



February 5, 2019

CHRIS:

Thank you.

Welcome to EA's third 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 Q4 fiscal 2019 earnings call is scheduled for Tuesday, May 7, 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, February 5, 2019, 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. 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.

The gaming industry continued to grow through the holiday quarter in our fiscal year 2019. It's been a highly competitive year, with lots of great new content for players around the world. In the face of this competition, we had significant challenges in Q3 and did not perform up to our expectations. We expect these challenges will continue to impact our performance in Q4, which has led us to lower our full fiscal year net revenue guidance today.

Let me first discuss our challenges and the adjustments we are making to address them, then I will discuss the opportunities ahead.

We'll start with *Battlefield V*. We made some decisions on launch timing and key features of this game that we felt would improve the quality of the experience. For context, *Battlefield V* was designed from the beginning to offer a long-term live service. In August, we determined that we needed some more time for final adjustments to the core gameplay to fully deliver on the potential of the live service, so we moved the ship date to November to accommodate those goals. Unfortunately, the later release date meant the game launched deeper into a competitive holiday window where heavy price discounting was a big factor. In addition, we also made the decision to prioritize other features, including a single-player experience, at launch over a battle royale mode. This year, battle royale modes became incredibly popular in shooter games. As a result of these decisions, we struggled to gain momentum and we did not meet our sales expectations for the quarter.

Importantly though, the Battlefield franchise is strong. More than 27 million fans have played our Battlefield games this fiscal year to date. Our focus is now on bringing more of these players into *Battlefield V* with new modes and great content through our live service. In March, we'll kick off our third chapter of updates in the game, which will include, amongst other things, Firestorm battle royale. This will be a unique take on the royale genre, integrating unique Battlefield characteristics including strategic squad gameplay, varying objectives, and vehicles. We're responding to our players in *Battlefield V* by delivering the content they want most into the live service, on a cadence that will fuel the community with fresh new experiences for many months to come.

Next I'll touch on mobile. While the mobile market is strong and expected to continue growing nearly 10% next year, the dynamics have become increasingly challenging. The data we have indicates that the average age of Top 20 titles is greater than three years, and that it's harder than ever for new games to break through. With our latest release, *Command & Conquer: Rivals*, we had positive soft launch results, but since global release it has not driven installs organically at the levels we anticipated. We are now working to bring more players into that game. We continue to be committed to mobile. We believe in the value of our franchises in the marketplace, and we are doubling down on these games through live services. We are also putting our best teams on bigger projects, and exploring additional ways to create and iterate quickly. We have always focused on profitability in mobile, and we are evolving to better position ourselves for growth in the future.

Our performance in Asia was also not as strong as expected through Q3. In Korea, FIFA Online 4 is performing well, with monthly average players exceeding the trajectory of FIFA Online 3 in a similar period from launch. Given nuances in the Chinese market, our transition to FIFA Online 4 has been slower than anticipated, and FIFA Mobile is still in early stages after

launching in the market. We have long-term strategies with robust content plans for both games that, combined with the popularity and growth of soccer in the region, we believe will fuel further growth.

FIFA continues to be a growing business for us – in fact, we sold more units of *FIFA* last calendar year than any year before, and we welcomed four million new players into our *FIFA* ecosystem on console and PC. Our plans for *FIFA 18* were aggressive in a World Cup year, and we ended up selling an additional 2.4 million units of *FIFA 18* throughout the year, with the intention of converting those players to *FIFA 19* when it launched. The conversion has been slower than planned, leading to unit sales that were effectively flat year-over-year. In a year where there was intense competition and many iterative titles were challenged, *FIFA 19* still became the best-selling console game in Europe last calendar year. Even on a flat year-over-year install base, *FIFA Ultimate Team* has performed well, and it accelerated in January with our most successful Team of the Year event ever. Our competitive gaming programs are also adding strength to the franchise, with our expanded *FIFA Global Series* already garnering 80% more total minutes watched compared to last fiscal year, along with new sponsor engagements and partnerships with industry leaders such as *ELeague*, *Gfinity* and *PGL*. We continue to be very positive on the strength of *FIFA* and *FIFA Ultimate Team* around the world.

We made some calculated decisions that did not work as planned in Q3, and we did not execute well in other areas of our business. Against the backdrop of a very competitive quarter, the combination of those factors led to our underperformance. While we are disappointed with the results, we understand where our challenges are, and we are deeply focused on applying the strengths of our company to address them going forward. We are a learning organization. Over the last six months, we've made organizational changes to shape our teams against our priorities for the future. We've made operational changes to better position ourselves to

effectively drive live services and serve our player communities. We've made creative changes, including the formation of a Creative Council to strengthen our creative decision-making. And we will continue to make refinements in each of these dimensions as we focus sharply on execution across the company. The future of this industry is strong, and so is the future of Electronic Arts.

