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EA - Q2 2019 Electronic Arts Inc Earnings Call

EVENT DATE/TIME: OCTOBER 30, 2018 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q19 net revenues of \$1.286b, GAAP operating income of \$258m and EPS of \$0.83. Expects FY19 GAAP revenues to be \$5.15b and EPS to be \$3.11. Expects 3Q19 net revenues to be \$1.375b and EPS to be \$0.61.



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PRESENTATION

Operator

Good afternoon. My name is Erica, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q2 2019 Earnings Conference Call. (Operator Instructions) Mr. Chris Evenden, VP of Investor Relations, you may begin your conference.

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

Thanks, Erica. 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 available at ir.ea.com. In addition, we've 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 results and events 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.



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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 doesn't 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 posted on our IR website.

And now I'll turn the call over to Andrew.

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

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 experience 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 4 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 in mobile. With FIFA 19, we set out this year to create a game that expands our core FIFA product, adding 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 the participation in Ultimate Team will continue to grow. We designed 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 folio, NHL 19 was our highest rated NHL game on current-generation consoles. NBA Live 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 3x as many major events, and we expect to launch with 15 official Football League partners holding top flight competitions, including the Bundesliga, La Liga, League One, MLS, and the world's most popular league, the Premier League.

Both FIFA and Madden are proving the unique multiplayer 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



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players this year, we see strong potential for continued growth, including increased revenue streams through sponsorship, licensing deals with esports leaders and broadcast agreements including ESPN that continue to reach new audiences.

Across consoles, mobile, 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 continue 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 II 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 2 games and many more give an important view into how we are creating games today that 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 conflicts through bigger-than-ever multiplayer and gritty single-player War Stories. Then just about 2 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 3 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 favorite -- 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 massive, ever-expanding Battlefield, and we're very excited to begin bringing players into Battlefield V next month.

As you saw with our announcement this morning, Command & Conquer: Rivals is 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 prelaunch testing. We can't wait to see this game come alive for fans at launch and through the long-term live services 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 multiproduct subscription services, we are pioneering a new value model that is lowering friction for members to access new content, including more than 100 games from EA and third-party developers and publishers. We have deeply talented and 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 turn the call over to Blake.



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Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

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 measures 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 resulting in an 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 12 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 2-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 driven primarily by full game sales of 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, FIFA and Madden Ultimate Teams. Digital net bookings now represent 69% of our business on a trailing 12-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 Madden Ultimate Teams 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 the 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 2 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 3 weeks of sales, it was about 29% digital, up from 24% in the comparable period for FIFA 18. Over (sic) [overall], 42% of our unit sales were digital rather than physical measured on Xbox One and PlayStation 4 over the last 12 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 \$1.65 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 estimates 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.

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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're 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 the 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 the 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've 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 5 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. The resulting -- the 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 2 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 & 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're moving ahead with our growth strategies.

Now I'll turn the call back to Andrew.

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

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 inventing 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 the organization, we have more than 5,000 deeply talented creators in our development team. 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.

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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're also well positioned to lead through the 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're expanding the capabilities of Frostbite with advances in ray tracing, scalable world editing, AI 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 on 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're 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question come from Alexia Quadrani with JPMorgan.

Alexia Skouras Quadrani - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

My question is really on the confidence you have for sort of the outlook for fiscal Q4 when you mentioned higher expectations for Anthem. I'm curious what sort of gives you confidence behind that. And also, how much certainty do you have that the delayed live services revenue will materialize on FIFA?

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

I think we're confident in both. I think everyone knows we tend to approach things fairly conservatively, and I think we've shown that in our recent guidance and results. We're -- we monitor FIFA on a daily basis and Ultimate Team on a daily basis, and we're seeing extremely good and strong metrics, as Andrew mentioned and I mentioned, around all the players who are playing. We also know how players are playing in other modes in the game, and we know the game is designed ultimately to steer them into Ultimate Team. And so we're confident that as they consume the content in FIFA, they will move into Ultimate Team. And we have a great many set of exciting events leading up to the holidays and then after the holidays. For example, this weekend, we had our Halloween events around the globe. And despite the fact of Red Dead Redemption taking up a lot of attention in the marketplace, we have one of our strongest FIFA weekends we've seen -- Ultimate Team weekends we've seen in a long time. So we're confident and we're -- but we're also careful in how we forecast. We want to make sure that we're being straightforward with investors. We're also very excited about Anthem. Andrew mentioned it was getting a lot of positive feedback. We think it's a fabulous game, and you'll see a lot more of it to come after we get out of this holiday window into early next year. And I think our original expectations of the game were probably too low, and thus we think that's important. Remember also that our assumption is we'll sell more Battlefield V in Q4 than we would've originally anticipated as we move that out by 4 weeks. And any live services associated with that game or with Anthem obviously will also benefit Q4.



