



Prepared Remarks

FISCAL 2020 Q2

October 29, 2019

CHRIS:

Thank you.

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

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar: our Q3 fiscal 2020 earnings call is scheduled for Thursday, January 30, 2020.

This presentation and our comments include forward-looking statements regarding future events and the future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, October 29, 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 continued a strong FY20 with an excellent second quarter. Our latest EA SPORTS titles are captivating a growing global player base, and deep engagement in these titles and our ongoing live services fueled our continued momentum through Q2. As a result, our revenue and earnings per share exceeded our expectations for Q2, and we are raising our full-year guidance today.

At Electronic Arts, we are focused on creating amazing new games and content, offering live services that extend and enhance the experience, and reaching more players when and where they want to play. I'll share a few highlights here of how we delivered against these focus areas during Q2.

First, let's cover our new games. EA SPORTS is innovating for a growing audience of fans. *Madden NFL 20* is off to an outstanding start, growing year-over-year in player engagement, units sold and Ultimate Team. The excellent core gameplay and fresh new experiences in franchise mode are delivering for our loyal fans, while Superstar X-Factors and the all-new Superstar KO mode are resonating with a broader football community. With a launch that began earlier in the preseason and a second major beat at the NFL Kickoff weekend that brought more players into the game, we've delivered growth across the board in Madden – unique players were up 12% year-over-year in Q2, games played in franchise mode more than doubled to over 100 million in the same period, and Madden Ultimate Team unique players are up nearly 20% year-over-year. Our Madden competitive gaming season has kicked off as well. Our major tournaments are aligned to key moments in the NFL season, we have a

groundbreaking virtual stadium rights partner, and other major brands are partnering with us throughout the *Madden NFL 20* Championship Series.

The innovation in *FIFA 20* is also deeply engaging fans and bringing new players into the franchise. Total players in FIFA were up nearly 15% year-over-year in Q2, and with the addition of the VOLTA Football street soccer experience, new-to-franchise players have grown 7% year-over-year. Enhancements to the core gameplay and Ultimate Team are also re-engaging more franchise veterans, with unique players in FIFA Ultimate Team growing 22% over last year. People are playing more FIFA than ever before, with total in-game matches up more than 30% year-over-year. And as players continue to engage in the *FIFA 20* experience and Ultimate Team, our *FIFA 20* Global Series is kicking off in November, with millions set to compete in our unparalleled nine-month worldwide esports competition. Last season, more than 800 million minutes of FIFA esports content were watched, and with sponsors like Adidas and others breaking new ground with us this year, we're excited to reach an expanding audience with more great content.

We also saw growth across our broader EA SPORTS portfolio. With innovations in *NHL 20* delivering for hockey fans, Hockey Ultimate Team grew year-over-year in Q2. FIFA Online in Korea had some of our strongest-ever months on PC, and we're also seeing growth in China. FIFA Mobile has now been downloaded more than 250 million times life to date, following the launch of our latest season that includes 650 new in-game events. It was a very strong Q2 for EA SPORTS, and we're excited to build on that momentum throughout FY20.

Q2 also showed the strength of our ongoing live services. In *Apex Legends*, we continue to deepen our long-term investment in the game and its community. With each successive season of new content, we are building, adding to the experience, and learning. For the first season in

March, we launched the Battle Pass, and began the regular introduction of new legends. In the second season in July, we brought more content, a map update, ranked leagues and larger events. The third season, which launched in October, is our biggest yet -- with an entirely new map, amazing events like the Halloween-themed content in the game now, and much more to come. Weekly average player peaks in Season Three are significantly above our Season Two peaks, and we're continuing to bring more new players into the game. *Apex Legends* is a major long-term franchise for us. Since launch, we've significantly expanded the team working on the game, and it continues to grow. Our pipeline of future content is packed with really fun experiences that will be delivered through upcoming seasons and a regular cadence of updates for the community. With the *Apex Legends* community now growing past 70 million players, we're focused on expanding to mobile, new platforms and new geographies, as well as launching an Apex competitive gaming program that we'll share details on soon.

The Sims 4 also continues to be an incredible long-term live service with a growing audience. Monthly average players are up more than 40% year-over-year in *The Sims 4*, and engagement across the franchise has led The Sims to surpass \$5 billion in lifetime sales. The Sims continues to be one of the great franchises in gaming, and we have plans to bring new experiences to its amazing players for a long time to come.

