

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

EA - Q4 2019 Electronic Arts Inc Earnings Call

EVENT DATE/TIME: MAY 07, 2019 / 9:00PM GMT



MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Andrew Edward Crum** *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

**Andrew Paul Uerkwitz** *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

**Benjamin Ari Schachter** *Macquarie Research - Head of TMET Research*

**Brian Thomas Nowak** *Morgan Stanley, Research Division - Research Analyst*

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

**Eric Owen Handler** *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

**Evan Todd Wingren** *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

**Justin Post** *BofA Merrill Lynch, Research Division - MD*

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

## PRESENTATION

### Operator

Good afternoon. My name is Natalie and I'll be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q4 2019 Earnings Conference Call.

Mr. Chris Evenden, VP of Investor Relations, you may begin your conference.

---

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

Thanks, Natalie. 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 the 30th, 2019.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the company. Actual results and -- 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.



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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

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 FY '19, 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 FY '19. 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 FY '19 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 FY '19. More than 100 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 0.5 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 for longer, and 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 7 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 a milestone 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. That 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.



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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 the 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 update and in-game events that will enhance and expand the Anthem experience.

As we wrap-up FY '19, I also want to highlight the continued success of the Sims 4, which has grown every year since we launched. We launched 3 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 FY '20, 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.

The variety of new games and experiences that we're planning for players this year demonstrates the breadth and depth of our portfolio. We have new titles and experiences in our biggest sports franchise: 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 race versus 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 update 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 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 FY '20.

In our Origins subscriptions on PC, there are over 200 games from EA and outside developers and that 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 FY '20. We're committed to our players, and we're excited to be pushing forward with our plans.

Now I'll hand the call over to Blake.



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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

Thanks, Andrew. To echo Andrew's comment, the last 12 months have been a time of change for the video game industry. Nevertheless, we ended our fiscal year with strong growth driven by our live services businesses, 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 \$1 billion 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 2 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 earning slide 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 12-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 in 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 12 months. The Q4 mix benefited 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 2020 is for GAAP net revenues of \$5.4 billion, cost of revenue of \$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



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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 the 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 4 sports titles and expect units to be slightly down off of a very strong year for FIFA unit, thanks to World Cup. Star Wars Jedi: Fallen Order, we are modeling in a range of 6 million to 8 million units. The new Need for Speed title, we expect to sell around 4 million units, in line with the 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 forecasted 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 our 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 the 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 versions 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 80 percentage range. As a live service, contribution margins are expected to be in the low 60%, 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're 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 for Q2 onwards. With regards to our mobile business, our portfolio continues to contribute healthy profits. We will start early user testing for 2 new mobile games later this year, in line with our intent to give our games more time in soft launch, and 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% to 15% in 2020, with aging titles in the west partially offsetting -- offset by strength in Asia.

Net bookings from full-game downloads are expected to be 5% to 10%, driven by the product mix, offset by underlying shift of around 5 percentage points a year to digital.

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

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



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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 1 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 in our FY '20 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 service 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 very well for the future.

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

---

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

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 FY '20 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 Apex Legends. 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 FY '20 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, AI 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'll 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 facilities, 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 FY '20, and 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 FY '20. And with the 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 history.

Now Blake and I are here for your questions.

---

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

Natalie, we're ready for questions now.





MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from the line of Evan Wingren of Key Capital Mark (sic) [KeyBanc Capital Markets.]

### Evan Todd Wingren - KeyBanc Capital Markets Inc., Research Division - Research Analyst

Just wondering on Apex Legends, if you could provide some early learnings from the game, how you're thinking about free-to-play models in future businesses? And then Blake, on the -- on Apex Legends guidance for the year, if you look at the growth rates that you provided for the full year for live services, it does seem like that you would expect the rest of your live service business within your guidance to be roughly flat to down slightly. Just wondering and trying to understand the moving pieces there.

