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# EDITED TRANSCRIPT

EA - Q2 2020 Electronic Arts Inc Earnings Call

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## OVERVIEW:

Co. reported 2Q20 net revenues of \$1.348b, GAAP operating income of \$268m and GAAP EPS of \$2.89. Expects FY20 GAAP revenues to be \$5.410b and GAAP EPS to be \$9.57. Expects 3Q20 net revenues to be \$1.51b and GAAP EPS to be \$0.92.



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## 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 Brandy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q2 Fiscal '20 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, Brandy. 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](http://ir.ea.com). In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model and a transcript. With regards to our calendar, our 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, and 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.



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

Thanks, Chris. We continued a strong FY '20 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 on 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 the broader football community. With the 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 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 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.

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 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 reengaging 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 9-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 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 FY '20.

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 and map update, rank 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 3 are significantly above our Season 2 peaks, and we're continuing to bring 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 the mobile new platforms and new geographies as well as launching an Apex-competitive gaming program that we'll share details on soon.



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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 franchise 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 PlayStation 4 significantly grew our subscriber base through the course of Q2. We also announced this morning of 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.

Having more players connect through 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 FY '20, we're delivering great new games and content across our portfolio. First, the irreverent new Plants vs. Zombies: Battle for Neighborville launched 2 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 a deep customization that fans expect. Players have been getting primed through the new Need for Speed Heat Studio mobile app launched this summer where they've 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 Plus 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 had been pouring their passion into creating this new gaming partnership with Lucasfilms, 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 large 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 2 days from now. And at 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.

Moving further ahead, I want to share a few thoughts in FY '21 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 EA 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 the NBA Players Association, we have been working on an innovative new direction for our game timed with the All-Star weekend, and experiences are 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 NBA Live game in FY '20. Instead we're expanding our vision for NBA Live and continuing to work closely with our NBA and NBA Players Association partners on this new project that we'll share more details on next year.



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Our live services will grow -- 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 FY '21, and we'll reach new audiences through mobile and across Asia. We have ongoing growth expectations for The Sims 4, with new expansion 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 FY '21. Targeting new innovation that will be enabled by next-gen platforms and a growing installed base on the new consoles, our next Battlefield game is set for FY '22.

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 FY '21.

We will also be driving new opportunities to connect with more players through expansion from our subscription services, new platforms, cloud gaming and more. We are confident in the continued growth of our business at Electronic Arts through FY '20, FY '21 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.

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

Thanks, Andrew. The strong results this quarter illustrate the power of our focus on live services and in our core franchises. Games are evolving and the way people play them is changing. We had great launches for both FIFA and Madden, and the core story is dominated by live services that engage players over extended periods of time. Live service 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 an earnings per share of \$2.89, \$0.29 better than our guidance. As a reminder, \$2.11 of the earnings were 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 faster collections. Operating cash flow for the trailing 12 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.

Net bookings -- net digital bookings were \$790 million, up 24% on the year-ago period and a new record for the second quarter, driven by growth across numerous live service offerings as well as an increase in full game digital downloads. Digital net bookings represented 78% of our business on a trailing 12-month basis compared to 69% in the prior year.



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Looking at each of the components of this year's digital -- for this quarter's digital net bookings in turn. Live service 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 this year, year-over-year for both Madden and FIFA. Even adjusting for the fact that Madden had an extra week in the quarter, both Madden and FIFA benefited 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 and 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 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 12 months prior to September 30. This compares to just 42% a year ago.

Turning to guidance. Our expectations for full year GAAP revenue is \$5.41 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 \$1.5 billion.

With regards to business drivers, we've 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 headwinds has increased significantly and we pushed NBA Live 20 and Respawn's VR Medal of Honor title out of the year. Together, these headwinds amount for -- 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 adjustments of 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 shares.

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 2 launches in the quarter this year versus 1 last year. We released the launch trailer for Star Wars Jedi: Fallen Order this morning, and the 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 million to 8 million units. We are modeling Need for Speed Heat to perform similarly to previous titles in that franchise, with unit sales of 3 million 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. And we 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 additional product launches in fiscal 2021, we will add at least one more sports title to our annual slate. We'll launch Medal of Honor VR title. We'll deliver some exciting remasters of fan favorites, including the Command & Conquer game we've already disclosed. And we have 2



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new unannounced EA partners titles coming from third party developers. In addition, we have other unannounced titles in the FY '21 slate. We will give you specifics nearer the time.

Overall, we expect 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 and very exciting 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 is up by almost 2 -- or 1/3. We expect this strategy and focus will continue to drive growth and profitability for the company through the remainder of this year and beyond.