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Operator

And your next question comes from Mike Olson from Piper Jaffray.

Michael Joseph Olson - Piper Jaffray Companies, Research Division - MD & Senior Research Analyst

I just had 2 questions. On Battlefield V, does the strength of the launches of the competitive titles in recent weeks leave you encouraged that there's a strong appetite for console titles in the current environment? Or does it leave you, I guess, concerned that gamers may be spending their budgets on those titles now? And then second, can you talk about some of the changes in creative leadership during the quarter and just how investors should be thinking about the talent that's kind of moving in and out of the business?

Andrew Wilson - Electronic Arts Inc. - CEO & Director

Sure. I'll take both those questions, Mike. In terms of our confidence in the Battlefield V launch with respect to other things that are happening this year, I think the industry is vibrant and growing and we couldn't be more excited for our Battlefield V launch. As I said in the prepared remarks, we've still got over 10 million players in our existing Battlefield games that we are in direct communication with as we go into launch. Battlefield has a tremendously rich and robust community who love those only in Battlefield moments. We're coming out with strong multiplayer, strong single player, but also the promise of a tremendous live service with content that's free for all players in the months and years to come. So I think we feel good about that even in the context of what had been some other strong launches, and I think that's additive to what we're going to do there. In terms of creative leadership, again, as I talked about in the prepared remarks, we have over 5,000 developers in the organization. I think we've got one of the deepest and broadest benches of creative leaders. We made some changes through the quarter in service of stronger creativity in the organization as well as stronger execution across the organization. Again, as we think about the future of games, and I talked a little bit about that in my prepared remarks, we are planning for the future. We see a world where games are no longer bound by device or CPU or GPU. We see a world where they span across platforms, across business models, across geographies. And some of the visions we made during the quarter specifically around Samantha Ryan, we're bringing these types of games together who service a very particular player cohort in the context of action-adventure, RPG and simulation. And we feel very good about the level of collaboration we're going to be able to achieve across that group to deliver both creativity, innovation and execution more broadly.

Operator

Your next question comes from Eric Sheridan from UBS.

Eric James Sheridan - UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst

Maybe one on capital. Given how much the stock's underperformed recently, I wanted to get a refreshed view on the way you guys are thinking about leverage, possibly returning capital to shareholders. And when the arsenal of ways to create equity value, how you also might be thinking about the M&A landscape?

Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

So good questions. Clearly, we've been active at buying back stock in the quarter. We try to pace our buybacks around the life of the program versus any certain stock price. We oftentimes don't even pay attention to the stock price on a day-to-day basis because we know there's lots of things that move the market that are well beyond our control. And so our goal is to simply allocate a certain amount of capital to buy back and then be in the market to buy back that stock every single day and hit our targets of, in this case, \$2.4 billion over 2 years. In terms of M&A, we're clearly keeping our eyes open on everything that's out there. This is all about collecting great content and talent, and we're looking for ways to do that at every possible opportunity we have and we'll continue to do that. I can't predict anything at this point in time. But part of the reason that we want to leave dry powder both in the terms of cash and in terms of debt capacity, our capital structure is for the opportunity that could come



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to us at some point in time to be able to step in and buy and finance that or acquire talent and titles that would be helpful to our long-term vision of both subscriptions and streaming.

Operator

And your next question comes from Laura Martin from Needham.

