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# EDITED TRANSCRIPT

EA - Q1 2020 Electronic Arts Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2019 / 9:00PM GMT

## OVERVIEW:

Co. reported 1Q20 net revenue of \$1.21b, GAAP operating income of \$415m and diluted EPS of \$4.75. Expects 2Q20 net revenue to be \$1.315b and EPS to be \$2.60.



JULY 30, 2019 / 9:00PM, EA - Q1 2020 Electronic Arts Inc Earnings Call

## CORPORATE PARTICIPANTS

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

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

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## PRESENTATION

### Operator

Good afternoon. My name is Christine, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q1 2020 Earnings Conference Call.

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

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

Thanks, Christine. 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](http://ir.ea.com). In addition, we posted earnings slides to accompany our prepared remarks. Lastly, after this call, we will post our prepared remarks, an audio replay of this call, a financial model, a transcript and an update to the 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.



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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.

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

Thanks, Chris. We delivered a strong start to FY '20. Players were deeply engaged in our top franchises with growing communities reaching new peaks of engagement fueled by 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 and expanding global player base

(technical difficulty)

and 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 had 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 event, including a competition at the ESPYS that was broadcast on ESPN and ABC. We'll have around 8 teams from around the world participating in our first official competition in September. Our plan is 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.



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We're now just days away from launching Madden NFL 20. The innovation 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 continue to drive growing viewership. Players in our Madden NFL competitive ecosystem engaged 4x more than noncompetitors 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 have partnered with all 32 NFL teams, our competitions are aligned with key big 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 call 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 strong -- 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 of 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 lead 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 style of 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 multiyear 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 are planning for FY '20 to be our biggest year yet of new content. Knowing that, we gave more fans a chance to get into the game through a 1-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 has already become one of the 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 are continually adding to this with new games from EA, from indie developers seeking to expand their reach through our EA Originals program and from our 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.



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Star Wars: Galaxy of Heroes has grown to nearly 80 million players launch-to-date. Galaxy of Heroes has the most deeply engaged community of all of 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 discovering an acquisition can be challenging, Plants vs. Zombies is one of the most beloved brand in gaming. To date, we've had more than 1 billion downloads worldwide of PvZ games in 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 concept 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 in E3 where the game received 45 award nominations and great vibes 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 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 effort to continually learn and improve. With robust, best-in-class technology powering our efforts, we're also in a position to scale and evolve with the changing needs of our players.

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

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

Thanks, Andrew. We delivered operating results significantly above our expectations this quarter. And at 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 result demonstrates how the power of our portfolio strategy, combined with extra content, deliver 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 12 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 a year-ago period. On a trailing 12-month basis, digital net bookings now represent 76% of our business compared to 69% a year ago.



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Looking at each of the components of this quarter's digital bookings in turn. First, live service 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 a constant currency or 5% at actual exchange rates.

Diving into the detail, Season 2 launched for Apex Legends at the beginning of Q2 and we're pleased with its performance with regard 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 also increasing investments in content development and marketing to continue to drive growth in Apex Legends.

FIFA Online outperformed our expectation. FIFA Online 4 performed well in Korea and Southeast Asia 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 expectation and maintains a highly engaged user base, leading us to be optimistic about performance and a huge year for the Star Wars franchise with new TV shows, 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 in the quarter. 47% of our unit sales are now digital rather than physical, measured on Xbox One and PlayStation 4 over the last 12 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 -- strongly the digital side of Anthem was during the launch last quarter.

Before discussing guidance, I'd like to highlight that there were 3 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 those -- for details on those tax events.

As a result, we expect to recognize a \$1.7 billion benefit in the fiscal year, which is \$200 million better than we included in our guidance last quarter, although the phasing of the benefits between Q1 and Q2 has changed since we gave that guidance. \$1.08 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 FY '20 operating cash flow or our management tax rate for fiscal 2020.

Now turning to guidance. Except for the increase of our tax benefit of \$200 million or \$0.66 a share 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 around \$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 very excited about the Madden NFL launch and the 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 consequence 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 in major innovations such as 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.



