



**May 7, 2019**

**CHRIS:**

Thank you.

Welcome to EA's fourth 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](http://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 Q1 fiscal 2020 earnings call is scheduled for Tuesday, July 30, 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, May 7, 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 last year was a period of growth in our industry, and one of significant change as transformation accelerated and player behaviors evolved. Throughout our FY19, we saw strength in our business and our portfolio, and achieved some powerful milestones in our top games and services. We were also challenged by some things that did not go as we planned. Our learnings are helping us sharpen our execution, and we now have key opportunities to drive growth in the year ahead.

Overall, our player base grew to more than 500 million active player accounts in FY19. This was driven by engagement in our top franchises and live services on major platforms, as well as the introduction of new IP including the free-to-play game *Apex Legends* that helped us reach new audiences around the world. I'll share a few highlights here.

The strength of our EA SPORTS business in FY19 was powered by some of the deepest and most innovative games that we've ever delivered to our fans. In a year where we had great experiences in both *FIFA 18*, including World Cup content, and *FIFA 19* with the UEFA Champions League, we had more than 45 million unique players in total playing FIFA games on console and PC during FY19. More than a hundred million more players engaged with our *FIFA* franchise on mobile and PC free-to-play during the year, as well. *FIFA Ultimate Team* continued to show strength, and our competitive modes like Weekend League saw engagement double year-over-year. We've had greater than 60% growth year-over-year in total unique views, and more than half a billion minutes watched, of our *FIFA Global Series* content – and some of our biggest tournaments of the season are still to come. We've seen similar trends in our *Madden NFL* franchise. Players are staying engaged in *Madden NFL 19* for longer, our

Madden Ultimate Team business grew year-over-year, and Madden competitive gaming is driving excitement and viewership of the franchise. Our season-ending Madden Bowl tournament was broadcast directly from our new in-house studio here in Redwood Shores to ESPN2 and digital channels, and garnered seven times as many peak concurrent viewers as last year's event. We're proud of how we're delivering for EA SPORTS fans on all platforms, bringing the authenticity, immersion and competition that players are looking for all year round.

On February 4, we surprised the world with *Apex Legends*, an all-new free-to-play battle royale game from Respawn. The creativity, innovation and fun of this game set it apart immediately, and the fluid gameplay mechanics delivered a core experience with the excitement and competition that players around the world had been craving. *Apex Legends* is the fastest-growing new game we've ever had, quickly reaching the milestone of 50 million players, and millions more have continued to join. It has also helped us tap into new player audiences, as nearly 30% of *Apex Legends* players are new to EA. We're incredibly excited and humbled by the passion that fans around the world have for *Apex Legends*. We're now very focused on delivering for this massive global community with a long-term live service, including new seasons with more robust Battle Pass content, new legends, and exciting evolutions to the in-game environment. We're also working aggressively to bring the game to more players in more markets and platforms around the world, including Korea where we saw an opportunity in the market and self-published *Apex Legends* via Origin. We are still at the very beginning of this exciting journey with *Apex Legends*, and we look forward to sharing more as we go – including the first details of Season 2 at EA PLAY in June.

We also expanded the *Battlefield V* experience in Q4 with the arrival of Firestorm, our first battle royale mode in a *Battlefield* game. The DICE and Criterion teams built the biggest map in franchise history and brought signature elements of *Battlefield* gameplay into this 64-player

survival mode. In the first week after launch, Firestorm became the biggest *Battlefield* live service event ever, with nearly 60% growth in active players week over week. We're currently in the middle of our third chapter of live service updates to *Battlefield V*, with more chapters set to begin in the summer and fall, each bringing more of what fans are looking for with new maps and missions. We'll showcase some of the great new experiences coming to *Battlefield V* at EA PLAY.

We are similarly committed to the live service for *Anthem*, and delivering for our community in this new IP over the long-term. The launch of *Anthem* in Q4 did not meet our expectations. However, we believe in the team at BioWare, and we also believe in what they set out to achieve with this game – building a new IP and melding genres to reach a new audience. Players have spent more than 150 million hours in *Anthem* since launch, and we've heard from them that the beauty and expanse of the world is stunning, and that traversing the environment in the Javelin suits makes for amazing gameplay. However, we've also heard feedback from our community about issues that began to manifest as the game reached scale, and that they want more depth and variety in the mission modes of the game. The team is now very focused on continued improvements to the game, and will then bring more content updates and in-game events that will enhance and expand the *Anthem* experience.

As we wrap up FY19, I also want to highlight the continued success of *The Sims 4*, which has grown every year since we launched. We launched three new content packs and multiple game updates for our *Sims 4* community throughout the year, all of which contributed to a 35% year-over-year increase in active players and our strongest year of engagement yet for this ongoing live service. The passion of our *Sims* community is incredible, and we look forward to bringing them many more great experiences in the year ahead.