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

I'll take the first part, maybe give Blake the second part. As you heard from our prepared remarks, we're overjoyed with Apex. The game that the team at Respawn has built was met with universal praise from our global gaming community. But at the same time, when you bring 50 million players or more in short order, you learn a lot of stuff. And you learn about the dynamics that come up at scale with access, with matchmaking, with cheating, with monetization, with content creation. And I'm proud to say that the Respawn team is a learning team, and they're taking all of that and rolling that back in the game experience. As we talked about, their focus is to ensure that at the very core of the game, the foundation of the game experience continues to be unbelievable fun, exciting and fair for all players. And they have big and robust plans to fulfill -- again, something we learned what amounts to insatiable appetite for new content and new programming in the context of the game over time.

With respect to how we think about that across our portfolio. Again free-to-play is a powerful business model where you can bring tremendous amounts of people into the top of the funnel and ultimately social interaction and competition form the very center of the gameplay experience. And we will almost certainly have other free-to-play experiences in our portfolio over time, where the game that we're looking to build fulfills that criteria, huge playing population and social interaction and competition at the very core of the experience. But there are many other types of experiences, particularly experiences like Star Wars Jedi: Fallen Order, that don't fit well into a free-to-play model. And as we think about broad offerings across premium, free-to-play and subscription, we know that we are fulfilling broad and varied motivations of the global playing audience. And so there'd be many other games that don't fit that business model that we still believe are really, really strong opportunities for us to entertain and engage the global audience of players.

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

So on the second question, actually I'm not sure how you're doing your math because we do see growth across the Ultimate Team business for the year. We see growth, a small growth number for FIFA online in Asia, but most of that comes starting in Q2 as I mentioned, slight decline in our Star Wars: The Old Republic business and probably 1 or 2 other businesses where there's some offsets but, overall, we're seeing growth. We should see more back-end Ultimate Team growth versus front end because despite not meeting our expectations last year at World Cup, we still had a strong World Cup Ultimate Team, particularly a strong second quarter Ultimate Team year-over-year. We will see probably some challenge in Ultimate Team in the second quarter as a comp but should have a strong third quarter and fourth quarter. Overall, we're looking for growth across live services across virtually all of the quarters. The biggest challenge is going to be the fourth quarter where we'll be competing the first quarter of Apex from this year -- this past year.

### Operator

Our next question comes from the line of Brian Novak of Morgan Stanley.



MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

**Brian Thomas Nowak** - *Morgan Stanley, Research Division - Research Analyst*

Just on -- back on Ultimate Team, you mentioned, Blake, how FIFA and Madden closed the year very strong. I was curious if you could sort of talk to what drove that strength. And then if you sort of step back and think about ex China FIFA Ultimate Team growth. Just talk about sort of the keys to really reaccelerating that growth in the back half sort of beyond the comps. What's the strategy to get more and more payers and players?

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

Yes. So yes I think I characterize Ultimate Team and any of our live services as driven by addition of new activities and content. Over the last 11 years, we've gotten better every year at designing events in Ultimate Team that engage players who can effectively have more fun each year. And when they have more fun, they're liable to spend some more money along the way. This year, for example, we added activity in the fourth quarter around young up and coming payers in global soccer and it was one of our most popular events of the year, really caught fire with people and we will clearly be continuing to tune that. In Madden, we've continued to tune events associated with esports as well as post Super Bowl around things like the combine and the draft, and they've been very popular and it's one of Madden's best years we had ever. And so it's really the beauty of live services is it's a daily business. The teams respond to daily data about what consumers want and what they're doing and continue with (inaudible) and that will be the same path we follow with Apex Legends, where we'll continue to have seasons where there will be new things -- new ways to play, new maps, new activities, new characters, new weapons. It is the beauty of the live service business that every day you wake up and will think about what we can continue to add to this to make and allow people to have even more fun and deeper engagement. And that's very different than the traditional business and one which we believe is a much more predictable business and steady business over time.

**Operator**

And our next question comes from the line of Andrew Uerkwitz of Oppenheimer.

