



Prepared Remarks

FISCAL 2019 Q2

October 30, 2018

CHRIS:

Thank you.

Welcome to EA's second quarter fiscal 2019 earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our COO and 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. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar: our Q3 fiscal 2019 earnings call is scheduled for Tuesday, February 5, 2019.

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, October 30, 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 results reflect our adoption of ASC 606 as of the beginning of fiscal 2019. 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 had a strong second quarter, launching high-quality new games in our EA SPORTS franchises, and delivering revenue and earnings above our guidance. With a busy and competitive holiday quarter ahead, our focus is on delivering for our players with new games, new experiences in our live services, and more fun and excitement across all platforms during one of the most popular times of the year for playing games.

At EA, our strategy is to create and offer a collection of amazing games and content, wrapped in compelling services, with more ways to play, watch, share and connect for players around the world. In Q2, we delivered against that with four new games, hundreds of content updates in our live services, record viewership in our esports programs, and continued expansion of the experience in our subscription services.

For EA SPORTS, we released highly-rated new experiences and content in Q2, including major updates and new ways to play on mobile. With *FIFA 19*, we set out this year to create a game that expanded our core FIFA product, adding the UEFA Champions League and innovative new game modes. Our objective is always to grow the audience for FIFA through content that extends and enhances the experience, and our amazing development team delivered with a game that has been critically-acclaimed as one of the best games of the franchise. As we have seen previously when we have delivered innovative and creative new ways to play such as The Journey, FIFA players will jump into the new content first, and over time move into Ultimate Team. So far since launch, we have more players engaging across a great breadth of modes, from Career mode to Kickoff and Tournaments. For those players that have already moved into Ultimate Team, engagement is high, with more games played and more games per player on

average year-over-year since launch. Players in Weekend League, our most competitive mode in FIFA Ultimate Team, have grown more than 75% year-over-year since launch. As we now ramp into our live events inside the service, we expect that participation in Ultimate Team will continue to grow. We design FIFA for long-term engagement, and while Blake will talk about how some of the engagement in this new content has shifted our FUT monetization in the near-term, *FIFA 19* is a game that will engage a growing global community, every day from now until we launch the next one, and beyond.

Madden NFL 19 continues to bring new players into the franchise with the most immersive NFL experience we've ever delivered. Madden Ultimate Team, including popular modes like Seasons, Solo Challenges and Weekend League are showing strong year-over-year engagement as we ramp into some of our biggest live events. Across our EA SPORTS portfolio, *NHL 19* was our highest-rated NHL game on current generation consoles, *NBA LIVE 19* has been recognized by fans and critics for the unique connection to basketball culture, and *FIFA Mobile* daily active players increased significantly year-over-year in Q2, leading up to the new season that is set to launch on November 7.

Excitement and engagement in our competitive gaming programs continues to grow. The 2018 FIFA eWorld Cup Final wrapped up our second FIFA esports season in August, setting records including a 4x increase in global viewership over last year, and more than 20 million players participating through the course of our *FIFA 18* Global Series. As we set out this quarter for our third season, FIFA esports is now a global phenomenon. We will have three times as many major events, and we expect to launch with 15 official football league partners holding top-flight competitions, including the Bundesliga, La Liga, Ligue 1, MLS and the world's most popular league – The Premier League. Both FIFA and Madden are proving the unique multiplier of traditional sports through the context of esports. Players who watch our esports content play

more, return more frequently, and are choosing to invest more. With expanded competitive ecosystems and new experiences for our players this year, we see strong potential for continued growth, including increased revenue streams through sponsorships, licensing deals with esports leaders, and broadcast agreements including ESPN that continue to reach new audiences.

Across consoles, mobile and PC, live services are increasingly the lifeblood of the experiences that players are engaging with today. This is where games continue to evolve for our player communities, and where we can continue to deliver the choice, value and fun that keeps them together with their friends over weeks, months and years. In our *Sims 4* live service, fans have downloaded nearly 30 million expansion packs life-to-date, and with our monthly average players continuing to grow year-over-year, we see a long future ahead for this game and its thriving community. We've also learned a lot through *Star Wars Battlefront 2* about how to construct a strong first-person shooter live service. We're now beginning to deliver fan-requested Clone Wars content, and we have more to come for the community next year. These two games, and many more, give an important view into how we are creating games today to evolve with their communities well into the future.