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The 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 and 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 on our progress to you next quarter.

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

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

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 life. 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 are 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 our 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 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 in 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 ecosystem 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 everyone with the 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 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 content 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.



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Now, Blake and I are here for your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question comes from the line of Stephen Ju from Credit Suisse.

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

So Andrew, Blake, it seems like FIFA Online is on a recovery path right now, but this game is still distributed only in Korea, China and Southeast Asia. And I think we have talked about this many times before, the opportunity should be global. So can you tell us where you stand between either FIFA Mobile or other things you may be doing in the background? Because it seems like the demand for this game should be multiples of the audience that you are reaching right now.

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

So again, I think we think about FIFA as a platform that brings together soccer fans or football fans depending on which country you're from together to share in their passion for the game. In any given market, that might mean going to them in different ways with different games on different platforms or different business models. Right now, we entertain probably a couple hundred million people. We see an opportunity for growth there certainly, but when you think about the offering that we have across console, PC and mobile through premium, through live services like Ultimate Team, through access to the game in subscription and free-to-play on mobile and PC in Asia, we feel like that we -- we feel like we have really strong offerings for a global player base.

You should imagine that we're always thinking about how we can attract more users to the platform. That's why we are working on VOLTA for this year. We think that that's going to bring in a whole new range of players who love the game but want a different type of play than the traditional 11-on-11. And as we think about more focus going to mobile over time, we also expect that we'll continue to grow that business.

### Operator

The next question comes from the line of Mike Ng from Goldman Sachs.

### Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

I'd like to better understand how you're tracking against your \$300 million to \$400 million bookings guidance for Apex Legends and The Sims. How much did you realize in the quarter? Are you about 25% of the way there? And how should we think about the phasing throughout the rest of the year?

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

Well, the -- I think as we said last quarter, you should expect that the first quarter was smaller

(technical difficulty)

Remaining 3 quarters, Q2 through Q4, because we were still, one, experimenting; and 2, we didn't have as much content. Clearly, quarter 2 has more content in it. We talked today about a major event that's coming in a few weeks in August that will clearly continue to drive the engagement





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and content, which tends to drive monetization. And you should assume -- Andrew mentioned that Q3 will have even more than Q2, so we're going to continue to build that. I would assume that the back 3 quarters of the year are probably all about the same size based on what we know today and larger than the first quarter. That's all I can really tell you because it's just early days and we're only 1 month into -- or less than 1 month into Season 2 right now. But everything's tracking to plan or better for us, and so we're very confident on the \$300 million to \$400 million on Apex.

Obviously, Sims, we've called out that it's in the same range of \$300 million to \$400 million. We didn't do that before, but we wanted to remind people that our business is not based on Apex Legends alone. It's very important to us, but it's still a relatively small part of our overall business. And franchises like The Sims have been continually producing that range of revenues because we run them as a live service. And we want to make sure people understand, we have confidence in building a live service around Apex and that will continue to grow over time and we'll continue to update you as we learn more.

But we know we've got amazing engagement. We have 8 million to 10 million people on a weekly basis playing the game. That's huge for us on almost any game that we see. And we'll continue to take advantage of that, keep them engaged and playing everyday.

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### Operator

Your next question comes from the line of Colin Sebastian from Baird.

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

(technical difficulty)

For me as well. First, on Apex, I was wondering more specifically what you see in reengagement with some of the early players in terms of what has drawn them back into the game?

And then secondly, Sony made some comments today on third-party software sales, reducing their outlook a little bit. Was just hoping for any color from your end in terms of the preorder environment for some of the titles or the retail environment overall.

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

Yes. I'll hit the second piece. Andrew wants to talk about the Apex engagement, if you want.

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

Yes. I would just come back to the comments that Blake just shared. And we have between 8 million to 10 million people engaging in this game on a week-by-week basis. That is large by any measure. It makes it one of the -- probably the most engaging games. We have continued to see great fan sentiment inside that game. And we expect to continue to grow that audience over time. Again, when we think about Apex Legends, we set out to build something with longevity. And at the very core is a great gameplay experience. And we know that long-term engagement involves the ongoing release of new content and the ongoing running of events, both of which the team at Respawn are doing with great success, but the very core of that is a great gameplay experience. And we're building this in a way that we expect to continue to grow and continue to be a meaningful part of our business for a long time to come. And the sign of engagement that we see today lead us to believe that's possible.