Laura Anne Martin - *Needham & Company, LLC, Research Division - Senior Analyst*

I need some help on mobile. So it looks to me like we have a trailing 12 months mobile fees of \$93 million but a projected full year for '19 of \$220 million, but mobile's growing at 1%. And can you bridge though, I thought those were rev shares on the mobile platform? How is it that the mobile fees are growing so much faster than mobile revenue? That's my first question.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, I think you're probably missing possibly some deferrals as you go from non-GAAP to our management reporting numbers. The mobile platform fees are purely what we pay to the mobile platforms like Google or Apple. So essentially, that's the 30% that they take and we book 70%. We can probably go through with you offline the specific numbers, just to line them up. I think the key growth driver to remember is we'll add a new title, *Command & Conquer*, on December 4, we just announced this morning. That will drive substantial growth in mobile during the tail end of the third quarter or the fourth quarter and give you some of the mobile growth for the full year. But we have, as we showed in the script, adjusted our mobile full year guidance off of what we originally thought we would do to now a lower level which we believe to be around flat for the year. So that's -- the combination of all those things will probably get you back to where you would like to see in your model.

Laura Anne Martin - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. And then I was really intrigued by this prior comment on Samantha Ryan where you're servicing a particular player. Is that a pivot towards looking at creating an organizational design around identifying player segments and actually targeting games, a series of games, to particular players now?

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

So yes, that's one piece of the puzzle. Again, we have a lot of data across our more than 350 million players in our network and certainly many more players across our mobile games that we don't know as much about. And what we have come to understand over recent years is that players are always looking at full, very specific motivations in the context of play. And some players are looking to perform different motivations at different times or on different platforms, and we've started to better understand that in terms of creating new and innovative and creative content for our players. And one of the things that we've seen particularly as we look to the future when we think about moving many of those experiences to the cloud over time, which unbounds them from the platform that they may have previously been subjected to, is that we have to start thinking about it in the context of how they fulfill those motivations over time. We've seen tremendous strength in the collaboration across our EA SPORTS portfolio, both in the context of our core game, core feature sets and the live services that we built on top of those. And part of what we've looked at in this construct is our ability to do that across action-adventure, RPG and simulation, all of whom supports a collective player set who are looking to fulfill similar motivations. And you should expect over time as we continue to transform the nature of discovery purchase and enjoyment across games, that we'll continue to try and organize around player cohorts to better service their needs and support what they're looking for out of their games.

Operator

Your next question comes from Stephen Ju from Crédit Suisse.



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Stephen D. Ju - *Crédit Suisse AG, Research Division - Director*

Andrew, FIFA is already out and localized in China. But can you update us on what your distribution partners may be saying about changes to the approval process there and what looks like a more stringent operating environment as this might impact your ability to release other new games in the country? And Blake, the digital download gap between Madden and FIFA is up 13% based on your prepared remarks. So I guess some of this was due to greater payment friction in Europe and other factors. So is the adoption path for those users now similar to what you saw in the U.S. at the same time?

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

So sure, I'll take the first one. Right now we have our products out in China. And because they're approved, they're in the marketplace and doing well. As far as we can tell at this stage, this should not impact our titles. FIFA Online 4 and FIFA Mobile are doing well, and the next title launch in China for us is somewhat off. And so our hope was that delays are fixed by then. And while we continue to monitor the situation, we don't see any direct impact right now.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes. And our understanding is it's more, through interactions with Tencent and other partners, it's more of a backlog problem than an actual, not really approving games. I think as they changed agencies, the backlog built up fairly quickly. So we don't see that as an impact for us at least in the next year or so as we focus mainly on FIFA. In terms of the full game download stats, we've always seen FIFA lag Madden because Madden's pretty much a domestic U.S. business where FIFA is a global business. And in many parts of the world where FIFA is shipped, the bandwidth speeds are still slow and there may be some payment issues or just payment cultures that differ. Germany, for example, tends not to use credit cards. And so we have lower full game downloads in that marketplace. That is changing, and we've seen the pace of change of FIFA track pretty much the same pace of change with the other games. It just started from a lower base. And some of it historically was due to the fact that retailers would use FIFA to drive traffic into their stores. That's starting to abate because once again, fewer and fewer people are buying physical disks. So we believe that same pace will continue and obviously, it's great to see all of our games tracking as a whole at 42%, meaning that some games are well north of that if FIFA is on the south side of that.