With that, I'll turn the call back to Andrew.

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

Thanks, Blake. It's 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 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 and Maxis and Criterion; new mobile titles; new titles for EA SPORTS; new Indian third-party developer titles, all that will continue to excite and grow our global audience.

Live services extend and enhance the experiences 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 always 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.



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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question comes from the line of Eric Sheridan with UBS.

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

Maybe two, if I can. On the live services commentary, I just want to make sure we are understanding the key messages on how much of the doubling down on live services has to do with the existing franchises versus how we should think about the key to investment you might make against new franchises where you see pockets of the industry where you can extend in the live services and broaden out the portfolio looking out over the next couple of years. That's number one.

And Andrew, on your comment on EA SPORTS, I'm just curious what you mean by the potential to broaden out the portfolio there as well. We saw a headline today about the NCAA and possible compensation of athletes. That's an area where you guys have historically had some success going back to the football title from years ago. How should we think about the opportunity around broadening out EA SPORTS as well?

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

So let me take the live service one first, Eric. We have invested heavily in live services over the past 10 years. Obviously, we're seeing the benefits of that today with titles like Ultimate Team across all our sports and The Sims. Obviously, Apex is a new live service which we will invest heavily in to try to continue to grow that business. We view that as a annual shooter franchise effectively. And we're trying to build that as a 10-year business, not a 1-year or 2-year business. And we're very excited about the road map that the Respawn team has put in place.

Beyond that, obviously, FIFA Online in Asia is critical. We're now seeing, as we move from FIFA Online 3 to FIFA Online 4 in Korea, rapid growth. We're still operating both platforms, Online 3 and Online 4 in China. And over time, we'll move to a single platform there. But we feel like we're out of the woods on the bad comp from last year and so we're starting to see good growth there.

And we're looking at how do we expand live services across every single one of our titles that can be as successful or more successful than what we see on our sports titles and Sims and Apex. That includes titles like Battlefield titles, the action genre like Anthem. And you'll continue to see improvements across that, and we're excited about where that could go. It is how people want to play games. It is where we think we have a skill set that is different than many of the other game companies, and we think we can continue to be very successful there.

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

On the EA SPORTS point, there are a number of EA SPORTS games that we've worked on or developed or published over the years. Some of those sports, we're seeing strong resurgence, strong growth, and we're investing back in. It's an area of key strength for us as a business, and our EA SPORTS teams have demonstrated an ability to truly engage a global population of sports fans.

With respect to NCAA sports in general, yes, we have been in that business before as well. We saw the news today as did you. We had fed into the NCAA working group. That news today was new to us. We're still digesting it. We would anticipate that there are still a number of things that would have to happen over the coming years before we'll be able to get back into that business, but certainly we're watching closely.

### Operator

Your next question comes from the line of Michael Olson with Piper Jaffray.





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**Michael Joseph Olson** - *Piper Jaffray Companies, Research Division - MD & Senior Research Analyst*

You guys talked a lot about what's coming in fiscal '21. I thought it might just be helpful to summarize fiscal '21 and how you kind of comp incremental titles launching in fiscal '20. So just kind of rattling through it: Growth for Apex Legends; FIFA Online in Asia will grow; Ultimate Team for both Madden and FIFA grow; Sims, I'm not sure if you are implying growth there or not; a new sports title, Command & Conquer, NBA Live, Gears of War VR, 2 new partner titles and maybe a couple of other titles that you can't announce right now. Does that sounds correct? Or was there anything I missed or got incorrect?

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

Yes. No, we were implying growth for the Sims as well. We've continued to grow that title every year for the -- since it was shipped, what, 7 years ago and we feel that, that continues on. We've got a really robust plan for continued growth. And there may be some other remasters that we do along the Command & Conquer line that we just haven't announced yet. But that -- we believe all that yields a pretty exciting fiscal '21. And effectively, what we're doing is giving you some guidance on fiscal '22 knowing that a Battlefield is coming then.

And remember, the goal of Battlefield for '22 is to really take advantage of a larger installed base of the new consoles. Bringing out Battlefield next year where the new console base is fairly small doesn't really give justice to the potential of the title. And so that's part of our driver in moving the title into fiscal '22. So think about it as multiyear growth model that we just tried to lay out for people and we're pretty excited about it.

**Michael Joseph Olson** - *Piper Jaffray Companies, Research Division - MD & Senior Research Analyst*

Okay. And then just to follow up on that. It sounds like you're implying Apex Legends will grow and fill kind of some of the hole that not having the Battlefield will create. I know it's hard to quantify, but kind of qualitatively, how much of the growth in Apex next year is dependent on getting the game approved in China and having success with the title on mobile as well?