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

Yes. We think about this as almost like an annual title. We will continue to innovate that game and evolve that game over time and hope to believe -- I believe that we have a 10-year run ahead of us or if not more. There's so much potential and ways to change that game over time and add to that game. We think that there's just huge potential in that and that's how we're managing it.



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We -- in terms of the news around Sony, I have not seen the Sony news so I don't know exactly what they said. We're not seeing any softness in our demand metrics around our titles. And thus, the reason that we reconfirmed our guidance for the full year.

### Operator

Your next question comes from the line of Matthew Thornton from SunTrust.

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

Blake, maybe one for you and then one for Andrew, if I could quickly. Blake, just in terms of the other guidepost for the year, you talked about Apex, you talked about Sims. I think last quarter you gave us a couple more guidepost around mobile down 10% to 15%, some of the frontline unit assumptions as well. Just curious if there's any changes in those kind of assumptions versus 3 months ago.

And then, Andrew, maybe if you could just talk just really quickly about the VOLTA mode within FIFA and how you're thinking about that impacting engagement? But also monetization, how we should kind of think through that? Any color there would be helpful.

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

So no changes on guidance. We're pretty consistent with all of the numbers that we provided at the start of the year. And all the metrics that we've seen are leading towards that and we're feeling confident about it.

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

And on VOLTA, again, I go back to some earlier comments, is we do see FIFA like a platform and we do see our opportunity to bring together hundreds of millions of football fans around the world to experience football in a way that is meaningful to them. We do that across platforms. We do that through business models. We do that through different access models and different play models. And what we recognized with the platform at this juncture was that there was a lot of really hard-core football in there. And we expect that, that will continue to be the most meaningful part for much of the FIFA playing community.

But there was also a whole group of football fans that wanted a more casual style of play. And we built that model to attract new fans. And what we have seen over time, as we have put new modes in the game, and I will use The Journey, our story-based mode that we did a few years ago now, when we started that mode, is that it brings in a whole new set of players that come in to fulfill different motivations in the game. And ultimately, they become part of the community and the richness of that community and typically move into the more competitive modes in the game like FIFA Ultimate Team and the competitive esports modes inside of Ultimate Team. And so we think about VOLTA that way.

So our expectation is not that there will be an impact on monetization over the long term, but rather we are growing the aggregate size of the FIFA community. And that typically, what happens as we grow that community is those players become part of it, become enriched by it and then move more deeper into other modes in the game like Ultimate Team and our competitive esports modes.

### Operator

Your next question comes from the line of Mike Hickey from Benchmark.



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**Michael Joseph Hickey** - *The Benchmark Company, LLC, Research Division - Research Analyst*

I guess on Apex, I've got a ton of questions. I'll try to limit it to a couple. But I was hopeful -- I mean, given the sort of profile of the game, the competitive aspects of it, esports is sort of a no-brainer. It's great to see you guys start to move forward to your first, I guess, [state of mind] in September, but maybe some more color in terms of how big esports could be in terms of driving engagement, monetization and maybe overall player feel for Apex.

And then, I guess, just another add-on, mobile in China, is this still a possibility in '20? Or is this more of a fiscal '21 event now in terms of expanding insulated opportunities (inaudible)?

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

Yes. Let me hit the mobile one real quick and I'll let talk Andrew talk about esports. We did not put anything in our annual guidance for either mobile globally for Apex in China and that's because we are still obviously working with a partner but we don't have timing set up, but I would assume it's a '21 event in both cases. We'll give you more knowledge or more input as the quarters go on this year as to how that timing will evolve, but right now, I would assume nothing in '20.