We are also reaching new milestones as we seek to bring great games and services to more players on more platforms. The launch of EA Access on PS4 significantly grew our subscriber base through the course of Q2. We also announced this morning our plans to bring EA Access to Steam on PC, adding a fourth platform where players will be able to connect and get the benefits and value of our subscription service. This is a unique and exciting partnership with Valve that will enable us to bring PC players in the Steam and Origin communities together. Helping more players connect to our games whenever and wherever they want to play will be a

continuing focus for us. We look forward to sharing more announcements about other platforms in the coming months.

For our holiday quarter of FY20, we're delivering great new games and content across our portfolio. First, the irreverent new *Plants vs. Zombies: Battle for Neighborville* launched two weeks ago to praise from fans and critics, and we're looking forward to the holidays for this family-friendly game. In early November, *Need for Speed Heat* arrives for racing fans, blending street racing by day and underground racing by night, all with the deep customization that fans expect. Players have been getting primed through the *Need for Speed Heat Studio* mobile app launched this summer, where they have already customized more than 7 million cars, which can be loaded straight into the game at launch.

Then, on November 15, *Star Wars Jedi: Fallen Order* arrives worldwide. This game is coming to market at such an amazing time. From the launch of *Star Wars: Galaxy's Edge* at Disney theme parks; to the upcoming Disney+ series *The Mandalorian*; to ongoing games like *Galaxy of Heroes*, *Battlefront II*, and *The Old Republic*; to the culmination of the Skywalker saga in the upcoming film, *Star Wars: The Rise of Skywalker*, this is a year unlike any other for hundreds of millions of Star Wars fans out there. The one fantasy that many of those fans have been telling us they want is to experience the journey of becoming a Jedi – and we're set to deliver that with *Jedi: Fallen Order*. The Respawn team have been pouring their passion into creating this new game in partnership with Lucasfilm, with characters old and new, and a story that is now an authentic part of the Star Wars universe. It's going to be a thrilling adventure to play, and with more than 140 million views to date of trailers and videos for the game, the community is eager to jump into *Star Wars Jedi: Fallen Order* in just a few more weeks.

The holidays will also be a busy season for players in our live services. Our *Battlefield V* players will be able to jump into the expansive new Pacific theater, a major addition to the game that includes new factions, maps, weapons and vehicles -- starting two days from now. And in *Apex Legends*, our EA SPORTS franchises, *The Sims 4*, *Anthem* and *Star Wars Battlefront II*, our communities will all have new content and new experiences to dive into during the holiday quarter.

Looking farther ahead, I want to share a few thoughts on FY21 and our plans for the continued growth of Electronic Arts.

We reach a massive global audience of players with our games today, and we have a core business fueled by live services that continues to grow. Next year, we will build on that with:

- A full slate of new EA SPORTS experiences, including new titles that we are adding to our sports portfolio. New consoles are always an opportunity to drive more innovation in our EA SPORTS games, as our fans are eager to begin experiencing a new generation of play.
- That will include our plans for NBA LIVE. With great support from the NBA and NBPA, we had been working on an innovative new direction for our game timed with the All-Star weekend – an experience designed around new ways for players to engage, connect and create through basketball. Now, with greater understanding of the new platforms and what they can power – bringing social connection, accessibility, and player creativity to the forefront – we feel we can go so much further with the new design. So we've decided not to ship an NBA LIVE game in FY20. Instead, we're expanding our vision for NBA LIVE, and continuing to work closely with our NBA and NBPA partners on this new project that we'll share more details on next year.

- Our live services will continue to grow and enhance the experience in our major franchises. We're expanding our *Apex Legends* team to deliver our content plans for FY21, and we will reach new audiences through mobile and across Asia. We have ongoing growth expectations for *The Sims 4*, with new expansions and all-new ways to engage and grow the community. Our Battlefield franchise and its community are also a major focus for us, and we'll add new content and new ways to play *Battlefield V* in FY21. Targeting new innovation that will be enabled by next-gen platforms and a growing install base on the new consoles, our next Battlefield game is set for FY22.
- We also have plans for new experiences that we've not yet announced for next year – new titles and new IP for multiple platforms. Introducing new games will always be at our core, and we look forward to exciting players with unexpected new titles in FY21.
- We will also be driving new opportunities to connect with more players through expansion of our subscription services, new platforms, cloud gaming, and more.

We're confident in the continued growth of our business at Electronic Arts – through FY20, FY21 and beyond. We have a big holiday quarter ahead of us, and we're excited to continue a strong year.

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

BLAKE:

Thanks, Andrew.

The strong results this quarter illustrate the power of our focus on live services and on our core franchises. Games are evolving, and the way people play them is changing. We had great

launches for FIFA and Madden, and the quarter's story is dominated by live services that engage players over extended periods of time. Live services strength in Ultimate Team, *The Sims 4*, *Apex Legends* and FIFA Online drove performance significantly above last year.