**Andrew Paul Uerkwitz** - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

Andrew, a question for you. I mean, obviously, we're in a new age of gaming, so things like Twitch kind of matter and helps drive marketing. But how relevant do things like that matter to you once games are launched in and out and you're driving live services?

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

Again, Twitch have been a viable partner for ours and represents a significant engagement node for members of the playing community. And so I expect that Twitch will continue to be an important part of gamers' lives. In terms of Twitch viewer data or Twitch viewer numbers at any given time, it is one data point that we use. There are ebbs and flows in what streamers want to project, and there is ebbs and flows in what viewers want to see. A lot of that is around new content and new engagement models. And so we would expect that as we kind of go through the year, whether that's for Apex or for FIFA, we will see ebbs and flows in Twitch viewer data. And we will match that with the broader engagement data that we see and the player sentiment that we get from interacting directly with our players and use that to overall drive what is a more enhanced and engaging and extended and expanded player experience for each member of our playing community across each one of our games.

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

I'd add to that. Our experience in creating broadcasting content is getting better and better each year. We had a substantial investment this past year in building -- as Andrew mentioned building our own broadcast facility and the team built a world-class facility where we go directly to ESPN or other broadcasting partners that we have with the content that we've created. And it allows us to repurpose the studio for virtually any game we have. It's set up as a Madden studio, but we could easily do it as a FIFA studio, an Apex studio, whatever it might be. And it can be it's not just

## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

for creating esports tournaments, but for creating broadcast content to essentially continue the development and excitement around our games and get people engaged in it. And so you're going to continue to see more and more of that as part of what we do.

---

**Operator**

And our next question comes from the line of Eric Handler of MKM Partners.

---

**Eric Owen Handler - MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst**

Blake, wondering if you could talk a little bit about the Origin subscription service that you're having? What is your view on that business for the year? And I'm not sure how much you have to invest on a fixed cost basis at this point, but is this a profitable business, in your view, for fiscal '20?

---

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

Without a doubt, profitable. We wouldn't be doing it if we thought it's an unprofitable business. For us, we've continued to invest in the Origin platform around network and player-related tools, ways for players to engage with games easier -- more easier discovery, better social tools around things like matchmaking, better tools around communicating and you'll continue to see that evolution over the next couple of years -- we have a long technology roadmap that our teams are focused on there, making the look, the feel and the interaction much better.

We're also trying to make sure we've built some of those tools that can be used on others' platforms if those other platforms don't have those tools because our goal is to replicate subscription across any available platform where we think it would benefit from a subscription. We know consumers want to consume games that way. We've continued our experiment -- or we'll continue our experiment this year with frontline titles. We have 4 frontline titles this year, FIFA, Madden, Battlefield and Anthem. And we're continuing to collect data on exactly how that differs from the catalog titles. And we're continuing to add third-party content. As Andrew mentioned, we have over 200 games in our Origin Access program. And some of those from great developers like Warner Bros. or other large third-parties, and we'll continue to add those because we think that's important for consumers. We think our scale is far greater than anyone else in the industry, particularly scale of AAA games. And that's going to be important to building that subscription base. And the addition of Sony is going to be a huge benefit to both Sony and ourselves around how to have more people playing more games through a subscription offering. So more to come, we mentioned we're over 3.5 million subscribers across the current Origin and EA Access on Microsoft platform. We think that steps up this year on both organic growth as well as on growth with Sony. But you'll probably see us approach other platforms in the future to try to have them involved. And particularly, as streaming becomes more and more prevalent in the future, we think streaming in combination with subscription could be very powerful.

---

**Eric Owen Handler - MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst**

That's great. And just as a follow-up to that, I remember speaking this time last year or when you launched around E3, the hope was you felt the shooters would have a big impact on the subscription services. And obviously, Battlefield and Anthem had their issues, what do you feel is driving the subscriptions now? And as you look into fiscal '20, what's going to be the key drivers of content for those service -- for the subscription service?