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

On esports, again, what we see around the esports community more broadly is the most successful titles are those that have very, very large global player bases where social interaction and competition are at the very core of the experience. And again, I go back to Apex Legends is built as a really, really unbelievable phenomenal game in the first-person shooter category, which has, as its core motivation, both competition and social interaction. And of course, it has a million-strong global audience. So we feel very good about its appeal and its application to an esports. We've also had a series of events and our -- and we'll have our first competition featuring 80 teams later in the year.

And as we think about engagement, again, as we've talked about with FIFA and Madden, engagement of competitive gaming players is typically 4x to 7x higher than noncompetitive players. So our expectation is that not only will the esports component help fuel the existing community and drive higher engagement there, but it will ultimately attract new players and new viewers and new spectators and drive higher engagement there as well. So we feel like it's going to be a very important part of the global community over the long term.

**Operator**

Your next question comes from the line of Gerrick Johnson from BMO Capital.

**Gerrick Luke Johnson** - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

I guess the obvious question no one's asked yet, bookings should be by \$50 million, EPS by \$0.30, gross margin by 240 basis points, so why no increase in full year guidance?

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

Yes. I mean it's a good question. I think we've only raised guidance coming out of the first quarter probably once in my tenure here. And it's rare because it's such a small part of the overall year. I would -- if you look at the phasing that we do in our guidance, we basically just dumped it into the fourth quarter, not for any real reason other than that's supportive. It's no -- it's almost all catalog and we just don't know, but it's still small enough that we wanted to at least remain conservative in how we forecast. And based on what transpires in Q2, we'll then decide if we should change guidance or not, but that -- it wasn't much more complicated than that.



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**Gerrick Luke Johnson** - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

Okay. Can I just dig into the gross margin for a second? That outperformed by 240 basis points, so what drove that?

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

So we have done a faster and better job than we expected on controlling the online cost of revenue, particularly with Apex, but continue across all of our platforms. When we first started Apex, remember that you have millions of people playing, so they can be expensive games to operate, and we called that out in our Q4 earnings conference call. The team led by our CTO, Ken Moss, has worked hard to try to continue to bring down those costs through either different partners or simply how we're operating the game, and I think we've done better than we thought. And we had a bigger digital quarter than we actually expected. We tend to play in around 5% growth of full game downloads, for example, and it was higher this year -- or this quarter. And our digital business was stronger than we had expected, so that really drove it across the board.

**Operator**

Your next question comes from the line of Ray Stochel from Consumer Edge Research.

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

Not just about Apex, but across all of your content that you're building, how are you thinking about the cadence of updates? Do you think players these days have expectations for a faster content drop cadence than prior? And do you think those expectations are too high now? And what changes do you need to make to hit or come close to those elevated expectations?

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

I think it's a really good question, certainly one that we see and hear a lot. The reality is we build games for a lot of different communities, and every single community is different. Some communities, of course, like a FIFA community, have a natural cadence of events that occur in the real world that we tie things to, and that makes sense for that community. A community like The Sims has a longer cadence flow. Again, we're set to have the biggest year in terms of content release this year, and we've continued to grow that franchise since launch, but it is not typically a weekly cadence of content because it doesn't make sense for that community. If we think of a game like Apex, again, it is, at its core, a great game, and so a lot of the ongoing engagement exist because it's built as a great competitive game. And so when we think about that, we think about seasons not as a onetime event, but seasons as kind of a kick-off -- as a series of events that happen kind of over weeks and months of time.

We feel really good about where we're at with Season 2 on Apex. We think that we're learning as we go. Again, this is -- remember, FIFA Ultimate Team, we started this what is now over 10 years ago. It started very small. We've got much better at engaging with the community over that period of time. And now, Ultimate Team is this tremendous business for us. The same is true for The Sims, which launched in 2014. We get smarter and better in terms of understanding how to fulfill the motivations and the desires of our players. And we expect that we'll continue to learn and get better with Apex as well.

One thing that we do try and avoid is that we end up purely as a content furnace with our games. We try and make games that have great gameplay that engage at their very core, and then we're able to build on engagement and fulfill motivations with additional content and additional events. But we try and avoid wherever possible finding ourselves in a position where content is the only means of driving engagement because we just feel it's harder to build longevity with that type of model over time. And we've learned that through over 10 to 15 years of live service experience.