Looking to FY20, we see an exciting year ahead. Across HD platforms, mobile and PC, the global gaming audience is growing. Great games and services will continue to be at the center, and we are focused on bringing new experiences to more players on more platforms in more geographies throughout the year ahead.

The variety of new games and experiences that we're planning for players this year demonstrates the breadth and depth of our portfolio. We will have new titles and experiences in our biggest sports franchises – FIFA, Madden NFL, NHL and NBA LIVE – bringing innovation and excitement to hundreds of millions of EA SPORTS fans around the world. We're set to deliver on some of the biggest requests that we've had from our communities, including new experiences and gameplay advancements that will more deeply immerse players into the world of their favorite sports. For Star Wars fans, *Star Wars Jedi: Fallen Order* will deliver an amazing single-player adventure, launching in the same window as the movie this holiday. *Need for Speed* returns to consoles and PC this year, revitalizing the street racer vs. cops fantasy at the core of the franchise. We'll have a new *Plants vs. Zombies* HD shooter title, fun and irreverent as always. On mobile, we'll have new titles going into early user testing this year, ensuring that we're giving players more time to test and give feedback before we go live globally. And our support of the indie developer community will continue with *Sea of Solitude*.

We are also deeply committed to our live service communities, delivering more content and more ways to play, watch and create. With the growth of *Apex Legends*, the team at Respawn is fully focused on live service with a cadence of big new seasonal content launches and continual updates and adjustments to the experience throughout the year. We're set to deliver 20 new content drops and expansion packs this year for our thriving Sims community on console, mobile and PC. We have robust live service plans for *Anthem* and *Battlefield V*, and we'll also continue delivering new content for *Star Wars Battlefront II*, where our commitment to

the game has enabled us to build a very strong community over time. Our competitive gaming programs will continue to be a major focus as well, with our competitive modes in *FIFA* and *Madden*, global tournament ecosystems, and high-quality esports programming set to grow our audience of players, viewers and sponsors.

We are working to bring more great games and content to our players where they are.

Subscriptions are a key element of this approach to provide players with more choice, and we will expand our subscription offerings to include more games and more platforms in FY20. In our Origin subscriptions on PC, there are over 200 games from EA and outside developers, and that total will continue to grow. As we announced this morning, we are bringing our EA Access console subscription to players on the Sony PlayStation 4 this summer. We're now positioned to offer a subscription on more platforms than any other publisher, and we'll look to add to that in the coming year.

We have a lot ahead of us in FY20. We are committed to our players, and we're excited to be pushing forward with our plans. Now I'll hand the call over to Blake.

**BLAKE:**

Thanks, Andrew.

To echo Andrew's comments, the last twelve months have been a time of change for the videogame industry. Nevertheless, we ended our fiscal year with strong growth, driven by our live services business which continued to provide a very large, stable and profitable source of net bookings.

We significantly outperformed our expectations in Q4. This was, of course, largely driven by *Apex Legends*, but sports were also stronger than we had anticipated. *Anthem* underperformed 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.

**GAAP net revenue for the fiscal year** was \$4.95 billion, **cost of revenue** \$1.32 billion, **operating income** was \$996 million, delivering **EPS** of \$3.33. These results enabled us to deliver **operating cash flow** of \$1.55 billion and return over a billion dollars to shareholders, about 83% of free cash flow, through our ongoing share repurchase program.

Total **net bookings for the fiscal year** were \$4.94 billion. **Digital net bookings** accounted for \$3.72 billion of this. **Live services net bookings** were a record \$2.41 billion, up 10 percentage points year on year. Within that, Ultimate Team showed its worth as a stable source of net bookings, growing 5% year on year.

Moving on to the details of our fourth quarter:

**GAAP net revenue** for the quarter was \$1.24 billion, above our guidance by \$75 million. **Operating expenses** were \$766 million, \$51 million above our guidance, driven by tactical marketing investments in the launch of two major new franchises, and by variable compensation. **Operating income** was \$196 million and resulted in **earnings per share** of \$0.69, \$0.13 better than our guidance.

**Operating cash flow** for the quarter was \$599 million, down \$16 million from last year. **Capital expenditures** for the quarter were \$35 million, resulting in a **free cash flow** of \$564 million. See our earnings slides for further cash flow information.

During the quarter, we **repurchased 3.2 million shares at a cost of \$301 million**.

Our **cash and short-term investments** at the end of the quarter were \$5.45 billion.

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

**Net bookings** were \$1.36 billion, well above our guidance of \$1.17 billion, and up from \$1.26 billion last year. As mentioned, the beat was driven by *Apex Legends* and our sports titles, offset somewhat by *Anthem*.