---

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

Yes, we hadn't built Madden for PC in 10-plus years, so it was probably the lowest driver because there's just not that many people playing Madden on PC. But we believe we'll continue to add to that platform because there's more people playing FIFA obviously, and many of those are starting to get a chance to play Madden because they've never played it before. And we'll see more people that are traditional shooter players play action games like Anthem and sports games that they may not have played before. So we find that it takes time for people to get through what's in the subscription. In some ways, it's daunting. There's so many games in there. But they start to settle into a pattern in which they play games that they really enjoy and many times, they're ones they've never actually played before. So we think continually adding, we'll update, obviously, this year



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

Madden and FIFA and other titles to drive the subscription as well as third-party titles. And we'll continue to feed that content and make it easier to find that content and play with new tools for interaction between other players, and we think that will help drive the subscriptions.

---

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

The other addition to this is not unlike other mere and entertainment subscriptions, is that we will use the engagement that we see inside the subscription to help us think about what new games should we partner with to bring to the sub and what new games that we should green light internally. And you will likely see us, over time, start to greenlight some smaller games that go into the subscription with a view to growing them into much larger games in the future. And so not only do we think this offers tremendous value to players from a monetary standpoint, we also think it offers tremendous value to players because that allows them to really play the games they want to play and, in the future, play games that they might otherwise never get to play but for a subscription.

---

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

And to be clear, we're conscious that the investment in the subscription tool that network is -- doesn't come cheap and investment in third-party content where we usually share revenue could ultimately start to cap margins in the service. We're conscious that unless we can develop a more stable business and more predictable business, it probably doesn't make sense to hurt our margins. We're not going to do as some others have in the media industry, overspend or spend a dramatic amount more on content than we're delivering or building ourselves. We're going to continue to deliver and build the content that we have been in the past and look for other partners to help us deliver content and see how it plays out with the consumers. And it's now a small portion of our overall business. We think it can be a meaningful portion and ultimately impact and change the way that the financials come to -- come each year in a much more stable fashion. But we're still on that journey and we'll see how it unlocks in a world of streaming because that may dramatically change the number of people that are -- have the opportunity to play games in this method.

---

**Operator**

Our next question comes from the line of Eric Sheridan, UBS.

---

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

Maybe a broader one, away from your own subscription and streaming offering over the medium term, how are you thinking about either partnering or not with other potential streaming and subscription models that might make themselves available to the video game industry broadly as you look out against distribution and getting as wide a distribution for your product as possible? And the second part of the question, in a world where there is some product that's free-to-play and others that are distributed via streamed models, could that mean that we end up with less marketing intensity broadly and higher ROI for the industry? Would love if you could weigh in on that as well.

---

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

Let me grab the first bit and then maybe Blake and I can share the second. We come at this with 2 guiding principles. The first guiding principle is one that has stood the test of time for Electronic Arts, which is we seek to be platform-agnostic. We have done a tremendous job since our inception of partnering with any and all platform holders that we could to deliver games in any way that we could. And part of that is as a result of our second guiding principle, which is to be where our players are and offer our players choice in how they engage. And so as we look out in the market, we're very excited about a number of new players coming into the industry, particularly players of scale that have the ability to dramatically increase the total addressable market of players and provide frictionless access, with this tremendous entertainment that we create. We will continue to found our business on these 2 guiding principles, to be platform-agnostic wherever possible and to provide player choice and be where players are at every possible moment. And we feel like that even in the context of what is likely going to be changing consumption models over time, will both be good for us as an organization and, more importantly, the best for our players over time.



MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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

Yes. And on the marketing side, I think in the near term there probably isn't a large impact because you're obviously trying to bring people into the subscription, which requires marketing as well as people to understand the games as we normally do. I think, over the longer term, our hope is it certainly does. If you are able to help people discover new games once they're inside the subscription, we believe that's probably less expensive to do. And most importantly, eliminates one of the big barriers for players and that is the risk of they're not going to like the title. We do know that there are people that buy games and only play them once or twice. And they're risk adverse as to do they want to try something new. When it is subscription they think that, that next game is for free. And so what we're trying to do is get people to actually break down that barrier of trial, which we believe a subscription can do and it certainly can do it in a far less cost than it is in a traditional model.