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**Operator**

Your next question comes from the line of Jeff Cohen from Stephens.

**Jeffrey A. Cohen** - *Stephens Inc., Research Division - Analyst*

Thanks for the incremental color on The Sims. It feels like that franchise would be one that would do really well on the Nintendo Switch. So I'm curious how you guys determine which platforms you'd bring the game to or games to? And is there any reason why you wouldn't want to bring that one on there?

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

Any time we're evaluating platform conversations, we are really looking at a couple of things. One, does the game really fit the profile of that platform in terms of the control or the community ecosystem? Two, do we think the community playing on that platform would appreciate the game to go there? Or would they prefer to play it somewhere else?

We have a lot of data that would suggest a great many Switch owners also own a PlayStation 4 or an Xbox One or a PC and very often choose to play the games that we make on those platforms even though they have a Switch and they enjoy a lot of great content on the Switch. And so there's always an evaluation process that goes on a case-by-case basis. And I wouldn't say that The Sims would never go to the Switch, but I think we're doing really, really well attracting Sims players. As we said, we did the promotion in the last couple of months and brought in 7 million new Sims players that we expect will engage in that community on a platform that is really tailored to user-generated content, creativity and customization.

**Operator**

Your next question comes from the line of Todd Juenger from Sanford Bernstein.

**Todd Michael Juenger** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

Can I visit just a little bit at Respawn, just the resource question? It's something we get from investors a fair amount. And so obviously that studio is being taxed with some really important stuff. So I guess would love to hear your thoughts on how resourced the Apex Legends effort is, either in terms of bodies or dollars or whatever you can say? And where did that come from? And did any of that get pulled from the Star Wars effort? And just to reassure us that you've got enough on all of that. And why don't I leave at that? It's a pretty broad question.

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

Okay. Good question. I would offer a few pieces of feedback that I think will make you feel better about life. The first is that there are multiple teams at Respawn, very different teams as well. Again, Apex Legends is a fast-paced multiplayer first-person shooter and has a bespoke team specific to that type of game. This is the team that had worked on Call of Duty many years ago, had launched Titanfall, and now Apex Legends. So this is very much their particular skill set. The Star Wars Jedi: Fallen Order team is a completely different type of team led by Stig, who had been a game director on God of War, and it's all about the single player journey fantasy of being a Jedi. And so they have 2 discrete teams. And there's actually a third team at Respawn as well working on some new things.

In addition to that, this is where scale matters in this industry. In Electronic Arts, we have a very large central group that can provide art, engineering and design help if needed across the company, and we have a number of live services teams also across the company that are well-suited for the creation of new content. And so the combination of individual teams inside Respawn that are individually staffed with their specific games in mind and the global scale of EA and the central resources that we have to help across art and engineering, we feel very, very good about our ability to sustain the needs of our global player base.



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

We've also pulled teams from outside of Respawn to provide them resources on development if they wish to do so -- as Respawn wishes to do so. We have a large DICE team in LA, for example. We have a large live services team in Vancouver. And what we've tried to do is perfect our organization to be able to work long distance as well as in the middle of a studio. And so we've given them the opportunity to pull on any resources they want. And they're very, very conscious about how to make sure they've built the best game and they use the resources very effectively to do that, but they -- there's no shortage of resources relative to what they need.

**Operator**

Your next question comes from the line of Eric Sheridan from UBS.

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

Maybe another big picture question. As you think medium to long term on the shift you're trying to execute on towards more subscription services and cloud-based distribution models, how do you also think about allocating resources against that longer-term goal versus maybe the shorter to medium-term transition where the industry could go through another console cycle next year and how you think about aligning resources and assets inside the company against both those transitions?

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

Another good question. And so I would start with it doesn't matter what the platform or the distribution model or the business model. What matters is that we build great games. And we are doubling down and working with great diligence across our studio organization to ensure our teams have everything they need to build great games. And that will continue to be our focus near-term, medium-term and long-term.