Operator

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

Colin Alan Sebastian - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

A couple of questions for me. I guess first with respect to the third quarter guidance. Wondering if you could expand on how much of a promotional environment you're baking into the outlook for the Battlefield V release. And then as a follow-up to the live services segment and the guidance, just given some concerns that still exists around user monetization maybe beginning to flatten out a bit, I wonder if you could talk about how much growth you should expect in ARPU within the individual franchises such as FIFA and Battlefield versus growth in the user base as a driver.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, so in terms of the promotional plans, our promotional plans are pretty consistent with what we've had in the past. With the case of Battlefield, actually we'll be -- we will not be on promotion on Black Friday because we shift that week. There may be selected retailers that choose to promote it on their own, but we're not supporting those promotions. And then we'll have the regular promotion schedule that you would see through December into the holidays. Similar things for each title, the timing is different and the retail mix will be different. But you should see promotions, both digitally and physical copies, but not that different than what we've seen historically, with the exception of the Battlefield V issue, relative to



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Black Friday. And we see that that's pretty consistent with past years. I mean, it's always a promotional time of the year. It drives a lot of volume, and we're very supportive of retail partners and our platform partners who want to continue to keep people engaged. In terms of the Q3 numbers, we're -- our focus is always on driving more users into the live service. That's the way to keep a very large market in place and continue to keep it very healthy. The moment you stop focusing on that, you really lose the strength of live services, which is a large marketplace where people can all play together. If you focus too much on revenue generation per person, you start to squeeze the players, and we're very careful not to do that. It happens naturally in some cases due to people's level of engagement, but we're very careful not to allow people to start to spend too much because we know they'll churn out of the business. So our goal is, as I think Andrew mentioned before, is to build really exciting, great games. We think we've done an amazing job with FIFA, probably the best FIFA we've ever built. And it's got so much content in there that, that allows people to play a long time. And if that means that they start playing Ultimate Team or playing Ultimate Team at a level a little bit later, we're fine with that as long as they're enjoying themselves in the game. We think that's what's going on during the -- and what we're seeing in the quarter. I also remind people, we didn't give new phasing for the quarter when we moved Battlefield out. We just told people what the total years numbers were, and we left it to everyone to deliver their own phasing. And so I caution people to be overly emphasis on comparing to what they had because what they had before wasn't informed by our giving some sense to things like the mobile titles that moved out, when Command & Conquer would start, the impact of FX on the quarter and the general overall view of our business during the quarter. So just don't over-index on the 2 quarters. Focus on the full year guidance, which did not change.

Operator

Your next question comes from Brian Nowak from Morgan Stanley.

Matthew Andrew Cost - *Morgan Stanley, Research Division - Research Associate*

It's Matt Cost on for Brian. I have two. So on that point about the Battlefield delay, can you give a little bit more color, if you can, around sort of the unit potential for the game, and then bigger picture, how you think about the potential for in-game monetization in the new Battlefield compared to the prior installment? And then the second question is subscription and streaming obviously is a topic you guys have been very forward on. You recently announced Project Atlas. What do you think are sort of the key next steps needed to drive a material transition into subscription and streaming-based ecosystem?

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

So why don't I start and then I'll let Andrew talk about the second question. Battlefield, the overall forecast really only changed just because of the timing. So -- and we told people that, that moved roughly 3 plus million units out of the quarter that we originally had expected, some of that into Q4 and some of it into next year's Q1. The -- what you'll find when you get in to Battlefield, and I'll leave it up to the Battlefield team to help people understand the excitement around where Battlefield is going and how that might include in-game monetization, but what I'll just say is there will be a dramatic evolving game play over time: new ways to experience it, things like fortification and reinforcements and new hardware, vehicles, weapons, gadgets and there could be exciting ways to earn those over time or possibly even purchase those over time; new experiences through the single player stories that will get rolled -- continue to be rolled out; game improvements and excitement around a battle royale style mode that will come in the March time frame; and a pretty exciting live service that we hope will keep people highly engaged and over time, that may include monetization opportunities to keep them even more engaged.

