ELECTRONIC ARTS
Q1 FY17 PREPARED COMMENTS
August 2, 2016

CHRIS:

Thank you.

Welcome to EA's fiscal 2017 first quarter earnings call. With me on the call today are Andrew Wilson, our CEO, Blake Jorgensen, our CFO, and Ken Barker, our Chief Accounting Officer.

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.

One quick note on upcoming events: our Q2 earnings call is scheduled for Tuesday, November 1.

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, August 2, 2016, and disclaims any duty to update them.

We will present both GAAP and non-GAAP financial metrics during this call. However, as discussed on our July 19 conference call, in light of the new interpretations issued by the SEC on May 17, this will be the last call in which we disclose any non-GAAP measures that adjust for deferred revenue. 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.

Our first quarter was an excellent start to fiscal year 2017, demonstrating how our digital transformation continues to strengthen and drive growth for Electronic Arts. Revenue and earnings exceeded our guidance as players engaged deeply with their favorite games, and connected with each other across our global network of live services.

On HD platforms, we have thriving communities in our major franchises, and these will continue to grow as we introduce great new experiences this year. More than 11.5 million people played our *Battlefield* titles during Q1, and more than 6.6 million played Star Wars *Battlefront* – two examples that illustrate how great games continue to engage players over time. Looking ahead, there is tremendous excitement for both *Battlefield 1* and *Titanfall 2* – a combination that we believe will bring vitality and innovation to the huge first-person shooter audience. The community has been electrified by *Battlefield 1*'s modern take on World War I, delivering strategy, team play and epic scale in a completely new setting. *Titanfall 2* is bringing the game's signature Pilot and Titan combat to a new single-player campaign, and its fast and fluid multiplayer led it to win the Best Online Multiplayer award from the E3 Game Critics. These two titles are driving the variety, progression and fresh new experiences that players want, and we believe they will be an unstoppable pairing during the holiday quarter.

Our EA SPORTS titles on console are also seeing massive engagement, and players will be thrilled with new ways to play in this year's games. Unique players in *Madden NFL* grew 20% in Q1 over last year's game, and current and new fans alike will love *Madden NFL 17's* redesigned franchise mode and new competitive tournament, the *Madden NFL 17* Championship Series. In our *FIFA* franchise, millions of soccer fans continue to engage daily with *FIFA Ultimate Team*, and this year we'll deliver our first-ever story mode in *FIFA 17*. Powered by our Frostbite engine, story mode adds an entirely new dimension to the *FIFA* experience that has fans incredibly excited. And perennial fan-favorite *NHL 17* will let hockey fans show their national pride through the all-new World Cup of Hockey mode.

In our mobile business, we are seeing growth across multiple genres. Star Wars: *Galaxy of Heroes* players spent nearly 2.5 hours per day on average in the game, reflecting how much players continue to enjoy the RPG-style combat and in-game community events. In the sports genre, our EA SPORTS mobile titles continue to gain momentum and connect with even more passionate fans. *Madden NFL Mobile* had 25% more monthly active players in Q1 year-over-year, and 37% more game sessions in the same period. We are continuing to invest in great experiences for sports fans across the globe – a new Madden NFL Mobile season is coming soon, *NBA LIVE Mobile* just launched on iOS and Android and hit #1 on the U.S. App Store free download charts, and we have a new *FIFA* mobile game coming later this year.

With our focus on groundbreaking new games, dynamic digital experiences, and deep player relationships, EA is innovating to lead our industry. Our new EA PLAY event in June was built on these same principles, inviting our players in and going beyond the typical format to drive a global conversation. Nearly 9,000 guests joined us in Los Angeles and London, and millions more connected online to dive deeper into our upcoming games. We livestreamed more than 20 hours of gameplay and competitive gaming events, and more importantly, hundreds of community influencers captured more than 1,400 hours of content from our games to share with the community. Feedback from players that got hands-on at EA PLAY was very positive, and more than ever, we are fulfilling the needs of our players and content creators that connect by sharing great experiences in the games they love to play.

We're off to a strong start through Q1, and the year ahead is going to be an exciting one for our players, for Electronic Arts, and for our industry. Now, I'll turn the call over to Blake.

BLAKE:

Thanks, Andrew.