Throughout Q2, we had more than 10 million unique players engaged in our Battlefield games, building excitement for the launch of *Battlefield V*. On November 20, we will bring the community into a new Battlefield that has been designed from the ground-up as a service. At launch, *Battlefield V* will be the deepest game we've ever made in the franchise, taking players into the unseen fronts, untold stories and intense combat of the world's greatest conflict through bigger-than-ever multiplayer and gritty single-player War Stories. Then, just about two weeks later, our Tides of War live service will begin a regular cadence of major content updates delivered to all *Battlefield V* players. Each chapter of the service will bring a new dimension to

the experience, fundamentally changing how the game is played. For the first three chapters, here's what to expect: in early December, our first chapter will launch, including a new single-player War Story, a new multiplayer map, tank battles, and more customization options for players. In Chapter 2, we're adding co-op and new multiplayer experiences including the fan-favorite Rush mode. In our third chapter, set for March, Firestorm Battle Royale will arrive, along with another new location in Greece. Tides of War is a highly innovative new model for a massive, ever-expanding Battlefield, and we're very excited to begin bringing players in to *Battlefield V* next month.

As you saw with our announcement this morning, *Command & Conquer: Rivals* is now set to launch worldwide for mobile players on December 4. It will also be our next official EA competitive gaming franchise, with a complete ecosystem beginning to roll out in Q4, including community tournaments and a championship pro scene. This is a fast-paced, head-to-head strategy game that is easy to play, a lot of fun, and perfect for competitive play. We've had great engagement and feedback in our soft-launch testing, and strong interest from competitive players. This is our first entry into mobile esports, and we're excited for *Command & Conquer: Rivals* to expand our global audience of players and spectators.

Looking ahead, our focus continues to be on connecting more players to more great experiences. On February 22, BioWare will launch their stunning and ambitious shared-world game, *Anthem*. The team has done an outstanding job executing against their vision for a game with amazing levels of complexity, scale and innovation. *Anthem* has won more than 90 awards, including recognition as one of the most anticipated games of the year, and player feedback continues to be highly positive through our pre-launch testing. We can't wait to see this game come alive for fans at launch and through the long-term live service to come. Across multiple studios, we have new projects underway, including games from Respawn that are

slated to launch by next holiday season. In our multi-product subscription services, we are pioneering a new value model that is lowering friction for members to access new content, including more than a hundred games from EA and third-party developers and publishers. We have deeply talented creative leaders and teams across the company, driven by the opportunity to put our scale behind their ideas, and helping us continually push the boundaries for the global gaming community.

We're looking forward to our opportunities ahead, building long-term engagement and lifetime value for players in ever-evolving live services like *FIFA 19*, *Battlefield V*, *Anthem*, and more.

Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

We're pleased with the strong profitability of our business through the second quarter, and particularly with the record Q2 digital net bookings. The digital transformation continues, with growth in full-game downloads and live services and the launch of our first frontline subscription service.

I'll report 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 \$1.286 billion, above our guidance by \$16 million. **Operating expenses** were \$610 million, \$64 million lower than our guidance, driven by compensation and related expenses, and some phasing of marketing expenses. **GAAP operating income** was \$258 million, compared to an operating loss of \$41 million a year ago, and resulted in **earnings per share** of \$0.83, \$0.35 better than our guidance. Underlying profit was much stronger than we had expected, driven by increased sales, better gross margin and lower operating expenses.

Operating cash flow for the quarter was negative \$126 million, down \$178 million from last year. The decrease was driven primarily by the timing of cash receipts, the timing of royalty payments, and by increased tax payments. **Operating cash flow for the trailing twelve months** was \$1.458 billion. **Capital expenditures** for the quarter were \$31 million, resulting in a **free cash flow** of negative \$157 million. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 2.3 million shares at a cost of \$299 million**, leaving \$1.88 billion in our two-year \$2.4 billion buyback program we began in May.