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

In terms of content streaming, we've talked a lot about this that the greatest disruption to consumption of entertainment media over the last 5 years has been a combination of those 2 things. Right now we're treating them on separate vectors, but ultimately expect that we will bring them together over time. We launched our first subscription what is now over 4 years ago as a catalog subscription on Xbox and then took that to PC, and we're able to get tremendous learning out of that. And what we have seen is that people who come in to that subscription -- again, by definition, a subscription is the offering of an amazing collection of high-quality content at a great consumer value proposition where there's low friction as



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possible. And what we've seen from people who've come in to that is they play more games, they spend more time and ultimately, they monetize higher in live services as well. We know that a great new blockbuster content add subscribers, and we know that great catalog content retains subscribers, no different than traditional linear media. And so what we have started to do with the launch of our Origin Access Premier this year is to add frontline blockbuster content, and Battlefield V will be the first opportunity for us to truly understand that. We saw really strong uptake after Madden. But remember, Madden hadn't been on PC for nearly a decade. The PC community of Battlefield is very, very strong, and we expect to get tremendous learning out of that as we grow that. In terms of next steps, you should expect us to continue to try and aggregate more content for our players, again, always improving the collection of content and the consumer value proposition so that players can come in and play more games and spend more time. Some of that will be the creation of new content organically inside of our company. Some of it will be working with indie developers or third-party developers and publishers. And as Blake pointed out, as a long-term vision, we also expect that we would look to acquire both content, IP and talent over time. As you think about the context of streaming, we announced and demonstrated in June a streaming service that was working at EA PLAY. We'll continue to develop that and continue to work on making that a better experience for players. We're also working with some other third parties that you may have heard about who are developing streaming services and we believe that our service can work in conjunction with their services over time, ultimately substantially increasing the total addressable market of players that we have access to and the ability to deliver great games and experiences to. You referenced Project Atlas. That's really an ambitious plan that we've been executing against to make it easier to move these experiences to the cloud by bringing Frostbite and our collective digital platform of services together so that our game makers are able to effectively execute and deliver the types of innovative game experiences that they see players will want over the next 3 years. As you can imagine, we've had a lot of inbound requests around that platform and third parties out there who would look to -- who would love the ability to utilize that technology, that combined platform of engine plus digital services. And as we think about adding more content to our subscription over time, we also see that as a tool that would allow us to do that. So add more content to our sub through licensing and potentially acquisition, continue to develop on our streaming solutions both as an isolated service for us as well as in conjunction with others and then bringing our combined digital platform engine and digital service and Project Atlas to help us get there faster, more quickly, more efficiently and with more innovative and creative games both developed internally and potentially at some time, developed externally.

Operator

Your next question comes from Raymond Stochel from Consumer Edge Research.

Raymond Leonard Stochel - *Consumer Edge Research, LLC - Analyst of Interactive Entertainment*

I guess a couple things on Project Atlas. So number 1 would be how are you thinking about user-generated content in games longer-term? You sort of alluded to that in that Project Atlas announcement. And then secondarily, in a streaming world, can you give us a better sense as to your mobile strategy? You obviously have a number of mobile titles in development that are exclusive mobile titles. How do you think about development over time in a more cross-platform and streaming way?

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

Two great questions. So first, in terms of user-generated content, as we look out in the world today, some of the richest ecosystems have a robust community of creators that is delivering new content and experiences for their fellow players on a daily basis. And for us, The Sims franchise has been that since its inception. Part of what we're doing now, we're building that capability into our toolset so that game makers can implement that in future games and bring communities together. Again, in a world that we have a vision of entertaining 1 billion people in play, we are very aware that delivering against insatiable appetites of that many players across the globe is beyond the scope of just our creative organization. But in the context of having our creative organization see these great worlds and these great characters and these great stories and having AI amplify that effort in conjunction with large and robust communities of tens and potentially hundreds of millions of players creating content in large, scalable, simulated worlds, we feel like that's the future of games. We've been investing for some years against it. We're now in a place where we're ready to talk about it. And we're starting to invite people in, including these community creators, to help us really build out that robust toolset. As we think about mobile strategy going forward, again, over time, we do believe that many experiences will move to the cloud and that no longer be bound by local devices, whether it's CPU, GPU, memory or battery life and more that experiences will be governed by the screen size you have access to and the session time that you have. With that said, we also understand that there will be some players that only ever play on their mobile



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device and some players who spend a great or disproportionate amount of time playing on an 80-inch screen. And so that we will continue to develop experiences that are rich and robust as those native experiences today, but always with a view of allowing them to connect their experience across screens but more importantly, to connect with a global community of players regardless of which screen they access the game through. And that's a fundamental shift in how we design the architecture of games. It's also a fundamental shift in how we design the features of games. But in all things, it's about entertaining with innovative and creative experiences that you can experience based on your choice of how you want to play, but where you never feel disconnected from this global community of friends that you have.