I'll report 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 \$1.348 billion, above our guidance by \$33 million. **Operating expenses** were \$675 million, \$4 million lower than our guidance. **GAAP operating income** was \$268 million, compared to an operating income of \$258 million a year ago, and resulted in **earnings per share** of \$2.89, \$0.29 better than our guidance. As a reminder, \$2.11 of our earnings was driven by the tax benefit we disclosed previously. Underlying profit was much stronger than we had expected, driven by increased sales, lower operating expenses and a richer digital mix.

Operating cash flow for the quarter was \$37 million, up \$163 million from last year. The increase was driven primarily by higher profit and better collections. **Operating cash flow for the trailing twelve months** was \$1.748 billion, \$290 million above last year. **Capital expenditures** for the quarter were \$27 million, resulting in a **free cash flow** of \$10 million. See our earnings slides for further cash flow information.

During the quarter, we also **repurchased 3.3 million shares at a cost of \$306 million**, leaving \$674 million available in our buyback program.

Our **cash and short-term investments** at the end of the quarter were \$4.9 billion.

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

Total **net bookings** for the quarter were \$1.277 billion, up \$55 million on the prior year, and \$47 million above our guidance. Performance over guidance was driven by broad strength across our portfolio with notable growth in live services.

Digital net bookings were \$790 million, up 24% on the year-ago period, and a new record for the second quarter, driven by growth across our numerous live services offerings as well as an increase in full-game digital downloads. Digital net bookings represented 78% of our business on a trailing twelve-month basis, compared to 69% in the prior year.

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

- **Live services** net bookings were up 50% year on year, to \$493 million, another new Q2 record. The increase was driven by *Apex Legends*, Ultimate Team, in Madden, FIFA and NHL, *The Sims 4*, and FIFA Online, partially offset by the tail of *Battlefield 1* DLC. EA Access is off to a great start on PlayStation.

Ultimate Team net bookings grew strongly year on year for both Madden and FIFA. Even adjusting for the fact that Madden had an extra week in the quarter, and both Madden and FIFA benefitted from early access sales on PlayStation through EA Access, both were up double-digit percentages over last year. Notably, given that we launched VOLTA Football in *FIFA 20* and it immediately became the #2 mode in the game, behind only Ultimate Team, weekly average users for FIFA Ultimate Team still grew 15% year on year.

- **Mobile** delivered net bookings of \$122 million, down 20% year on year, driven by aging titles. The segment outperformed our expectations, driven by new content in *Star Wars Galaxy of Heroes*. *FIFA Mobile China*, *FIFA Online 4 Mobile*, *Madden Mobile* and *Star Wars Galaxy of Heroes* all grew this quarter, and, subsequent to quarter end, *Star Wars Galaxy of Heroes* had its second-biggest day ever.
- **Full game PC and console downloads** generated net bookings of \$175 million, 11% higher than last year, another Q2 record. The digital portion of *Madden* sales increased 9 percentage points year on year, to 51%. *FIFA 20* launched just days before the end of the quarter, but based on the first 3 weeks of sales, it was about 34% digital, up from 29% in the comparable period for *FIFA 19*.

Overall, 50% of our unit sales were digital rather than physical, measured on Xbox One and PlayStation 4 over the twelve months to September 30. This compares to just 42% a year ago.

Turning to guidance: our expectation for full-year GAAP revenue is \$5.410 billion, and earnings per share of \$9.57. As a reminder, \$5.74 of this is driven by the tax benefit we disclosed previously.

We expect **operating cash flow** of about \$1.625 billion, \$50 million above our prior expectations. We continue to anticipate capital expenditures of around \$125 million, which would deliver **free cash flow** of about \$1.50 billion.

With regards to business drivers, we have raised our net bookings outlook for the year to \$5.125 billion. Live services remain strong, and we continue to expect *Apex Legends* and *The*

Sims to both deliver net bookings in the \$300 million to \$400 million range. We're not passing through the full beat, primarily as the FX headwind has increased significantly and we have pushed *NBA Live 20* and Respawn's VR Medal of Honor title out of the year. Together, these headwinds amount to approximately \$100 million against our original expectations for net bookings.

For the **third quarter**, we expect net revenue of \$1.51 billion, **cost of revenue** to be \$482 million, and **operating expenses** of \$733 million. Opex is up year on year, driven by the negative adjustment to variable compensation a year ago. This results in **earnings per share** of \$0.92 for the third quarter using the diluted share count of 295 million.