Our **cash and short-term investments** at the end of the quarter were \$4.5 billion.

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

Total **net bookings** for the quarter were \$1.222 billion, up \$43 million on the prior year, and \$62 million above our guidance. Performance over guidance was primarily driven by full game sales for *FIFA 19*, and *FIFA* and *Madden Ultimate Teams*.

Digital net bookings were \$637 million, up 10% on the year-ago period, and a new record for the second quarter. The main drivers of the increase were *FIFA 19* and *FIFA* and *Madden Ultimate Teams*. Digital net bookings now represent 69% of our business on a trailing twelve-month basis, compared to 63% in the prior year. This is a new record for the period.

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

- **Live services** net bookings were up 6% year on year, to \$328 million, a new Q2 record. The increase was driven by FIFA, Madden and *The Sims 4*, offset by the effects of the transition from *FIFA Online 3* to *FIFA Online 4* in Asia. *The Sims 4* live services are in their fourth year, continue to perform very strongly, and are on track to grow 20% over fiscal 2018. In addition, our subscription services continue to grow, and we expect the launch of *Battlefield V* to drive additional subscriptions to our *Origin Access Premier* service. As a reminder, over the course of a year, our Live Services business is about 50% Ultimate Team, 30% other live services such as Sims 4 Expansion Packs and *FIFA Online 4*, and 20% subscriptions, advertising and other.
- **Mobile** delivered net bookings of \$152 million, up 1% year on year, with growth in our FIFA franchise on mobile mostly offset by a decline in *Madden Mobile*. The Madden team is working hard to turn this around, adding new social features, new game modes and competitive tournaments. We have two updates out already, and a major update coming in December. *FIFA Mobile* also has a long list of new features coming.
- **Full game PC and console downloads** generated net bookings of \$157 million, 32% higher than last year, another Q2 record. Growth was driven by the ongoing shift to digital, timing of the recognition of net bookings from *FIFA 19*, and the earlier launch of Madden this

year. The digital portion of Madden sales increased 9 percentage points year on year, to 42%. *FIFA 19* launched just days before the end of the quarter, but based on the first three weeks of sales, it was about 29% digital, up from 24% in the comparable period for *FIFA 18*. Overall, 42% of our unit sales were digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months. This compares to just 36% a year ago.

Turning to guidance: our expectation for full-year GAAP revenue is \$5.15 billion, and earnings per share of \$3.11. We expect **operating cash flow** of about \$1.650 billion. We continue to anticipate capital expenditures of around \$125 million, which would deliver **free cash flow** of about \$1.525 billion. The reduction from prior estimate is driven by lower net income and a greater balance of bookings in the fourth quarter, some of which will be collected in fiscal 2020.

To reiterate our guidance from our August announcement, we anticipate **net bookings** of \$5.2 billion. This guidance was driven by the later launch of *Battlefield V*, which also reduces our expectations for live services and subscription revenue in the year, the FX headwind, and lower mobile net bookings. Our revised outlook is for net bookings to be roughly flat to the prior year.

We are updating our digital growth targets for the fiscal year to give you more visibility into the changes within our business:

- We now expect **live services** to be approximately flat to up 5% year on year, with growth driven by FIFA Ultimate Team. This is lower than our original guidance, primarily due to reduced expectations for Ultimate Team, the delay of *Battlefield V*, and the FX headwind. As Andrew mentioned, FIFA players are engaging with the new content we have added to *FIFA 19*, and this may be delaying their entry into FIFA Ultimate Team. However, once playing FIFA Ultimate Team, engagement metrics are up on last year.

- We expect our **mobile net bookings** to be about flat year on year. We have a couple of titles performing below our expectations, and we have moved *Star Wars Rise to Power* out of fiscal 2019. Meanwhile, *Command & Conquer: Rivals* is performing well in soft launch, and *FIFA Mobile* is off to a strong start in China.
- Net bookings from **full-game downloads** are expected to grow 20% to 25%. This is significantly above our original expectations, primarily driven by the strength we are seeing in *Anthem*, which we expect to skew strongly digital, plus the digital shifts for our other titles. We continue to model an underlying shift of around five percentage points a year to digital.

