our players and continue leading the growth and transformation of this great industry.

Now Blake and I are here for your questions.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2019 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's titles; the Company's ability to develop and support digital products and services, including managing online security and privacy; 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 develop and implement new technology; foreign currency exchange rate fluctuations; general economic conditions; and other factors described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

These forward-looking statements are current as of July 26, 2018. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended June 30, 2018.