



PREPARED REMARKS

Q1 FISCAL 2020

CHRIS:

Thank you.

Welcome to EA's first quarter fiscal 2020 earnings call. With me on the call today are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO and COO.

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, a transcript, and an updated accounting FAQ.

With regards to our calendar: our annual shareholder meeting will take place on Thursday, August 8, here in Redwood Shores; and our Q2 fiscal 2020 earnings call is scheduled for Tuesday, October 29.

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-K 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, July 30, 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.

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

ANDREW:

Thanks, Chris.

We delivered a strong start to FY20. Players were deeply engaged in our top franchises, with growing communities reaching new peaks of engagement fueled by new content and in-game events in our live services. As a result, our operating results significantly exceeded our expectations for the first quarter. We're thrilled by the great experiences that players are having in our games, and we're looking forward to delivering a lot more throughout the fiscal year.

Interactive entertainment continues to grow. An expanding global player base, new platforms, new business models and more ways to play and watch are fueling tailwinds for the industry. With this backdrop, the core drivers of growth for EA are: the depth and breadth of our portfolio and IP; our expertise in live services; our leadership in subscriptions; and competitive gaming that expands our reach and drives deeper engagement. We're also continually strengthening our foundation of great talent and technology. I'll touch on some of these drivers with a few highlights here.

Let's start with *Apex Legends*. We have a massive global audience continuing to engage in this high-quality, free-to-play experience. Apex has tremendous gameplay at its core, and we've built it to have longevity as a live service that will continue to drive engagement over time. In our live service, we're delivering Seasons of new content – a collection of new content and updates that begin to roll out at the start of each season, and continue throughout the course of several weeks and months. We launched Season 2 in early July, including a robust Battle Pass offering, a new character, and additions to the environment – and to date, it has outperformed our expectations with significant growth in daily and weekly active players. In each season, there are in-game events that are additional drivers of engagement – such as the event coming in the next few weeks that will bring new content and deliver one of the most fan-requested

features since the launch of Apex. There will be more updates and in-game experiences in the weeks to come for Season 2, and Season 3 is shaping up to be even bigger. All of these elements – the fantastic core gameplay, Seasons of new content, and additional in-game events – are designed to continually excite and engage the Apex community over the long-term.

We're also expanding into additional growth opportunities for *Apex Legends*. Esports will bring new drivers of social interaction and competition to the Apex ecosystem. Interest from teams, broadcast partners and sponsors is strong, and we've had great success with our first exhibition events, including a competition at the ESPYS that was broadcast on ESPN and ABC. We'll have 80 teams from around the world participating in our first official competition in September. Our plans to bring *Apex Legends* to China and a worldwide mobile launch are also on course, and we will share more on our plans in the future.

In our EA SPORTS portfolio, our franchises like Madden NFL and FIFA are delivering for core fans, innovating to reach new players, and leading our growth in esports. Looking first at Madden NFL, we continue to see deep year-round engagement in the franchise. Live service events and tie-in content with the NFL Draft drove growth in new players joining *Madden NFL 19* in Q1, and also deepened engagement in Madden Ultimate Team. We're now just days away from launching *Madden NFL 20*. The innovations in this year's game, like the new superstar X-Factor abilities, new personalized Career Campaign, and the more fluid core gameplay, are all designed to appeal to new and existing football fans. Madden NFL esports also continues to drive growing viewership. Players in our Madden NFL competitive ecosystem engaged four times more than non-competitors last season, and our events drove record broadcast and digital viewership. We're now looking to build on that success with the *Madden NFL 20* Championship Series. We're partnered with all 32 NFL teams, our competitions are aligned with key beats in the NFL season, and we're welcoming major

sponsors including Pizza Hut, Snickers and Starbucks. Finally, the latest season of our fan-favorite *Madden NFL Mobile* game launches tomorrow, and this year the game is bringing back some of the classic modes that fans love, as well as new innovation in social co-op play and customization. Through great experiences on console and PC, the ever-popular *Madden NFL Mobile* game, and our leading esports programming, Madden NFL continues to reach and engage a wide audience of fans.