For the **third quarter**, we expect net revenue of \$1.375 billion, **cost of revenue** to be \$446 million, and **operating expenses** of \$730 million. Opex is up year on year, primarily due to increased investment in R&D. This results in **earnings per share** of \$0.61 for the third quarter using the diluted share count of 306 million.

We anticipate **net bookings for the quarter** to be \$1.725 billion. This is down 12% year-on-year, primarily because we had two extra launches in Q3 last year - *Need for Speed Payback* and *The Sims 4* for consoles.

The **fourth quarter** will be stronger than we had originally forecast, driven by higher expectations for *Anthem* and *Command and Conquer Rivals*.

In conclusion, we delivered a strong quarter. Our business model is robust because it is diverse, with global revenues across multiple platforms, business models and geographic

territories. As a result, even with the challenges this year, we expect net bookings to be roughly flat year on year, with strong cash generation and continued growth in underlying net income.

The digital transformation continues, and we are moving ahead with our growth strategies.

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

ANDREW CLOSING:

Thanks Blake.

At EA, our transformation continues in constant pursuit of the future of interactive entertainment. The very definition of a game is changing, much as it did when we went from offline to online experiences. Games are evolving from finite experiences to live services with infinite potential. These are experiences that are constantly evolving, and beginning to bypass the boundaries of devices, geography and time. This is how games become an even more meaningful part of our daily lives, creating shared connections between you and your friends that exist both in-game and in the outside world. We are investing in the talent, the content and services, and the technology to deliver these breakthrough experiences in our games today and in the years to come.

Across our organization, we have more than 5,000 deeply talented creators in our development teams. We've cultivated incredible teams in our studios that deliver that across an unmatched breadth and depth of franchises and IP. These are the teams launching *Battlefield V*, and beginning a long-term journey with millions of players through our live service. These are the teams that continually deliver for hundreds of millions of fans across EA SPORTS, The Sims, Star Wars and more. Our Command & Conquer team is not only delivering a great new mobile game, they are also working to deliver content for the franchise's PC core. Teams across our studios including BioWare, Respawn and Motive are executing on their visions to bring next-generation experiences and content to life. And in other areas, we're fostering new dimensions of our creativity. We've recently launched a new internal creative council to incubate great content ideas and provide support to nascent projects, and we're advancing the work of our SEED labs team working on disruptive new game designs.

We are also well-positioned to lead through rapid advancements in the technology landscape that are shaping the future of games. Engine technology, cloud, social layers, services and distributed networks are converging to unlock new possibilities. We are expanding the capabilities of Frostbite with advances in ray tracing, scalable world editing, A.I. and other features that are bringing next-generation experiences to life. As we shared yesterday, we've also been developing Project Atlas, bringing together Frostbite with an expanding suite of digital services into a fully-integrated platform that will enable us to more efficiently create and execute on new games that deliver amazing, scalable, social and deeply interactive experiences. Cloud gaming will enable games to reach new audiences and geographies, and we're continuing development of the streaming capabilities we debuted in June and exploring the disruptive combination we see for streaming with our industry-leading subscription services. Underpinning it all will be our Player Network, enabling our players to stay connected to their friends and the content they love, wherever they are in the world.

We are executing for our players today, and positioning EA to lead and grow in the next evolution of games and entertainment. 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 year 2019 guidance and title slate, contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "expect," "intend," "estimate", "plan", "predict", "seek", "goal", "will", "may", "likely", "should", "could" (and the negative of any of these terms), "future" and similar expressions also identify forward-looking statements. These forward-looking statements are not guarantees of future performance and reflect management's current

expectations. Our actual results could differ materially from those discussed 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 the Company's 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 Part II, Item 1A of Electronic Arts' latest Quarterly Report on Form 10-Q under the heading "Risk Factors", as well as in other documents we have filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

These forward-looking statements are current as of October 30, 2018. Electronic Arts assumes no obligation to revise or update any forward-looking statement for any reason, except as required by law. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 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 September 30, 2018.