Operator

Your next question comes from Ryan Gee with Barclays.

Ryan Gee - Barclays Bank PLC, Research Division - Research Analyst

So one question on live services and a clarification. So live services are now expected to be up plus or minus 5%, and I think you called out Ultimate Team as the biggest driver there, though it seems to be growing maybe single digits if the first half results are any indication. So can you help us understand in the second half why the live services overall shouldn't be up more year-over-year just given Battlefield II and Star Wars didn't really have any [updates] last year? I think you have [the Black] coming already in December with Battlefield V this year. Is there anything we should read into kind of these emerging trajectories for Ultimate Team versus maybe (inaudible) growth year-over-year just in those comments?

Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

Yes, so assume that we've got very little live services revenue in for either Battlefield or Anthem because they're very new. And until we understand exactly how well does it monetize, we didn't put a lot -- much of that into our forecast. We'll still see some of the transition impact on FIFA Online 4, which will continue to be a drag. And we've got a forecast for subscriptions, but we're guessing a little bit as to the uptake of premier based on the fact that we haven't yet seen the real true PC-based titles like Battlefield and Anthem. There's a lot better sense once we get through those. So I'd say some of it's just conservatism and forecasting and some of it is the associations that I just mentioned around live services.

Ryan Gee - Barclays Bank PLC, Research Division - Research Analyst

Okay. Great. And then just a quick clarification. It's been a couple years since Respawn has done anything with its flagship Titanfall franchise. But I'm not sure if I heard you guys correctly in the prepared remarks. It sounded like we should expect games, [in plural], from Respawn, I suppose, next year? Did I hear that correctly? I know that you revealed Star Wars Jedi at E3. But is there anything else that we should be aware of?

Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

So you weren't coming through very loud, but I think I got what you said, which is you heard Andrew use a plural when he said games from Respawn. That's -- just consider that a little Easter egg left in the earnings call for you. We'll announce more when we get there, but we're clearly -- we've got a lot of things working with all of our studios and you should assume that there'll be some things that we haven't announced that come out later in the year when we go to give guidance for next year.

Operator

And your next question comes from Brandon Ross with BTIG.



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Brandon A Ross - BTIG, LLC, Research Division - Associate Analyst

A couple of topics. First, on Anthem. Can you talk a little bit about what you're seeing there that made you raise your outlook for Anthem in your guidance? And then a follow-up on mobile. I guess growth there has really stalled. What changes need to be made to restimulate growth in mobile? And if you could just tell us how important you see mobile being to your future and if you need to make an acquisition there, potentially a larger one to improve that business.

Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

So let me start with Anthem and I'll let Andrew address the mobile fees. Anthem, it's a brand-new IP. And so when we originally forecasted it, we forecast it at a pretty low level as we thought about -- without a lot of information, right? That was last May or April when we put that forecast together. As we've gotten deeper into the final parts of the game and we've -- and had it tested with a lot of people, clearly, the excitement is building -- it started building at E3 as people just learned what the game was and saw it. And so typically, when you're forecasting a brand-new IP, you usually start lower and then build that forecast over time, and that's essentially what we've done. We're getting excitement both internally and externally about the game. As Andrew mentioned, it's very different than anything. BioWare is built in the past. It looks stunning, and it plays extremely well. And that's what's given us more confidence around the forecast. But remember also, as I said earlier, we did not provide new phasing of forecast. So you should assume that it's not all coming from Anthem. There may be obviously stuff more from Battlefield V in Q4 than we originally were thinking in our forecast as well as the mobile title that we talked about, Command & Conquer.