Our FIFA franchise had a very strong Q1, with players deeply engaged in our Ultimate Team live service. Our biggest in-game event, Team of the Season, had more than 3 million players logging into FUT *daily* to play – the highest daily levels we’ve ever seen for this event. Esports for FIFA is exploding as well, with our competitive modes growing faster than any other mode in FUT. Momentum is strong across our entire FIFA esports ecosystem, and next week’s FIFA eWorld Cup Finals will be the culmination of a season that has engaged 17 official league partners, players from 20 different nations, more than 30 live events, and more than 60 million total views to date. Looking ahead to September, *FIFA 20* is set to expand our FIFA platform with a brand new dimension of the game for players who want more personalization, customization and community. VOLTA Football brings a street soccer experience to the franchise, where players can build their own characters, express themselves, and play different forms of the sport in different environments around the world. That’s in addition to major advancements in the core experience designed to deliver the most authentic football gameplay we’ve ever produced. *FIFA 20* will have an unmatched breadth of top leagues, teams and players included in the game – a continuing differentiator of the authenticity in our FIFA franchise. Our licensing program is built on the strength of multi-year relationships and careful consideration of the most important players, teams and leagues that our fans love to see in the game. From console to PC, to our *FIFA Mobile* games in the west and China, to our FIFA Online offerings in Asia, FIFA continues to be the way that hundreds of millions of players around the world come together in their shared passion for soccer.

Our *Sims 4* live service also continues to be a rich and rewarding experience for our players, and a strong platform for growth. *The Sims 4* continues to be one of the great owned IP success stories of our portfolio, and we're planning for FY20 to be our biggest year yet of new content. Knowing that, we gave more fans a chance to get into the game through a one-week promotion in May to download the base game for free. Almost 7 million players downloaded the game during that time. In addition to the base game promotion, total expansion and game pack downloads also increased 55% year-over-year in Q1. We launched our seventh expansion pack – Island Living – in late June, and it has already become one of our best-selling packs for *The Sims 4*. We are fortunate to have an incredibly vibrant and creative Sims community on console, PC and mobile, and we are continuing to double down on this amazing franchise to reach new players and open up exciting new dimensions of The Sims this year.

Subscription services are expanding across the industry, as well. We're a pioneer and a leader in this space, having just launched our subscription on a third major platform with EA Access on the Sony PlayStation 4. We believe subscriptions can be transformative to the player experience and the gaming industry over the long term, as they offer tremendous value and choice to players, and greater flexibility in the games we bring to market. Our PC subscription already includes more than 220 games, 140 of which are from third party developers. We're continually adding to this with new games from EA, from indie developers seeking to expand their reach through our EA Originals program, and from other third-party partners ready to reach more players through our services. We're also working to expand our subscriptions to even more platforms.

Mobile continues to be a growth opportunity for us. Live services are a key aspect of our mobile business, with franchises like *Madden Mobile*, *FIFA Mobile* and *The Sims* continuing to drive strong ongoing engagement. *Star Wars Galaxy of Heroes* has grown to nearly 80 million players life-to-date. *Galaxy of Heroes* has the most deeply engaged community of all our

mobile games, and we plan to continue delivering great new content and in-game events to grow the audience this year. We've also just started pre-alpha testing for *Plants vs. Zombies 3*. In a market where discovery and acquisition can be challenging, *Plants vs. Zombies* is one of the most beloved brands in gaming. To date, we've had more than a billion downloads worldwide of PvZ games on mobile, and we're looking forward to bringing something new to fans around the world. We're continuing to prototype and develop more bespoke mobile projects, as well as new concepts for cross-platform play. The mobile space is complex and competitive, and our focus is on bringing more innovation and unique new experiences to mobile players.

In addition to the franchises and live services that I've already mentioned, we'll be delivering many other new experiences to players throughout the remainder of this fiscal year. *NHL 20* is launching in Q2, with hundreds of gameplay advancements, as well as new competitive and multiplayer modes. We'll take the wraps off our new *Need for Speed* game heading into Gamescom in a few weeks. We have a *Plants vs. Zombies* shooter title coming to console and PC later this year. And the excitement and anticipation for *Star Wars Jedi: Fallen Order* has been strong coming out of EA PLAY and E3, where the game received 45 award nominations and great buzz from the player community. Respawn's track record speaks for the high-quality games they develop, and they have created a brand new *Star Wars* story that will be a lot of fun to play when it launches this holiday.

From the core game to live services that extend and enhance the experience, to new ways to engage through subscriptions and competitive gaming, our focus continues to be on strong execution and delivering innovation, quality and fun for players at every turn. We're fortunate to have some of the greatest and most creative talent in the industry, driving our efforts to continually learn and improve. With robust, best-in-class technology powering our efforts, we're also in position to scale and evolve with the changing needs of our players.

Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

We delivered operating results significantly above our expectations this quarter. At a high level, those results were driven by broad strength across our core franchises. *Apex Legends* continues to delight players and we are pleased with the impact of Season 2 since its launch on July 2. This quarter's results demonstrate how the power of our portfolio strategy, combined with extra content, delivers strong results - even in relatively quiet quarters.