**Digital net bookings** were \$1.19 billion, up 14% on the year-ago period, driven by strong digital sales of *Apex Legends* and *Anthem*. Digital net bookings represented 75% of our business on a trailing twelve-month basis, a new record. This compares to 68% in the prior year.

- **Live services** net bookings were up 24% to \$845 million, primarily driven by *Apex Legends*.

This delivered the biggest year ever for live services at EA. FIFA and Madden Ultimate Teams both closed the year very strongly.

With regards to our subscription services, we continue to add subscribers, exceeding 3.5 million across PC and console at the end of the quarter, and we look forward to growing this meaningfully with the addition of EA Access to PlayStation 4.

- **Mobile** delivered net bookings of \$135 million, down 23% year on year, with declines from aging titles across our portfolio not offset by growth from our new title, *Command & Conquer: Rivals*. Our mobile business remains highly profitable, delivering a contribution margin of over 40%.
- **Full game PC and console downloads** generated net bookings of \$213 million, 10% higher than last year. Growth was driven by the launch of *Anthem* and by the ongoing shift to digital. Overall, 49% of our units sold through were digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months. The Q4 mix benefitted from the launch of *Anthem*, which, judging from sales so far, is the most digital game we have ever launched.

**Turning to our expectations for fiscal 2020:** in dollar terms, we expect the gaming software market to grow 7% over calendar 2018, with mobile up 12%, console up 4% and PC flat.

Guidance for fiscal 2020 is for GAAP net revenue of \$5.4 billion, cost of revenue \$1.3 billion and GAAP EPS of \$8.56. The forecast for GAAP EPS includes a one-time tax benefit from the internal transfer of some of our intellectual property rights to our Swiss subsidiary, where our international business is headquartered. The final tax benefit will be at least \$5 per share, but

could add as much as \$13 per share to GAAP EPS during Q1 fiscal 2020. We continue to forecast our management tax rate for fiscal 2020 to be 18% and we do not expect this transfer to impact our cash taxes nor our operating cash flow.

With regards to cash flow, for fiscal 2020, we expect operating cash flow to be approximately \$1.575 billion. We anticipate capital expenditures of around \$125 million, which would deliver free cash flow of about \$1.45 billion.

Turning to business drivers, we anticipate net bookings for the year to be \$5.1 billion, up 3% year on year.

Our projections assume a headwind from FX to net bookings of roughly \$50 million. This year, we expect the headwind from FX to net income to also be roughly \$50 million. Both of these numbers are net of hedges. Our currency assumptions are disclosed in our earnings presentation on our website.

Drilling down further into the key drivers of our full-year net bookings guidance:

- We will launch four sports titles, and expect units to be slightly down, off of a very strong year for FIFA unit sales thanks to the World Cup. *Star Wars* Jedi Fallen Order we are modeling in the range of 6 to 8 million, the new *Need for Speed* title we expect to sell around 4 million units, in line with past performance of the franchise, and the upcoming *Plants vs. Zombies* shooter to sell in the low single digit millions.
- Overall, net bookings for packaged goods and other are forecast to be approximately \$1.2 billion, down 4% year on year, driven by the continued shift to digital.
- Digital net bookings are expected to contribute \$3.9 billion, up 6% year on year.

Further breaking down digital net bookings:

- We expect **live services** to grow 10% to 15%, led by *Apex Legends*, *FIFA Ultimate Team* and *The Sims 4*. Turning to our subscription business, we expect subscribers to grow meaningfully from the addition of PlayStation 4, on top of some organic growth on existing platforms.
- *Apex Legends* is easily the fastest-growing franchise we've ever had, and we hope to build a live service that entertains players for years to come. Given the exceptional nature of the game, it is appropriate to take a cautious approach to financial modeling. Thus we are forecasting net bookings in the range of \$300 million to \$400 million. Note that this assumes no contributions this year from any future mobile version, or a game in the Chinese market. As you build your model, remember that, although the game is free to play, we incur costs for all players. As a result, you should model gross margin in the low 80s percent range. As a live service, contribution margins are expected to be in the low 60s, above our corporate average.

We are hugely excited about the future of *Apex Legends*. Players love it, with a Metacritic of 89 and an extremely high net promoter score. Engagement is strong, and we have big plans for the *Legends* and the world they compete in.

- We are in advanced negotiations to bring *Apex Legends* to China and to mobile, and we will update you on time frames when those negotiations are concluded. We are self-publishing *Apex Legends* in Korea. The game offers an opportunity for us to build a direct connection with our players there, and we hope to be able to leverage this for other games.
- We are also forecasting further growth of our *Sims 4* business, off of fiscal 2019, which was its strongest year ever, including the launch year.