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

Yes. So it's hard to predict when you get approval in China, so we don't know. So I would assume that in Apex China, console -- or a PC game is probably at the tail end of the year, if not even the following year. We think we've got a faster pace on mobile globally, ex China. So we would hope to see that in the year as well, sometime during the year.

It really depends on how long we keep it in soft launch. But we're obviously including those as we think about growth, but the bulk of that growth is probably '22 versus '21, where we'll really start to gain traction there.

**Operator**

Your next question comes from the line of Alexia Quadrani with JPMorgan.

**David Karnovsky** - *JP Morgan Chase & Co, Research Division - Analyst*

This is David on for Alexia. Just within your live services results, is it possible to quantify at all the contribution that you've seen from subscription in the quarter? And maybe how should we think about trajectory of subscriptions going forward just following the partnership with Valve you announced this morning?



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

Yes. I mean subscriptions -- I mean live services is so large. The subscription is still a relatively small portion of that. We are around 5 million subscribers now and have grown much faster on the Sony platform than we did in the early days of the Microsoft platform. Obviously, there are more consoles out there now, so that helps it. But the Sony platform has grown well beyond our expectations, and we're very excited. And they've been a great partner for us.

As Andrew mentioned, we're continuing to drive subscriptions across as many platforms as we can. We want to go where the gamers play. And clearly, that was the driver of the Valve, Steam approach. What we found is that subscribers engage more and spend more money at the end of the day. It's why it's such a great business model. They're very sticky. They tend to stay in the subscriptions longer. And they're looking for great content and they find games they've never played before and then start to monetizing those games. And that's the reason we're so optimistic about it. But it's still a relatively smaller portion of the overall business because, obviously, in the quarter, almost \$500 million of revenue. The big dominators there are Apex and Ultimate Team and followed by The Sims and FIFA Online in Asia. But it is -- it continues to be an important part of the overall live services business.

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**Operator**

Your next question comes from the line of Eric Handler with MKM Partners.

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

I appreciate all of the details you guys have given on the call so far. A couple of quick things hoping you could help out with. One thing that was not mentioned was Titanfall 3. Has that been sort of integrated now into Apex Legends? Is that still being looked at as a separate title?

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

It certainly could be a separate title in the future. We really want to keep the team hyper-focused on Apex because we see there's so much opportunity there. But so I can't give you a sense of if and when it will come, but we're -- it's still a great brand and we certainly won't forget about it down the road.

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

Okay. And then 2 other quick follow-ups. When you talk about doubling down on live services for next year, you've obviously been focusing on live services for a while, but is anything changing with regards to the amount of spending that you guys are doing? Or anything financially with the model as you do -- as you double down on these live services?

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

Yes. I think there's really 3 core changes. One is we're seeing players want to play and engage more. Again, over the last 24, 36 months or even a little longer than that, you've seen us focus deeply on live service and drive engagement into our games, and you saw that through last year. We're seeing that pay off this year.

And so as we look forward, we're seeing players have even greater intention to spend more time into those games. And so there's really -- there's 2 other broad changes. One is just how we develop the core features inside that game, and we're doubling down on those types of features that allow players to fulfill those core motivations that drive the live service, social interaction, competition, self-improvement, creation, those things that really drive a live service business. And then we're doubling down on the teams, both in terms of development and marketing, in terms of how we bring those things to market.



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What you've seen this year is a willingness for us to do things slightly differently. If you take what we did with Madden this year, we launched the game earlier and we held another whole set of content for a different audience and marketed that differently and targeted that differently and released that around kickoff. And we're seeing tremendous success as a result of that. And so not only will we build and double down on the actual development of the feature set, we're also going to be speaking and communicating and marketing the content differently to gamers across the board.

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

And part of it is changing the talent mix. So we're bringing in more people that have live service expertise. I think there's probably no one in the world that has better live service expertise than we do in sports. But you need to make sure you're bringing in talent that can support a team like Apex, support Battlefield teams, so forth. And that's important because the talent mix is very different, and we've been successful in recruiting some fabulous people into those teams, and we'll continue to focus on that.

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**Operator**

Your next question comes from the line of Stephen Ju with Crédit Suisse.

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

So Andrew, I just wanted to dig in a little bit more in terms of the decision-making process that went into Battlefield skipping a year here. So -- and just wondering whether this is a conscientious decision to shift the direction of the franchise? Or is this more of a resource-constraint decision? And should we still be thinking about this franchise as something that is still a 2-year or maybe even a 3-year cycle release? Or maybe more like a perpetual service like what you may have been intending to do with Anthem?