I'll report the specifics of our results on a GAAP basis, then use our operational measure of net bookings to discuss the dynamics of our business. To compare this quarter's results to historically-reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

EA's **net revenue** was \$1.21 billion, compared to \$1.14 billion a year ago, and above our guidance by \$79 million. **Operating expenses** were \$607 million, compared to \$622 million a year ago, primarily driven by lower sales and marketing partially offset by continued investment in new IP. This was significantly below our forecast, driven by timing of advertising spend. **Operating income** was \$415 million, compared to \$300 million a year ago and above our expectations. Diluted **earnings per share** was \$4.75, up over 400% year on year. Underlying EPS was well above our expectations, driven by net bookings, gross profit and operating expenses.

Operating cash flow for the quarter was \$158 million, up \$38 million from last year. **Capital expenditures** for the quarter were \$45 million, resulting in a **free cash flow** of

\$113 million. **Operating cash flow for the last twelve months** was \$1.59 billion. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 3.2 million shares at a cost of \$305 million**, leaving \$979 million available in our buyback program.

Our **cash and short-term investments** at the end of the quarter were \$5.19 billion, up 4% year on year.

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

Net bookings for the quarter were \$743 million, approximately flat year on year. It was \$53 million above our guidance, driven by strength across the board, with strong performance from our core franchises and live services.

Digital net bookings were \$701 million, up \$8 million on the year-ago period. On a trailing twelve-month basis, digital net bookings now represent 76% of our business, compared to 69% a year ago.

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

- **Live services** net bookings were up 12% year on year, to \$504 million, led by *Apex Legends* and *The Sims 4*. FIFA Ultimate Team was up 11% year on year at constant currency, 5% at actual exchange rates.

Diving into the details: Season 2 launched for *Apex Legends* at the beginning of Q2, and we're pleased with its performance, with regards to both sales and engagement. We will continue to add content during the quarter, with a major event in mid-August, and Season 3 will begin next quarter. We are increasing investment in content development and marketing to continue to drive growth in *Apex Legends*.

FIFA Online outperformed our expectations. *FIFA Online 4* performed well in Korea, where we have fully transitioned from *FIFA Online 3* to *FIFA Online 4*. Meanwhile, *FIFA Online 3* outperformed our expectations in China, and we are positioned well for switching over to *FIFA Online 4*.

Finally, as Andrew mentioned, *The Sims 4* base game promotion delivered nearly 7 million new installs and we remain on track to have the fifth consecutive year of growth in *The Sims 4*, following its launch in 2014.

- **Mobile** delivered net bookings of \$122 million, down 17% year on year, driven by aging titles. Although down year on year, *Star Wars Galaxy of Heroes* outperformed our expectations and maintains a highly engaged user base, leading us to be optimistic about performance in a huge year for *Star Wars*, with new TV show, movie and theme park launches.
- **Full game PC and console downloads** generated net bookings of \$75 million, down 22% year on year, due to last year's launch of *A Way Out* and *FIFA 18* World Cup promotions. 47% of our unit sales are now digital rather than physical, measured on Xbox One and PlayStation 4 over the last twelve months. Although this is up 7 percentage points year on year, we continue to model an annual shift of 5 percentage points, given how strongly digital *Anthem* was at its launch last quarter.

Before discussing guidance, I would like to highlight that there were three income tax events in the quarter that impacted our GAAP Q1 results and our full year GAAP guidance. Please refer to our press release for the details. As a result, we expect to recognize a \$1.700 billion benefit in the fiscal year, which is \$200 million better than we had included in our guidance last quarter, although the phasing of the benefit between Q1 and Q2 has changed since we gave that guidance. \$1.080 billion of this amount was recognized in the first quarter and the

remaining \$620 million will be recognized when the Swiss tax rates change, which we expect to occur in the second quarter. We do not expect the above events to impact our FY20 operating cash flow or our management tax rate for fiscal 2020.

Now, turning to guidance: Except for the increase in our tax benefit of \$200 million or \$0.66 on GAAP EPS, we are reiterating our guidance for the full year.

We continue to expect *The Sims 4* and *Apex Legends* to each deliver net bookings in the \$300 million to \$400 million range.

We are holding our **operating cash flow** guidance at approximately \$1.575 billion, with **capex** still expected to be \$125 million and **free cash flow** of about \$1.45 billion.

For the **second quarter**, we continue to expect **net revenue** of \$1.315 billion, **cost of revenue** to be \$407 million, and **operating expenses** of \$679 million. This results in **earnings per share** of \$2.60 for the second quarter.

We anticipate net bookings for the quarter to be \$1.23 billion. We're excited about the Madden NFL launch and upcoming *Apex Legends* event, and the launch of *FIFA 20* with *VOLTA Football* at the end of the quarter.