As you saw yesterday, we just launched *Apex Legends*, a new free-to-play battle royale game from Respawn. This is very exciting for us. Built from the ground-up to bring innovation to the genre, there are so many unique elements of *Apex Legends*, from the characters, to the gameplay mechanics, to the teamplay construct. To compete in the highly-competitive battle royale space, we also deliberately chose a different go-to-market strategy to surprise and delight players around the world. The launch yesterday was EA's biggest reveal ever by peak concurrent viewers, and it quickly became the #1 game on Twitch. The Respawn team has a strong plan for *Apex Legends* that will engage fans for a long time to come. As the live service evolves, Respawn also plans to launch a premium game this year that is a new twist on the Titanfall universe. More to come on that in the months ahead.

Also this month, we will launch *Anthem*, BioWare's epic new game. Our teams at Bioware have poured so much passion into crafting every aspect of this massive new IP. Millions of fans played more than 40 million hours of *Anthem* in our recent demos, and we're very pleased to see the excitement in retail and digital channels reaching higher-than-expected levels. *Anthem* has been on dozens of lists for the "most-anticipated games of 2019," and the full game launches on February 22.

Looking ahead to FY20, we have a large slate of new games, beginning with some big new additions in our next *FIFA* title. There was great energy and engagement from NFL fans

throughout this past season, we're excited for our plans with the *Madden NFL* franchise. We will continue innovating and driving our *NHL* and *NBA LIVE* games deeper into the fabric of their respective sports. We'll have a new game for our *Need for Speed* fans, and a new title in our *PvZ* shooter franchise on console and PC. In addition to *Apex Legends*, another team at Respawn is set to deliver *Star Wars Jedi: Fallen Order* this fall. The game's development is led by the former director of the *God of War* series, with a team of veterans from some of the industry's biggest action-adventure games. It's very far along in development, and having spent time with it recently myself, it plays spectacularly well. This game truly captures the fantasy of becoming a Jedi, and we will have a lot more to share soon.

In FY20, we're also set to deliver more content and new experiences in more live services than ever before. We're excited to continue building on the success of our Ultimate Team modes for EA SPORTS. Our Sims franchise continues to thrive in live services – our *Sims 4* community grew by 4.8 million unique players last year, our monthly active players continue to grow year-over-year, and we just crossed \$1 billion in lifetime revenue for the game. We continue to have strong expectations for *The Sims* going forward, and in FY20 we're bringing at least 20 new content drops and expansion packs to our Sims games across PC, mobile and console. We will continue to support *Battlefield V* and *Anthem* throughout the year, and *Apex Legends* will bring seasons of new content and much more to its players. With the breadth and depth of our live services offerings, we are focusing on delivering more of the content that resonates with our communities to drive additional upside opportunities in FY20.

This is a challenging second half of our FY19. We are making critical adjustments to sharpen our focus on execution, and to ensure we are well-positioned to deliver more great games and services to our players. Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

When we guided the year in May, we had high expectations for *Battlefield V*, we expected to grow our existing mobile titles and had anticipated launching two more. As Andrew outlined, it didn't play out as planned: we decided to move *Battlefield V* into a difficult launch window against heavily discounted competition; and on mobile, we moved one title out of the year, *C&C Rivals* is ramping slowly, and we made changes to *Madden Mobile* that reduced monetization. On top of this, unprecedented competition for players' time impacted the growth of our titles.

However, the performance of FIFA and FIFA Ultimate Team was a bright spot, with the franchise proving extremely resilient in the face of intense competition. In addition, we set a new third quarter record for operating cash flow over the last twelve months.

I have decided to give additional details this quarter about which parts of our business are, and are not, performing up to our expectations. I'll report our results on a GAAP basis, then use our operational measure of net bookings to discuss the business dynamics. 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 \$1.289 billion, below our guidance by \$86 million. **Operating expenses** were \$634 million, \$96 million lower than our guidance, driven by variable compensation and related expenses, and some phasing of marketing expenses. **GAAP operating income** was \$242 million, and resulted in **earnings per share** of \$0.86, \$0.25 better than our guidance.