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

Good question. So it's not about resource constraints. I'll say that upfront. But it was a very thought-through decision for us, and there was a few factors that came into play.

The first is that we still see a burgeoning opportunity with Battlefield V. And as I talked about in the prepared remarks, we're about to launch a whole new theater of war with the Pacific theater, and the team is still really thinking about how they can continue to drive that service on a go-forward basis. And so we think there's opportunities still inside the Battlefield V experience as it was built as a base live service from the beginning.

The second is we now effectively have an annualized shooter at Apex Legends, and we see tremendous growth opportunity. That game continues to engage, as we talked about in the prepared remarks, now over 70 million players. And as Blake talked about, we have opportunity to take that into other regions and to other platforms. And we think there's a tremendous growth opportunity on that and want to make sure that we give that the airtime that it deserves.

And then third, as we thought about building for the next Battlefield, Battlefield has always been cutting-edge and leading-edge both in terms of visual fidelity and in gameplay and in multiplayer play. And as the team really began working against that, it became apparent to us that launching into the next-gen platforms was going to offer tremendous opportunity for innovation. But we really wanted to give the installed base some opportunity to grow and believe that, in combination with the first 2 things I talked about, launching Battlefield in FY '22 is a really strong move for us and presents us with an opportunity for a strong 2 years of growth.

In terms of the overall franchise direction, I don't think you should read into this a dramatic change in franchise direction, other than it will be driven around live service as is the nature of our industry now. It will be cutting edge. It will be high-fidelity. It will be doing things in the context of



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multiplay and social play and competition that Battlefield at this point have not done, and we do believe it will be a really, really exciting title in FY '22.

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

The other thing, Stephen, is a lot of investors I don't think fully appreciate the depth of our catalog business. As Andrew mentioned Battlefield V, we want to continue to have that as a critical part of our catalog.

You all might be surprised, but we have sold over 33 million copies of Star Wars Battlefront I and Battlefront II combined. That's a huge tail for our business going forward. And so we're very conscious as to how we think about staging when our games come out. And I think people get used to the annual cadence of sports, which works really well in sports. But we want to be careful on some of these other franchises that we give them the long life that they deserve inside our business and can generate great returns for us over a long period of time.

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**Operator**

Your next question comes from the line of Robert Berg with Berenberg.

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**Robert Berg** - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I'm really looking to dig a bit deeper into VOLTA and some of the early trends you may be seeing there, particularly interested in 2 areas. I guess the first, just clearly you've seen excellent Ultimate Team KPIs in the period. But how much time are players spending in VOLTA versus your expectations? Is it any more or less?

And also interested in the appeal with any of some of the vanity items. Have you noticed particular interest in customizing? Any thoughts on selling coins here? And a quick follow-on question, if I can. Really strong Ultimate Team player growth, but in your opinion, was any of this due to VOLTA or just general underlying growth there?

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

There was a lot in there. I will do my best. First, we're very happy with VOLTA. But again, what we've talked about over the years is our objective around our future franchise more broadly is really to think about FIFA as a platform and how can we build features that attract new audiences to the game. We did that with The Journey, with story mode for a number of years. We did that with the World Cup content last year, and we're doing that with VOLTA this year, with the expressed purpose of bringing new fans into the game and reigniting the passions of lapsed fans who maybe not have played FIFA for some time.

As a result of that, [see as] we talked about in the prepared remarks, VOLTA is the second most played mode in the game. And so -- and games across the board, engagement across the board is up in FIFA. So we're very, very happy about that.

In terms of what impact that has on Ultimate Team, what we do continually discover is that Ultimate Team has a mode, with these core motivations of collection and competition and social interaction at the very core, often are where players ultimately find they're spending most of their time. And so even as we brought players into the game around The Journey, even as we brought players into the game around the World Cup content last year and even as we bring players into the game around VOLTA this year, we do see a positive impact that has on Ultimate Team over time as players come together with their friends and engage in what is one of the most fun parts of the FIFA experience.

And so our expectation is that it will continue to drive that growth, that Ultimate Team -- that all the work done in Ultimate Team in and of itself drove growth, but the combination of that in bringing new fans through VOLTA, effectively drove our Ultimate Team performance. And you should



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expect that we'll continue to think about our FIFA franchise and our Madden franchise in this way around building new modes that bring people in and then helping them find their friends in the modes they love the most.

### Operator

Your next question comes from the line of Drew Crum with Stifel.

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

So you guys have talked extensively on the audience metrics for Apex. And you noted the weekly players were outperforming close to Season 3 launch versus Season 2. Can you comment on the monetization trends you're seeing there maybe that gives you some conviction around growth in fiscal '21? And then I guess separately, could you update us on your plans with Google Stadia?