We over delivered this quarter as a result of the performance of our core franchises. These evergreen live services provide a tremendously solid base for our business and enable us to invest in new opportunities, to innovate and to take risks. We are unique among our peers in this, and it is no coincidence that we are a leader in cloud gaming, subscriptions and in the strength of our player networks.

People will only engage with our games if they have fun playing them. And we continue to invest in keeping them fun – whether it's the major innovation of *VOLTA Football* in FIFA, or new modes, events and legends in *Apex Legends*, or even adding laundry to *The Sims 4*, we

aim to give players content they want to play. If we're successful in that, we're successful as a business.

This combination of core plus innovation plus fun will drive our success through the year. Coming up in August we have more live services for our newest franchise, *Apex Legends*, and the latest installment in one of our most storied, Madden NFL. *FIFA 20* launches right at the end of the quarter. The following quarter we have a new IP, *Star Wars Jedi: Fallen Order*. Simultaneously, we continue to invest in more new IP, new technologies and new business models.

We believe we have the right ingredients in place to deliver fun for our players and success for our business, and I look forward to reporting our progress to you next quarter.

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

ANDREW CLOSING:

Thanks, Blake.

The world loves to play games. As the global gaming audience continues to grow and spend more time with the games they love, interactive entertainment is an increasingly important part of our daily lives. At the heart of this is social connection – the unique ability that games have to connect and inspire players to be part of a shared experience. New platforms, new technologies and new ways to engage will continue to fuel growth for the industry, and through these opportunities we are positioning EA to lead.

It begins with great games that can fulfill the motivations of a diverse global player base. We continue to invest across our portfolio to deliver the depth, breadth and quality of experiences that players seek. Our top titles across sports, simulation, shooters, and racing connect

hundreds of millions of players on console, PC and mobile. We create experiences in some of the most popular owned IP in the industry, including *The Sims*, *Battlefield*, *Need for Speed* and *Plants vs. Zombies*. We've introduced powerful new IP like *Apex Legends*, and we're building new licensed experiences like *Star Wars Jedi: Fallen Order*. Our pipeline is full of innovative new projects for our current franchises, new IP, and plans to revisit some of our fan-favorite brands, as we continually work to bring more high-quality games to players across a growing number of platforms and devices.

Live services enable us to build powerful communities, where players come together and continue to share in the experiences they love. We've had great success building deeply-engaged, long-term communities in *Ultimate Team*, *The Sims*, *Battlefield*, *Star Wars* and more – and now we're adding to that with our massive player base in *Apex Legends*. Each live service is different, designed uniquely for the community it serves. They also enable us to continually learn from our players – their feedback and their motivations – so we can drive more innovation and creative exploration for the future.

Interactive entertainment today transcends the act of playing a game. New ways to engage like esports are becoming just as important. With *FIFA* and *Madden*, we have the largest esports ecosystems in sports games, and *Apex Legends* is going to be a major new addition to the global competitive gaming scene this year. We believe that our games can make competition accessible to anyone. We see opportunities to bring competitive play to more of our franchises, and we look forward to delivering for more players, viewers, sponsors and broadcasters around the world.

With games becoming an increasingly important part of our lives, subscriptions offer a compelling new value proposition for players. Other industries have demonstrated how

subscriptions fundamentally shift consumer behavior. We consume more television content in different ways because of video subscriptions. We consume more music in different ways because of music subscription services. We believe the same is happening with games, where subscriptions can offer access to great content, at great value, with tremendously low friction. When combined with cloud streaming, the barriers are lowered even further, making it even more compelling to jump into new games and connect with new communities. The subscription opportunity is powerful for both players and game creators, and we're continuing to invest in our leading services on console and PC.

In addition to more great games, passionate global communities, and new ways to engage, there will be more transformative shifts on the horizon. The constant push of progress and innovation is what sets this industry apart from every other form of entertainment. With our teams of incredibly talented developers, artists and engineers, we are working to drive creativity, quality and fun through every aspect of the player experience, now and in the future. We look forward to sharing more updates in the months to come.

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 2020 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "expect," "intend," "estimate", "plan", "predict", "seek", "goal", "will", "may", "likely", "should", "could" (and the negative of any of these terms), "future" and similar expressions also identify forward-looking

statements. These forward-looking statements are not guarantees of future performance and reflect management's current expectations. Our actual results could differ materially from those discussed in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's 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 I, Item 1A of Electronic Arts' latest Annual Report on Form 10-K under the heading "Risk Factors", as well as in other documents we have filed with the Securities and Exchange Commission.

These forward-looking statements are current as of July 30, 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 June 30, 2019. 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 June 30, 2019.