**Operator**

Our next question comes from the line of Ben Schachter of Macquarie.

**Benjamin Ari Schachter** - *Macquarie Research - Head of TMET Research*

Congrats on a good performance for the year. When talking about the viewership thing, so when Google announced Stadia, they talked about the strategic value of YouTube for its gaming business, within that context, can you talk about how you're thinking about viewership? How you monetize it? Is it still primarily about promotion for the core or do you see more direct revenues from that? And related to that, how will your relationship with YouTube, Twitch, Facebook and the others evolve? And then just separately, can you talk a little bit about how political trade talks with China might impact the video game business? Is there anything that may change there?

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

I'll let Andrew take the first one, and then I'll try to attempt to take the second one.

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

Again, so in the context of viewership, the first thing that we're seeing is that gaming is a more meaningful part of our players' lives than it's ever been. And in addition to playing, the viewing of games is as important to them. And that's not unnatural. As human beings we've been watching people play sports for hundreds if not thousands of years. And for many people, the playing of games is very core to their competitive juices being fueled. And so we're going to see more and more that viewership trends sans participation. And it becomes a growing part of what is a player's gaming life. In the broader context for us, it all amounts to wonderfully great content. And part of the reason why we build our own production facility here is because we do want to ensure that the content that our players are viewing is as high a quality as it possibly could be. And ultimately, the combination of playing our games and watching our games and engaging in the vast amounts of content that we're able to create that is of deep interest to our players as gaming becomes more important to them, that will almost certainly add to the value of our overall network and our overall ecosystem in the same way that any content or media business would see value.

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

Yes, I'd add to that. We have, as Andrew mentioned, we have a great partnership with Twitch. We also have a great partnership with YouTube. We've been using those platforms. We're obviously working with influencers and showing our content. The one thing I think where we have a difference in many of the other game companies do is we also have great partnerships with many of the sports leagues. And when you think about FIFA, that's a collection of some of the biggest sports organizations in the world, people like UEFA, or Champions League and the Premier League and others, which are really global businesses now versus regional businesses they were historically. And so we're working with them to find ways to help them build their brands around the globe, which may be not just traditional video games, but combinations of video games and broadcasting



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

opportunities where we're doing things like esports, tournaments and others. So that's a huge potential for us down the road and we're very excited about it. In terms of China, it's a daily question in our mind when we see what tweets come out each morning. So it's hard for us to gauge. We feel what we think is a -- I see as a very strong partnership with Tencent around FIFA and other games in of the marketplace and those games are both on the PC, traditional PC platform as well as mobile platforms in China. We built a good partnership with other payers in other parts of Asia. We'll continue to do that. We haven't heard anything or seen anything that would imply pressure based on any of the current trade talks. And our hope is that whatever is discussed is settled in a way which it helps us even deepen our partnerships with those players in those markets.

---

**Benjamin Ari Schachter** - *Macquarie Research - Head of TMET Research*

Blake, I had one quick follow-up on that. Just the negotiations around Apex entering China, how are those negotiations different than from previous titles?

---

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

I would say not really that different. I think as we get deeper and understand the market more, we may ask for things that we didn't ask for before. But they're not all that. And just remember, Apex is, what, we're 92 days into this. And the first 30 to 40 days, we were trying to figure out how many people we could add each day on the tech side of the equation and what content they needed. And so it's taken us time to work with potential partners and everyone wants to work with us. So you're trying to go through the partnership discussions. But overall, it's been very positive.

---

**Operator**

Our next question comes from the line of Drew Crum of Stifel.