In addition to that, again, given the scale of this company and the leadership of our CTO, Ken Moss, and what we've talked about with Project Atlas some months ago, is we're also investing for the future to ensure we don't find ourselves out of position. As a company, we started to invest in our digital platform over 5 years ago. I think we're still the only developer publisher with a unique ID system that carries with our players regardless of game or platform they play on. We have a single data scheme and data platform across the company and single infrastructure in security and transaction engine and these types of things.

So we've been working on this model for some number of years to ensure that we are ready for the future. Now, as we think about cloud and subscription, again, we went out -- we bought a small company out of Israel that really gave us a head start in how we think about cloud fabric. We've been working on learning an organizational structure around subscription. And so we feel really good about our future there.

But at the end of the day, we continue to be focused on making great games. We have seen the value of great games in games like FIFA and Madden and The Sims and Apex Legends, and we expect that we will continue deliver great games and -- but ensure that we have the technology backbone there to when the industry is ready.

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

Yes. I think we've obviously been doing tests and learning along the way. So we started with our subscription on EA Access on Microsoft. We've learned a lot from that. Obviously, rolled out on Origin. And then, as Andrew mentioned earlier, we just rolled out on Sony. And each of those rollouts have gotten easier and easier because we understand the technology better, but more importantly, what the consumer wants. And so it becomes more of the muscle memory of the company versus having to start a new initiative from scratch.



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We're working hard on moving -- building games for next year on Gen 5. I think it's obvious. I think everybody in the industry is doing that. As has happened in the past, not all games come out on Gen 5 immediately. And obviously, with games like Madden, you'd probably bring the Gen 5 game out when the Gen 5 console ships, not when Madden itself ships, but we'll be ready on Gen 5. We're very excited about it and we've been working on it for some time.

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### Operator

Your next question comes from the line of Alex Giaimo from Jefferies.

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### Alexander Joseph Giaimo - Jefferies LLC, Research Division - Equity Analyst

I was just curious if we can get your updated thoughts on the overall mobile strategy. It looks like mobile bookings were down another 17% year-over-year. I know a lot of that is due to the aging of some legacy titles. So maybe just provide some color on what you're seeing there. And then with all of the smaller mobile developers out there, is this a sector where M&A might make sense?

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

Yes. A good question and either -- we've not had a material shift from our stated strategy over the last couple of quarters. I think we continue to see the mobile industry grow. It's a very meaningful part of the revenue profile, of the [contribution], but it's also extraordinarily competitive and it's very tough and we've seen a lot of large-scale mobile games and mobile companies in pretty serious decline over the last 6 to 12 months. We have a mobile business that still has an operating contribution of 40%. So it's very, very profitable as a mobile business. And we've held on to that and we feel very good about that.

But if we think about our strategy, I would talk about it in 3 core categories. One is that we have some tremendous games in live service mode, and what we're seeing is the average age of the top titles on mobile is actually getting older as those games scale and it's harder and harder to break in. So when you look at games that we have like Star Wars: Galaxy of Heroes or Madden Mobile or FIFA globally, we feel very good about our ability to grow those live services over time and really work hard to ensure that we're filling -- fulfilling the community.

The second element of that is, is that we are in a world where acquisition of new players is really, really tough and it's really hard to break into the mobile charts. We're really focusing on our IP that we believe has real resonance inside the community, and again, like Plants vs. Zombies, which has been downloaded over 1 billion times, is absolutely a candidate there. And you should expect that we will focus on our IP that we think can break out in what is otherwise a very costly acquisition market.

And then third, I think you are right. There are a number of smaller mobile companies out there who have the capacity to build some great games but maybe don't have the marketing firepower to actually break into the market or the network of players that we have that they could access. And I think there will be an opportunity for some M&A over time. I don't think that's an easy path, but we're certainly out there and talking to a number of different players about how we might accelerate their otherwise senior objectives.