- Finally with regards to live services, we expect FIFA Online to show year-on-year growth from Q2 onwards.
- With regards to our **mobile** business, our portfolio continues to contribute healthy profits. We will start early user testing for two new mobile games this year but, in line with our intent to give our games more time in soft launch, we are not modeling any net bookings from either of those games in fiscal 2020. As a result, we expect mobile to be down around 10%-15% in fiscal 2020, with aging titles in the west partially offset by strength in Asia.
- Net bookings from **full-game downloads** are expected to be down 5% to 10%, driven by product mix, offset by the underlying shift of around five percentage points a year to digital.

On a management reporting basis, operating expenses will grow in the very low single digits per cent in fiscal 2020, as a result of continued tight expense control.

Focusing on Q1: we are expecting GAAP net revenue of \$1.1 billion, GAAP cost of revenue \$188 million and GAAP EPS of \$5.84. The one-time tax benefit mentioned earlier falls entirely within the first quarter.

We expect Q1 net bookings to be \$690 million.

Looking ahead, we will continue to build on the changes we have made to our studio organization this year, in leadership, structure and processes.

We recently launched Firestorm, *Battlefield V*'s battle royale mode, and that brought over a million people back into the game. We continue to invest heavily in *Anthem*, with developers

working on game quality, content, systems and game mechanics. It's great original IP and we've doubled down on the product. We are continuing to build out *Apex Legends*, and are finding creative ways to rapidly bring it to new markets.

We will reach an extraordinary variety of players with our FY20 slate. We will launch sports games, a racing game, an action title and a first-person shooter. We will add over 20 different content drops for *The Sims 4*. We are delivering on our commitment to players with deep live services content for Ultimate Team, *Apex Legends*, *Anthem* and Battlefield. Reflecting the industry as a whole, our games encompass premium, free-to-play, subscription and hybrid business models. The breadth of our content served us well in fiscal 2019 and positions us well for the future.

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

**ANDREW CLOSING:**

Thanks Blake.

The future of this industry has never been more exciting and full of opportunity. We're deeply focused on strong execution against our FY20 plans, and delivering great entertainment for the ever-expanding audience of players around the world.

We're building amazing new games from powerful franchise brands, including *Star Wars*, *FIFA*, *Madden*, *NBA*, *NHL*, *Need for Speed* and *Plants vs. Zombies*. For tens of millions of players around the world, we have extensive plans to evolve and add to the *Apex Legends* experience. Fans of *Battlefield V*, *The Sims 4*, and *Anthem* will have more great content and new ways to

play in the year ahead. We're working on new projects in mobile to join our portfolio of large-scale live services, and taking the time in player testing to hone breakthrough experiences. Throughout EA Studios, our creative leaders and talented development teams are deeply focused on delivering quality and innovation to our players in each of these experiences in FY20, and much more in the years to come.

We're also continuing to invest in services and engine technology powering the games and experiences to meet the changing needs of players. At the core is our best-in-class technology platform, which provides the foundational services to deliver ever-evolving, connected experiences at scale. In the year ahead, we are focused on optimizing our technology to our studio needs, leveraging cloud, A.I. and other tools to increase iteration speed for our developers, and enable faster time-to-player for our games and our communities.

With great games and powerful services, we will provide new ways to play, watch and compete. Competitive modes are driving some of the deepest engagement from players in *FIFA* and *Madden*. As our major esports tournaments drive viewership records, we have expanded our own broadcast production capabilities, and we're continuing to partner with networks like ESPN and Twitch to reach broader audiences. Combined with new sponsorships and great brand partners that are connecting us to more fans around the world, our opportunity in the global esports movement continues to grow.

These priorities will help us meet the needs of an expanding global player base. In the year ahead, we will seek to be where more of our players are, offering our games through more platforms, through more business models, and in more markets. We will deliver great games to players on console, PC and mobile in FY20, with more choice in premium, subscription, and free-to-play models. We are already leading in subscription services on more platforms than

any other publisher, and we have plans to expand that in FY20. And with excitement for global brands like *FIFA* and *Apex Legends*, we're also working aggressively to bring our games to new players in Asia through self-publishing and valuable partnerships.

We're ready for another dynamic year of growth in the games industry. Now Blake and I are here for your questions.

### **Forward-Looking Statements**

Some statements set forth in this document, including the information relating to EA's fiscal 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 products and services; the Company's ability to develop and support digital products and services, including managing online security and privacy; outages of our products, services and technological infrastructure; the Company's ability to manage expenses; the competition in the interactive entertainment industry; governmental regulations; the effectiveness of the Company's sales and marketing programs; timely development and release of the Company's products and services; 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; changes in our tax rates or tax laws; 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 May 7, 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2019. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2019.