As we discussed on our July 19 call, the SEC has issued new interpretations that no longer permit the use of non-GAAP measures that adjust for revenue deferrals into and out of the quarter. As well as revenue, we've historically adjusted many non-GAAP financial measures for the effect of revenue deferrals, including gross margin and EPS. This is the last call in which we'll report these non-GAAP measures. However, since our board and management team will continue to use these measures internally to manage the business, we will continue to provide the financial data that will allow you to compare our results to our historically reported non-

GAAP financials. For more information on this, please see the documents we posted on our investor relations website following our July 19 call.

Now on to the quarter.

Q1 beat our expectations, driven by outperformance from *Ultimate Team* and our mobile game, Star Wars: *Galaxy of Heroes*. **EA's GAAP net revenue** was $1.271 billion. This benefited from a change in deferred net revenue of $589 million, resulting in a non-GAAP net revenue of $682 million, well above guidance of $640 million. As a reminder, non-GAAP net revenue is always the sum of GAAP net revenue and the change in deferred net revenue. The change this quarter is negative; thus non-GAAP net revenue is smaller than GAAP net revenue this quarter. See our earnings documents and July 19 documents for more information.

GAAP revenue is up year on year, driven by deferrals of Star Wars *Battlefront* revenue from Q3 fiscal 2016. The underlying business is down slightly year-on-year, but remember the year-ago quarter benefited from strong catalog sales of *Battlefield Hardline*, which launched two weeks before the beginning of the quarter. Last year's quarter also included an extra week and a one-off revenue recognition of $31 million for *FIFA Online 3* in China.

A note here on quarterly comparisons in a GAAP-only reporting environment. Because GAAP revenue is built from a portion of the sales from the quarter plus some of the sales from each of the previous three quarters, a simple year-on-year comparison doesn't reveal much about the dynamics of the underlying business. Because of this, we will restrict ourselves to qualitative comparisons. We will continue to report all the financial data we use internally to adjust our GAAP financials, so you may derive comparable measures for yourself. We are also considering adding other metrics that might be used to quantify business trends.

We will continue to focus on our most important financial metric – operating cash flow. Our trailing twelve months' operating cash flow was $1.05 billion, a record for the period. Capital expenditures for the 12 months were $109 million, delivering a trailing twelve-month free cash flow of $937 million.

Our GAAP digital net revenue for the quarter was $689 million, benefiting from a change in deferred revenue of $121 million, resulting in $568 million on a non-GAAP basis. Digital sales continue to grow as a percentage of the business, and this quarter marked a new high.

Breaking down our digital revenue into its key components highlights the performance of each of these businesses this quarter:

- Extra content and free-to-play contributed $300 million to GAAP net revenue, benefiting from a change in deferred revenue of $42 million. Thus, non-GAAP net revenue was $258 million. As mentioned earlier, the year-ago quarter had a one-off benefit of $31 million from *FIFA Online* 3 in China. Underlying growth was strong, as *FIFA Ultimate Team* benefited from the heightened interest in soccer driven by the Euros and Copa América. *FIFA Online 3* continues to perform well and is tracking to our expectations.

- Mobile was up strongly year on year, driven by the strength of Star Wars: *Galaxy of Heroes*. Mobile generated $165 million in GAAP net revenue in the quarter, benefiting from a change in deferred revenue of $24 million. Thus, non-GAAP net revenue was $141 million. Note that, under GAAP rules, online-enabled content for mobile games, including in-game currencies, is also recognized ratably over a service period.

- Full game PC and console downloads generated $137 million of GAAP net revenue, benefitting from a change in deferred revenue of $53 million. Thus, non-GAAP net revenue was $84 million. Digital downloads were high in the quarter, as expected for a period dominated by catalog sales. Sales growth year-on-year was flat due to the strength of *Battlefield Hardline* in Q1 last year. We continue to anticipate that the proportion of games bought digitally will increase by about five percentage points this year.

- Subscriptions, advertising, and other digital revenue contributed $87 million to GAAP net revenue; non-GAAP was $85 million. The underlying business was up, supported by growth in subscriptions for *EA Access* and *Origin Access*.

Moving on to gross profit: our GAAP gross profit for the quarter was $1.1 billion, a gross margin of 85.9%. Remember that GAAP revenue, particularly in Q1, is driven by revenue deferred from prior quarters, whereas cost of goods sold is driven by the volume of sales actually in Q1. You can therefore expect to see some volatility in the quarterly GAAP gross margin as we move through the year. GAAP COGS was $179 million, which included $13 million of amortization of intangibles, and $1 million of stock-based compensation. Therefore, non-GAAP COGS was $165 million and non-GAAP gross profit was $517 million, resulting in a non-GAAP gross margin of 75.8%. This was down one percentage point year on year because of the extra *FIFA Online 3* revenue recognized in Q1 fiscal 2016.