Operating cash flow for the quarter was \$954 million, up \$105 million from last year. **Operating cash flow for the trailing twelve months** was \$1.563 billion. **Capital expenditures** for the quarter were \$21 million, resulting in a **free cash flow** of \$933 million. See our earnings slides for further cash flow information.

During the quarter, we **repurchased 3.2 million shares at a cost of \$292 million**, leaving \$1.59 billion in our two-year \$2.4 billion buyback program we began last May.

Our **cash and short-term investments** at the end of the quarter were \$5.2 billion.

Life to date, **FIFA 19 full game unit sales** are roughly flat to *FIFA 18*, and slightly below our expectations. We believe the underperformance was driven by the intense competition throughout this year. It is possible that the success of the World Cup promotions pulled *FIFA 19* sales into *FIFA 18*, given that, during calendar 2018, we sold more copies of FIFA than ever before. Fiscal year to date sales for *FIFA 19* are approximately 20 million units, and we've also sold over 3 million units of *FIFA 18* this fiscal year. And, as Andrew said, *FIFA 19* was the best-selling console game in Europe in calendar 2018.

FIFA Ultimate Team delivered its best quarter ever, up from last year's Q3, which was an all-time high due to the addition of esports. Although fewer people than expected have bought *FIFA 19*, average spend per payer is up over last year's title. Madden Ultimate Team is up double-digits life to date.

As Andrew discussed, the desire to make changes to **Battlefield V** led us to move its launch into a more difficult window, and prioritizing the single-player campaign over battle royale also

hurt sales. As a result, we sold 7.3 million units, about 1 million less than comprehended by our Q3 guidance.

However, people play Battlefield for a long time, and we're in this for the long haul. *Battlefield 1* still has nearly 4 million monthly active users, and *Battlefield 4* has nearly two million, more than five years after launch. When we released the Season 2 content in January, *Battlefield V* became the largest Battlefield game ever. And we have an exciting live services plan ahead of us, with the launch of the Firestorm battle royale game mode in March and continuing through fiscal 2020. The live services content presents an opportunity for upside as we look to sell more copies of the base game and players invest in cosmetic changes to their characters.

Battlefield V drove fewer **Origin Access Premier** subscriptions than we had hoped, given the difficult launch of the game. We remain committed to subscriptions, and we look forward to attracting further subscribers with the launch of *Anthem*. We are using the launches this year to help us drive the evolution of the service.

We entered the year expecting strong **Mobile** growth, but a combination of a delayed game and underperformance means the business will end the year down.

The mobile market is characterized by a small number of highly successful games together with a long tail of much smaller games, many of which merely break even or actually lose money. Our focus has been, and continues to be, on building profitable franchises. Our business continues to be profitable, but growth is unpredictable in such a market. We continually review how we might improve the performance of this business.

We launched **Apex Legends**, a battle royale experience in the Titanfall universe, yesterday. It's free to play but a day in is too early to talk about the power of the business model. The Respawn team has executed well to deliver an innovative take on the battle royale genre. They have enthusiastically driven the creation of one of the few large-scale free-to-play experiences on console, and we have great live services to come.

Digital net bookings were \$1.199 billion, down 3% on the year-ago period. Strong digital sales of *Battlefield V* compared to *Star Wars Battlefront II* were more than offset by decline in our mobile business and the extra game launch in last year's third quarter. Digital net bookings now represent 74% of our business on a trailing twelve-month basis, a new record. This compares to 67% in the prior year.

- **Live services** net bookings were down 0.4%, to \$784 million. FIFA Ultimate Team grew, but did not offset the decline in *Battlefield 1* live services and in FIFA Online.
- **Mobile** delivered net bookings of \$142 million, down 22% year on year, with declines across our portfolio. We had made some changes to *Madden Mobile* in order to broaden its appeal, but monetization fell. We continue to work to turn this around.
- **Full game PC and console downloads** generated net bookings of \$273 million, 5% higher than last year. Growth was driven by the ongoing shift to digital, in particular, for *FIFA 19*, for which sell through is 27% digital, life to date, compared to 21% for *FIFA 18* last year. Overall, 47% of our units sold through were digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months. This compares to just 37% a year ago. Because *Battlefield V* skews much more digital than *Star Wars Battlefront II*, we continue to model underlying annual growth of around 5 percentage points.

Turning to guidance: our expectation for full-year GAAP net revenue is \$4.875 billion, and diluted earnings per share of \$3.20. We expect **operating cash flow** of about \$1.350 billion. We continue to anticipate capital expenditures of around \$125 million, which would deliver **free cash flow** of about \$1.225 billion.