---

**Andrew Edward Crum** - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Blake, so the \$300 million to \$400 million for Apex bookings, you suggest we model fiscal '20. Any guidance you can offer in terms of quarterly phasing there? And then separately, I think there's expectations there will be new consoles from Sony and Microsoft out over the next 12 to 18 months. How is that in any way influencing your planned R&D spend and margin guidance for fiscal '20?

---

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

Yes. It's a good question. I would probably put more in Q2 through Q4 than in Q1. Now we've already given you Q1 guidance total so you can probably work through what it is. Because we've just released our first season at the start of the quarter. We haven't announced when our next season will occur, but you could assume that it's probably at the tail end or the front of the second quarter. We assume that each -- all the new content that we have will continue to help build that revenue base. So but we're guessing a little bit because we don't have a lot of history here. So I would probably -- it's not straight line. It's probably a little more weighted to the back half of the year. In terms of the new consoles, we're still in the discovery phase around what exactly that means. But we've tried to build our basic engine structure. So it is -- can be modified for new consoles or new technology fairly easily versus having it be built from scratch. That's part of the reason we went down the path of trying to build Frostbite as one of our major engines inside the company. And as a reminder, if you go back many years back, going from Gen 2 to Gen 3 was very expensive. But some of that was driven by the first time we went to HD versus non-HD in the games themselves, as well as going from still on very customized boxes. When we went from Gen 3 to Gen 4, our cost actually didn't go up at all. And that's because the boxes were designed to have more standardized chipsets. You didn't have the HD probably already there and I think we just got better as we had better technology. And so our focus is on how do we try to minimize the cost going to the next generation. We'll know more in the next, I'm guessing, 2 or 3 quarters, as we get closer to exactly what's going to be out there but our hope is that there's not a big impact.



## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

**Operator**

And our next question comes from the line of Justin Post of Merrill Lynch.

**Justin Post** - *BofA Merrill Lynch, Research Division - MD*

A couple of questions, maybe first with Blake. Just a lot of questions on Apex momentum, obviously a very strong start, and congrats on that. But how has it been the last 45 days as far as users and usage and spend? And then maybe one for Andrew, 2 years now in a row where we've had the big first-person shooter holiday title underperform expectations. How much of that is due to Fortnite and other competition versus execution? And how are you thinking about Battlefield maybe 1.5 years from now just making sure that's going to be a great title?

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

So I would say we're still -- we're not in a place where we're going to give out a lot of metrics. You can assume that the first 30 days was off the chart, I mean, again because so many people were playing. Our average daily user base has come down slightly but there's still a lot of people playing. And obviously, the biggest challenge on spend is having enough things that people could spend money on. You got to create content for people to spend money on. So you probably should assume that our spend levels have come down. But we also have the new addition of the Battle Pass which, essentially, a lot of spending around Battle Pass and then people use that as their currency for some period of time, so we're learning what those spend patterns look like. So not a lot of guidance to give you. I would say that we're still very happy with where it is. It's got a very consistent user base, and we're trying to keep people with new content and new ways to play. And that's where the biggest focus is going to be as well as continue to make sure that the players experience gets better and better in terms of how they play, if there's any bugs in it. We've never had anything of scale at this level. I think our biggest concurrent user day in FIFA would be 1.5 million users. And here we saw concurrence that we're 5 to 10x that in some cases. So it tests you. And so we're learning along the way but everything's worked much better than we thought. I mean it's just a question of more content. And before Andrew answers your question, I'll just make sure to remind everybody we're not going to start giving guidance for fiscal '21. We just gave guidance for fiscal '20. So...

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

And so again, I think you're referring to Battlefront II and Battlefield V. I think that at the end of the day, we've got to create great games. And no matter what's going on in the marketplace, we have to create great games. I think Battlefront II on balance, I know it's kind of hard to see through the midst of this, but on -- Battlefront II was a great game. We made some missteps in the context of progression and monetization, which actually clouded what was otherwise a really great game and with the ongoing commitment that the studio has had for the player community, it's now a really strong game with really strong player sentiment. And we expect that, that will continue to do well. We should've had that done at launch but we are a learning organization and we've continued to support that community.