GAAP operating expenses for the quarter were $532 million, including $47 million of stock-based compensation and $2 million of amortization of intangibles. Thus, non-GAAP operating expenses for the quarter were $483 million. Currency movements actually added to expenses this quarter, as the dollar was weaker for most of the quarter than when we gave guidance, although the British Pound, in particular, fell at the end of the period. Despite the unexpected currency headwind, underlying expenses were down year on year.

The resulting GAAP diluted EPS was $1.40 per share. Adjustments required to derive the non-GAAP EPS include: the $589 million change in deferred net revenue; $15 million of amortization of intangibles; $48 million of stock-based compensation attributed to operating expenses and COGS; debt-related expenses of $2 million; a non-GAAP tax rate of 21%; and a reduction of 2 million shares from the convertible bond hedge which is not included in the GAAP share count. See the example we posted for Q4 fiscal 2016 following our July 19 call for details on how to apply these to derive the non-GAAP EPS. Non-GAAP EPS was a positive $0.07, and $0.12 better than guidance. Outperformance in our digital business drove both top line and profitability higher than we had anticipated this quarter.

Our cash and short-term investments at the end of the quarter were $3.427 billion. 48% of this cash and short-term investment balance is held onshore.

During Q1, we **settled $27 million in early conversions** of our convertible notes. We completed repayment of the remaining notes in July. We have posted a document on our web site that explains the impact on our share count. The most important takeaway is that our diluted share count, whether expressed as GAAP or non-GAAP, already includes the potential dilution at the current share price.

We also **repurchased 1.9 million shares at a cost of $129 million**, leaving $410 million in our two-year, $1 billion buyback program we began in May 2015. The current rate of repurchases keeps us on track to complete the full $1 billion in that time.

Net cash used by operating activities for the quarter was $248 million. This is typical for a first quarter - the year-ago quarter was atypical in that it had substantial collections from *Battlefield Hardline* sales. The trailing twelve-month operating cash flow was $1.05 billion.

I wanted to take a moment away from our quarterly results to discuss our FX hedging program in a broader context. We run a global business, with roughly half our revenue coming from outside of the U.S. Volatility in exchange rates is still very high by historical standards, and macroeconomic events like the U.K.'s vote to leave the European Union are injecting even more uncertainty into the system. A comprehensive hedging program is important in ordinary times, but the extraordinary events of the last year or so have made it critical. Our hedging program has two components, one to reduce volatility in the P&L, and a second that does the same for the balance sheet.

The first is designed to hedge anticipated revenue and expenses across seven of EA's largest foreign currency exposures. Combined, these seven currencies represent approximately 70% of our non-U.S. dollar operating income. We hedge with forward contracts up to 18 months out.

The second covers FX exposure to net monetary assets and liabilities, including third party accounts receivables and payables as well as intercompany balances. This program aims for 100% coverage of 17 currencies, which account for about 90% of EA's non-U.S. dollar net monetary exposure. We hedge with swaps and forward contracts that generally have a maturity of three months or less.

Together, these programs are designed to minimize the impact of currency fluctuations on our business.

Turning to Q2 guidance, we're excited about the expanded franchise mode in *Madden NFL 17* and by the *FIFA* story mode powered by Frostbite. **We expect our second quarter GAAP net revenue** to be $915 million. This includes a headwind from the anticipated change in deferred net revenue of $160 million. Note that this is an *increase* in deferred net revenue, thus we expect the non-GAAP measure we would have reported under our previous approach to be higher than GAAP net revenue in Q2. See our earnings documents for further clarification.

With regards to year-on-year comparisons, remember *FIFA 17* will launch four days before the end of the quarter, as opposed to the 11 days *FIFA 16* had in the quarter last year. This means very little of the digital revenue associated with *FIFA 17*, both full-game downloads and *FIFA Ultimate Team*, can be recognized in the quarter. We estimate that, absent changes in deferred revenue, about $75 million of high-margin, mostly digital, sales are pushed into Q3. We anticipate a currency headwind to year-on-year comparisons, and this is factored into our outlook for revenue and change in deferred revenue. Our expectations of currency impact on the whole year have not changed.