Andrew Wilson - Electronic Arts Inc. - CEO & Director

In terms of mobile, as Blake highlighted earlier, where there is an opportunity to bring on new teams or new IP of any category or across any platform, we're open to that right now. However, as I look at the mobile industry and the mobile top 20 or top 30 charts, it's not immediately apparent what you would go after. We've seen some fairly significant shift in the mobile marketplace from where it was even a year or 2 years ago. And it's now also pretty well understood that many of the players that were reaching some fairly serious revenue heights over the last year or 2 were also outspending their revenue and weren't profitable companies and weren't growing profitably. I think what we've always maintained across our mobile business is that we believe we have a tremendously strong portfolio of content and we were going to take the time to ensure that we delivered profitable growth over time. And while that growth has slowed this year as a result of some title shifts and title moves, we feel actually very bullish on the future. Command & Conquer, I'm very excited about. I think it's a unique and innovative new entry into the mobile genre. I think we are -- we clearly have the leading sports business, which is a business that we are committed to and we'll continue to grow. We're seeing -- we have some other products in development right now that will come out in the years to come that I think have started to play into the strength in mobile as mobile players are looking for creativity and innovation in their experience. And again, as we look at the top 10 or top 20 charts, there's also a much greater representation from China, Japan, Korea and Southeast Asia in terms of title strength. And as I look at what we're doing with Command & Conquer, which has a tremendous fan base throughout the Asia region and FIFA, I feel good about that. And so while we're always open to acquisition, I think that we also feel very good that the mobile industry is actually moving in the direction where the types of games that we make will be very, very well received.

Operator

And your next question comes from Matthew Harrigan with Buckingham Research.

Matthew Joseph Harrigan - The Buckingham Research Group Incorporated - Analyst

I was just curious if you had any thoughts on the decision by Sony as well as Microsoft to do a next-gen console and how that laces into your perspective -- interlaces into your perspective on the business and the evolution toward the cloud and the continued importance of consoles?



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

So I think that there is a few articles out there and a little -- a few rumors and a little hearsay as to what they are and when they're coming and when they might be. I don't think we're in a position today to have a conversation on that. But just know that we've worked with Microsoft and Sony and Nintendo for many, many years and look forward to working with them for many, many years more even if collectively, we all seek to move either some portion or all of our experiences to the cloud.

Operator

Your last question comes from Matthew Thornton with SunTrust.

Matthew Corey Thornton - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

A couple clarifications, if I could. Blake, you talked about the FIFA franchise. To be clear, I mean, I guess, are frontline players and hours up year-on-year and thus we just need to get the monetization lever kind of moving here over the coming months and quarters? Or are players and hours down and thus monetization has got to work harder? That was question number one and again, I apologize if I missed that answer. Secondly, you talked a little bit about a second Respawn title next year. Would that also be in the holiday quarter? I'm not sure if you mentioned that or not or gave any color around timing. And then just finally, Andrew, you talked a lot about Project Atlas obviously. So it sounds like that might be a platform you would think about licensing out to other developers either on a per seat type of basis or a revenue share type of a basis, but building a part that's opened out to third-party monetization. I just want to make sure I understood that correctly.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

Yes, I mean, so FIFA, we -- I think we said FIFA sales were strong in the quarter. So you should assume we've done well with FIFA. We also mentioned that people were playing more modes in FIFA. We also still have quite a few people playing FIFA 18. We were successful bringing them into World Cup, and many of those have not yet converted over to FIFA 19. So it's hard to say today ultimately how it will play out because we're still early in the third quarter. So I would just say we'll see what that looks like over the next 2.5 months or 2 months as we get into the rest of the year and even into the fourth quarter. FIFA tends to sell well all through the holidays. And so it's just -- it's too early to say one way or the other what people are spending their time on or not.

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

In terms of Project Atlas, again, when we set out on this journey, the objective was to ensure that we had industry-leading technology for our developers to build the most innovative and immersive and creative games, everything from sports games to large world simulations. And in a world where it's becoming increasingly complex to do that, we also understand that, that is hard for other people. And so as we have started talking to developers and publishers about bringing content into our subscription over time, as you might imagine, we've had a lot of inbound interest on the utilization of a technology platform like Project Atlas that would make it easier for them to create content in this growing complex world. And so while we have no locked-in plans or time lines today, we're certainly developing the technology with a view that over time, our objective is to bring the greatest collection of content together as part of our industry-leading subscriptions. And at some level, that might mean offering our technology for use by third parties so that they can do that and then ultimately put their content into our subscription.

Blake J. Jorgensen - *Electronic Arts Inc. - COO & CFO*

And on your Respawn question, I skipped over it, we'll have more to come on that. We'll brief people as we get into the fourth quarter time frame before we run into next year's full year guidance.

Thank you, everyone. Talk to everyone next quarter.



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Operator

Thank you. This concludes today's conference call. You may now disconnect.

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