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

Yes. If you had to think about it on priorities, I mean clearly, as we mentioned, we'll have a new Plants vs. Zombies game, a high priority for us; Apex going mobile, and that's globally a high priority for us. And FIFA and Madden remain super high priorities because they're 2 of our largest games. And as we talked about earlier, the global opportunity for FIFA, including China, is very large. And so we're spending a lot of time there and we'll continue to do that.



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**Operator**

Your next question comes from the line of Clay Griffin from Deutsche Bank.

**Clayton Keever Griffin** - *Deutsche Bank AG, Research Division - Research Associate*

Blake, I just want to follow-up on what you talked about in terms of learnings coming out of -- on Microsoft EA Access and just if we can get an update on what you're seeing in terms of user behavior. I know it's early days with Sony, but what you're seeing there, relative willingness to engage with live services on those platforms. Any color there would be helpful.

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

Yes. I mean what we first saw and has pretty much stayed true across almost all of the platforms is that people ended up playing twice as many games as they did before they joined the service, which is kind of a no-brainer because that's what you would typically see, say, on a Netflix or a Spotify or others because you've reduced some of the friction of trial essentially. But we also find that people played their games a lot longer, meaning they found a game that they really enjoy playing that they didn't know about. And so it's the discovery aspects of where a service goes which helps a lot. And then if it has a live service on it like in Ultimate Team, they start to spend more money than they did before they went into the service. And part of that might be subscription behavior where oftentimes people think they're getting things for free and are willing to spend on them, and sometimes they just -- they found something they didn't know that they wanted to play and they get deeply engaged in it. And so we're trying to reduce the friction of trial to see new games and to learn about things that they didn't know or didn't want to spend money on getting in by giving them an amazing economic value to start a subscription, and that's stayed true across all of the platforms.

And the one other piece is that you were going to wrestle within any subscription is how do you manage the churn over time and you've got to curate dropping content into the subscriptions at a fairly predictable rate so people will stay in. And we've been trying to do that by bringing third-party content in to help fill in the places where we don't have content because we don't necessarily have content every quarter. And we're thinking about how games might even change in terms of how they're developed over time to better match subscriptions. So you have more to come, but we're in a really good position. We have more subscribers than any other service in the industry by a long shot and I think a lot better experience base because of that.

**Operator**

Your last question comes from the line of Brian Nowak from Morgan Stanley.

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

I have 2. The first one is you talked a little bit about resource allocation, kind of going back to a couple of the earlier questions, the one from Eric. Can you talk to us a little bit about what percentage of the overall R&D budget or headcount is sort of being attributed toward new potential franchises and new IP just so that investors would kind of get an idea for what could be in the pipeline as we head into 2021 and beyond?

And then the second one, on NBA Live, just philosophical thoughts about potentially going free-to-play on that.

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

Why don't I start with the first one? I'll let Andrew take the NBA question. We would say, as a rough allocation, it's probably 20% of our R&D budget. That's always hard because do you call VOLTA new IP? We certainly do internally, but it was part of this -- the FIFA team that have developed and evolved that product versus a brand-new IP from scratch that we may be working on, like an Anthem, for example. We try to do both where we're evolving games with new IP and new gameplay modes, but we also try to make sure when we're thinking about games for 2000 -- our fiscal '25





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and '26 and '27, way out, where there may be a small group of people starting to ideate and generate the concepts, but you don't scale it up for a couple of years until you really get it to a status or a place where you think you are ready to build the game. But we've always kind of mixed it that way. And it's a balance between inside game teams, as I mentioned, as well as stand-alone teams that we're developing that didn't exist before. But we're comfortable with that mix.

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

Yes. On NBA, we've seen some speculation but -- around free-to-play, but we don't have anything to share at this time. Our game team has been working hard. As a company and as an EA SPORTS brand, we remain committed to basketball and our partners, the NBA and the NBA Players Association. And our game keeps getting better and better every year, and we'll be excited to bring NBA Live 20 to market soon.

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

All right. Well, thank you, everyone. We'll talk to everyone either during the quarter as we see you around the country. Appreciate all your interest. And we'll also talk to you next quarter at the earnings call. Thanks.

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

Thank you.

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**Operator**

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

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