Cost of goods sold during the quarter is expected to be $405 million, including $13 million of amortization of intangibles. Rather than guide GAAP gross margin, which can be highly volatile from quarter to quarter due to revenue deferrals, we believe that guiding COGS will give you a better insight into our business. With GAAP net revenue, the change in deferred net revenue and COGS, you can calculate both GAAP gross margin and a gross margin comparable to the non-GAAP measure we have given in the past.

We expect our **Q2 GAAP operating expenses** to be $566 million, including about $50 million in stock-based compensation and $1 million in amortization of intangibles. Excluding the effect of stock-based compensation, expenses are up year on year, driven by increased investment in R&D.

This results in a **GAAP diluted loss per share** of $0.17 per share. As mentioned earlier, this is driven by costs associated with the major sports launches being recognized within the quarter, but much of the revenue being deferred out of the quarter. Adjustments required to derive the non-GAAP EPS include: the $160 million change in deferred net revenue; $50 million of stock-based compensation attributed to operating expenses and COGS; $14 million in amortization of intangibles; and a reduction of 2 million shares from the convertible bond hedge. Debt-related expenses are expected to be below $1 million this quarter. With regards to the underlying business, we would expect it to be down slightly year on year, driven by the roughly $75 million of FIFA sales that has moved to Q3.

We are not changing our annual outlook for revenue and net income at this time. EA Play, and the response at E3, was very positive, but it’s too early to attempt to extrapolate from that to full-year results, particularly in a fiscal year that we expect to be so back-end loaded. We are updating our GAAP diluted share count for the year to 316 million, primarily based on the repurchase activity in the first quarter. This increases the GAAP EPS guidance by $0.03 to

$2.56 for the year. It remains our practice to not factor in potential repurchases into our forecasted share count for the year.

Regarding cash flow for the full fiscal year, we are maintaining our operating cash flow guidance at approximately $1.3 billion and free cash flow guidance of approximately $1.2 billion. The ongoing strength of our live services, and the reception to our upcoming launches, **bode well for the rest of the year**.

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

ANDREW CLOSING:

Thanks, Blake.

Our industry has never been more vibrant and full of opportunity.

Games are a global phenomenon. Digital is unlocking more growth and reducing barriers for the next billion players to experience games through new platforms, new ways to play, and new business models. In this world, discovery and connection are critical. We are building our EA Player Network to connect more players through games, and deliver fresh, engaging experiences every time they play. From single, cross-platform identity profiles to more intuitive user interfaces and recommendation engines that help you find friends and get into the action faster, the Player Network will enable new ways to engage in-game and beyond. In our crowded, competitive and multi-platform world, EA is working to connect more players with each other through the games they want to play.

Games should be extraordinary. With each game we make, we work to push the boundaries with creativity, technology and new ways to play. Our Frostbite engine is powering more of our biggest games and becoming a true differentiator, scaling across *FIFA, Battlefield, Mass Effect* and more to deliver stunning gameplay, incredible depth and entirely new modes. Our mobile games, from EA SPORTS to *The Sims* to Star Wars, are tapping into the passion of our players and offering captivating ways to engage, no matter where you are. Across our studios and Labs teams, we are developing new types of games and breakthrough capabilities. From immersive and authentic VR experiences to new technologies that transform how we connect, we are constantly in pursuit of the next amazing thing for our players.

Games also bring us together. Each day, millions of players connect through our live services, and this year we'll bring even more ways to engage, including competitions accessible to all our players. In two weeks, tens of thousands of players will join us at Gamescom to play our upcoming titles like *Battlefield 1*, *Titanfall 2* and *FIFA 17*. Many more will watch the content streamed online from Cologne, joining in the excitement and conversation about the games they love that are launching in the weeks and months ahead. With every game session, every social conversation, and every connection between our players, we are building powerful global communities.

We have outstanding new titles to launch in Q2, and much more to come through the rest of the year. Now Blake, Ken and I are here for your questions.

Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income, non-GAAP net income, non-GAAP diluted earnings per share and non-GAAP diluted shares. These non-GAAP financial measures are adjusted for the items referenced below, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations. The adjustments to the non-GAAP financial measures exclude the following items (other than shares from the Convertible Bond Hedge, which are included):

- Acquisition-related expenses
- Amortization of debt discount and loss on conversion of notes
- Change in deferred net revenue (online-enabled games)
- Income tax adjustments
- Shares from Convertible Bond Hedge
- Stock-based compensation

Electronic Arts' management uses 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 August 2, 2016, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to the non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2016 guidance information and title slate, as well as changes to EA's financial reporting 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

These forward-looking statements are current as of August 2, 2016. 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, 2016. 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, 2016.