I think with Battlefield V, we were missing the battle royale mode at launch. I think the players really wanted that. That was certainly in the front of mind of a global FPS player community. Again, we've now launched Firestorm. We'll be talking about a 6% week-over-week engagement, and the team continues to be very committed to Battlefield as well.

Through all of that, other people are also going to make great games, and whether that's Fortnite or its Red Dead Redemption 2, that's no different for us than it's been certainly for the 20 years I've been at this company, there's always competition. The good news, of course, is there's more and more players across more and more platforms across more and more business models, each and every day and more now than there have ever been. And so we see the opportunity as being bigger and more exciting than it's ever been, but at the very core, we must execute. And everything you heard from us in our prepared remarks is that we are going through our entire studio and marketing organizations and working on ensuring that we execute against the delivery of spectacular games and very clear communication with our players to ensure that we're delivering what they want and that they know what's coming.





## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

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

We'll take one last question.

---

**Operator**

And our next question comes from the line of Ryan Gee, Barclays.

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

I guess going back to Andrew's comments on game development. A recurring item that we've seen this year with Anthem and with previous games from BioWare, were some publicly publicized technical hurdles at launch. And I think the solution has been to respond quickly and issue big day 1 or week 1 patches. And this hasn't been something isolated to just EA. I think it's I think your peers are doing as well. But from an outsider looking in, it seems like doing this should be in the QA road map and addressed earlier before it impacts your public perception and your financial performance. So maybe you provide some context on the challenges of running these big online worlds, what's being done now in the back end at EA to ensure your games play as expected at launch. And then especially with Stadia and xCloud from Microsoft adding to the complexity of games going forward, what you guys are doing now on the back end to really prepare for that future?

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

So first I would say it's a very perceptive and insightful question. And the reality is it's not just an EA challenge, it's an industry-wide challenge. And as games get more complex, both depth and breadth of game experience, and you're moving from what was initially a BioWare game which will be somewhere between 40 and 80 hours of off-line play, the 40 to 80 hours of off-line play plus 100 or 200, 300 hours of elder game that happens with millions of other players at scale online. Traditionally what has happened with these massively online games is you would go through a seeded launch process. You would have soft launches and you have beta tests. And we've been launching these types of games in Asia. And there'll be 4 or 5 different kind of community tests that happen throughout the development process. And that brings kind of the QA component of what happens to these games at scale more forward. In the worst, that kind of comes in to conjugation with typically how games are being marketed. And so what we're doing now inside the organization is saying, okay, typically that way we would have marketed games like this is on this drip feed approach of releasing new content over time, build up kind of the appetite and the excitement for the game and then launch the game and it would run. As games have gotten bigger, that isn't working as well as it has done in years gone by. And so what you should expect from us is that we -- it's not just about changing the development process in the game, it's not just about changing the QA process in the game, although, both of those things are being changed dramatically inside the organization right now. But it also comes down to changing how we launch games and how we roll out and you should expect it will start the testing by soft launches the same things that you see in the mobile space right now. And it also comes down to changing how we communicate with players. And our entire marketing organization now is moving out of presentation mode and into conversation mode and changing how we interact with players over time. So that at the day that we bring truly a global audience into play, we have strong confidence that, one, the game is ready; two, that the infrastructure can handle the game at scale; and three, that our players understand exactly what reasons they're going to be playing and how they're going to be playing both on the day of launch and over time. We think that we are in a really good position but then I think this gets really hard if you don't have scale to do this in this new world until we feel very good about it. And over time, we hope that we can lead from the front and help other developers and publishers change the way they do things as well.

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

Great. Well, thank you everyone for taking the time today. We look forward to seeing everyone at EA PLAY in July, if not, before then -- or before June, I'm sorry. Thank you.





## MAY 07, 2019 / 9:00PM, EA - Q4 2019 Electronic Arts Inc Earnings Call

**Operator**

This concludes today's conference call. You may now disconnect. Have a great day.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.