We anticipate **net bookings for the quarter** to be \$1.94 billion. This is up 21% year-on-year, driven by live services, particularly *Apex Legends* and Ultimate Team, and because we have two launches in the quarter this year, versus one last year. We released the launch trailer for *Star Wars Jedi: Fallen Order* this morning, and early reaction appears extremely positive. We're excited to bring this action title to Star Wars fans on November 15, and continue to model sales in the range of 6 to 8 million units. We are modelling *Need For Speed Heat* to perform similarly to previous titles in that franchise, with unit sales of 3 to 4 million units.

Looking further ahead, I'd like to expand on the view Andrew gave you into our **fiscal 2021** slate. We're doubling down on live services combined with our core franchises.

We're investing in *Apex Legends* as our shooter in fiscal 2021. We expect to drive growth in all of our major live services next year, including Ultimate Team, *Apex Legends*, FIFA Online and The Sims. We will continue to grow our subscription business. We believe Apex growth will be driven in part by the continued expansion of content and by the launch of the service on new

platforms, geographies and on mobile. As Andrew noted, the Sims is now a \$5 billion franchise for us, and it continues to grow, driven by new content and new platforms.

Mobile growth will be driven by the ramp of our new Plants vs. Zombies title, sports on mobile, including FIFA Mobile in Asia, and *Apex Legends*, offset by aging titles elsewhere in our portfolio.

With regards to product launches in fiscal 2021:

- We will add at least one more sports title to our annual slate;
- We will launch Medal of Honor VR;
- We'll deliver some exciting remasters of fan favorites, including the Command and Conquer game we've already disclosed;
- And we have two new unannounced EA Partners titles coming from third-party developers.

In addition, we have other unannounced titles in the FY21 slate - we will give specifics nearer the time.

Overall, we expect this to drive growth in net bookings and underlying profits for fiscal 2021.

We will provide formal guidance on our Q4 call as usual. Growth in fiscal 2022 will be led by a new Battlefield title.

I introduced the quarter by discussing how player preferences have changed the way we build and deliver games. We're investing in games that people play for longer and engage with much more deeply. For example, the number of matches played in FIFA per player has grown nearly 10% year on year, and we expect VOLTA to grow that still further. Similarly, the time spent

playing matches in *Madden NFL 20* is up by about one third. We expect this strategy and focus will continue to drive growth and profitability for the company through the remainder of this year and beyond.

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

ANDREW CLOSING:

Thanks Blake.

It is a great time to be part of the interactive entertainment industry. The excitement throughout the community for new experiences and innovation shows how games – more than any other form of entertainment – can bring people together. Billions of people, from every corner of the world, bring their passion to play, connect, compete, and share through games. Making that possible is what drives every single one of us at Electronic Arts.

Amazing games are the very core of our business growth. We have a powerful and diverse portfolio of games across genres, fulfilling a breadth of motivations for our players – from escape in *Star Wars Jedi: Fallen Order*, to competition through EA SPORTS, to social connection in *Battlefield V*, and more. Creativity fuels our future, and our studios have many more new experiences in development – new IP at Motive, new projects at DICE, Bioware, Maxis and Criterion, new mobile titles, new titles for EA SPORTS, new indie and third-party developer titles – all that will continue to excite and grow our global audience.

Live services extend and enhance the experience of those games. *Apex Legends*, FIFA, *The Sims 4*, *Galaxy of Heroes* and more of our top franchises have thriving global communities spanning hundreds of millions of players. We've been pioneers in this space, building on years of expertise and success to deliver continuously evolving experiences fueled by new content, in-game events, and fan-requested updates. Competitive gaming adds another dimension to the experience to play and watch, and we're building on our strength here with more of our franchises set to enter esports in the coming months. As players around the world play their favorite games for longer periods of time, robust live services will continue to be vital to the experience, and a growth driver for our business.

Reaching more players on more platforms is also a key driver for us. New consoles, cloud gaming, and more platform choices will continue to expand the addressable audience. We're thrilled to be bringing the EA and Steam communities together through the EA Access subscription, and we're working to reach more platforms in the near future. As cloud gaming continues to develop, through Project Atlas we are testing games streamed on public cloud infrastructure to ensure we are at the forefront of this developing space. We're also very excited to continue working with our first-party partners on their new platforms, where we'll be well-positioned to deliver some outstanding new experiences beginning next year.

With some of the most talented, creative and passionate teams in the industry, we are building momentum. Our focus on making great games and live services for more players around the world has never been stronger. Now Blake and I are here for your questions.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal year 2020 and 2021 expectations, 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 or 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 to our tax rates or tax laws and other factors described in Part II, Item 1A of Electronic Arts' latest Quarterly Report on Form 10-Q under the heading "Risk Factors", as well as in other documents we have filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

These forward-looking statements are current as of October 29, 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 September 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 September 30, 2019.