We now anticipate **fiscal 2019 net bookings** of \$4.750 billion. This is below our previous expectations, based primarily on performance to date of *Battlefield V*, mobile and Origin Access. We model *Anthem* units in the 5 to 6 million range, and do not model material net bookings for *Apex Legends* in the quarter.

For the **fourth quarter**, we expect net revenue of \$1.163 billion, **cost of revenue** to be \$265 million, and **operating expenses** of \$715 million. Opex is up year on year, primarily due to the launch of two major titles as opposed to one last year, and increased investment in R&D. This results in diluted **earnings per share** of \$0.56 for the fourth quarter using the diluted share count of 303 million.

We anticipate **net bookings for the quarter** to be \$1.170 billion. This is slightly down year-on-year, with *Anthem* offset by broad-based weakness.

Our experiences this quarter have reset our expectations for growth this year and next. And that means we must make some hard choices about investments. Nevertheless, this quarter has shown that we continue to be a business with great brands that enable us to generate strong cash flow for investors.

In fiscal 2020, we will continue to innovate on our sports titles, with growth for them expected to be in the range of flat to up 5%. In particular, *FIFA 20* will include some significant new

features, and we plan for both FIFA and FIFA Ultimate Team to grow over this year. We will drive the Titanfall universe forward with *Apex Legends* live services and a premium game later in the year. We will launch *Star Wars Jedi: Fallen Order*, a new *Plants vs. Zombies* shooter and a new *Need for Speed*. We have modest expectations for *Battlefield* and *Anthem* live services, given that they are not yet proven. We continue to refine mobile live services and work on new games. Overall, we expect net bookings to grow low single digits and for underlying profitability to grow in line with that. We will provide further details and a P&L forecast when we report in May.

To sum up, FIFA stands out as a robust franchise through a tumultuous year in the videogame industry. We are making changes to improve execution and we're refocusing R&D investments to projects with near to medium-term returns without impacting our long-term vision. Meanwhile, we're looking forward to giving *Star Wars* fans the opportunity to live the life of a Jedi in *Star Wars Jedi: Fallen Order*, to continue to innovate our ever-popular PvZ brand, and deliver another action-packed installment of *Need for Speed*.

Now I'll hand the call back to Andrew to offer some final thoughts.

ANDREW CLOSING:

Thanks Blake.

The gaming industry is strong, and it continues to grow. New genres have emerged and become massively popular. Free-to-play is reaching across more platforms and geographies. Subscriptions and cloud gaming are strong future growth opportunities. And above all else, great content continues to be the lifeblood of our industry.

As Blake and I have talked about, we are experiencing a difficult second half of FY19. We're disappointed with our underperformance. We are confident in our overall strategy, but we are making deliberate changes to our organization, our operational processes, and our creative focus to address our challenges.

Importantly, we are confident and excited by our incredible portfolio of strong brands, our talented teams, our commitment to live services, and our pipeline of new games. We have a slate of EA SPORTS titles that have performed well even in light of increased competition this year. *FIFA* in particular continues to demonstrate its leadership as a top title in the industry, and it is growing as a business. We will build on the continued success of our EA SPORTS portfolio with significant innovation and new ways to play in FY20.

We have our deepest line-up of new IP in more than a decade. We're very excited about the opportunities we have with *Apex Legends*, *Anthem*, and *Star Wars Jedi: Fallen Order* in the year ahead.

We're also set to bring new games and live service content to some of our fan-favorite franchises. In FY20, we will have new games for our *Need for Speed* and *PvZ* shooter fans. We plan to bring a lot of great new content to the passionate and growing player base in *The Sims 4*, and we're focused on exciting more Battlefield players with upcoming additions to *Battlefield V*. We will also double down on live services in our top mobile franchises, while pushing forward with new projects and taking the necessary time to set them up for success.

Our belief remains strong that the combination of subscriptions and streaming will be transformative to the future of gaming, and we are well-positioned for that evolution. Earlier this fiscal year we added a new frontline tier to our subscription offerings for PC players, and in the

year ahead we plan to offer a subscription service on another major platform. We have a lot of great content coming in FY20, and we're excited for more players to experience it through our subscription programs across more platforms.

Our industry is growing, and we know expectations for EA are high. As we take action to address our challenges, our underlying business is strong, our pipeline is robust, our teams have amazing talent, and we're confident for the future.

With that, 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 and fiscal year 2020 guidance and title slates, 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 February 5, 2019. 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 December 31, 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 December 31, 2018.