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

Sure. So I'll start on the first one and then Andrew can talk about Google. So I think the key as you're thinking -- we're seeing positive monetization trends. We're excited about where it's going, and that's why we reiterated where -- what our original guidance was.

The key with Apex, as any live service, is test and learn, test and learn. So as Andrew described, we are continuing to add new events in each season to try to understand the spending patterns and what people like to spend money on and how much they'll spend. And we'll then tune those events over time. So there's going to be holiday-themed events like the Halloween events that's going on now. There are going to be competitive-style events. There are going to be gameplay-style events and then events associated with new characters or as you saw in this season, a new map.

All of that is along the lines of continuing to try to grow and build the number of players, the weekly average users, the frequency of play and the monetization that falls out of all those combined together. And that is a process that we've done over the last 11 years in Ultimate Team. And I think we've gotten pretty good at it, and we're pretty excited about how we're doing that with Apex. So more to come, but I think we're heading in a very positive path there. On the Stadia update?

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

Yes. On Stadia, no updates right now on Stadia. We've got some [alt] things coming, both in terms of our own test that we're running as part of Project Atlas on the public infrastructure that we're being very happy about and with some other cloud partners who are launching some things in the not-too-distant future.

### Operator

Your next question comes from the line of Mario Lu with Barclays.

### X. Lu - Barclays Bank PLC, Research Division - Research Analyst

Couple of questions, one on FIFA and one on Mobile. We're glad to hear that FIFA Ultimate Team bookings is still expected to grow double digits next year. And you mentioned VOLTA the #2 mode, but I don't believe you currently monetize in that mode as all the cosmetic items can only be earned by playing versus spending money. So is there a possibility in the future to include a Battle Pass or some friendly monetization mechanism in this mode as well? And then on mobile, any overall thoughts on partnering with overseas companies like Tencent or NetEase to help develop your mobile titles? And would that be included in your bucket of 2 titles from third parties next year?



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

So on VOLTA, yes. We're seeing strong engagement in the visual content and the aesthetic content. We don't have a focus on the monetization of that content this year as we have done over the years. The first objective is to attract new players. I think we've done that very well so far. The second objective is just to drive deep engagement of that player base over time. And then typically, once you put those 2 things together, it ultimately drives monetization, but that's not our focus this year.

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

And just a couple of clarifications on your second question. So we said double-digit growth in the quarter for FIFA, not for next year. I don't know what we're doing for next year. We're very excited that we can continue to grow it. That's what we said, but we didn't give any sort of sizing on any of the products for next year. I will say that the double-digit growth is a healthy double-digit growth. So I'm not talking about 11% here or 10%. We're talking about healthy double-digit growth across both FIFA and Madden, and we're very excited about the continuation of that, and we're just reporting on that in the quarter.

And in terms of the other 2 titles, those are third-party console PC titles we were speaking of, not mobile titles. But you should assume that, obviously, for Apex Mobile in China, we would use a third party. And I think as we've said, we're considering using a third party for Apex Mobile globally because, obviously, there could be some ability to have some economies of scale there by using one partner maybe.

**Operator**

Your next question comes from the line of Ryan Gee with Bank of America.

**Ryan Gee** - *BofA Merrill Lynch, Research Division - VP of US Equity Research*

Two quick ones, if I may. So if you look at revenue from packaged goods and full game downloads, it looks like that was down a little bit year-over-year, but you guys did report FIFA and Madden were up nicely in the double digits. So can you just explain the disconnect between sales of new games, revenue being down and some of your new releases being up year-over-year? Was there any pressure on ASPs? Or was the catalog weaker? That's the first question. And then I have a follow-up.

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

Yes. So full game downloads is actually up year-over-year, 11%, so -- to 175 million from 157 million a year ago. The strength in that was driven by Madden and FIFA. Remember, there's only a few days in FIFA. And remember as well, FIFA, we did not shift Gen 3 FIFA this year. It's the first year we've stopped selling Gen 3 FIFA. So you can imagine there was some downward pressure on Gen 3. We also added PS4 into the subscription. And so you can imagine there was also some people playing FIFA through the subscription. And so to still see growth with those factors is pretty impressive.

We are seeing -- obviously, some of the older titles probably are dropping off even though they tend to sell well as full game downloads, but they're always an age on those. So something like a FIFA '18 that someone might still buy as a full game download because they wanted the World Cup mode, you're seeing less of that. But overall, we saw growth across all the core franchise, led by FIFA and Madden.

**Ryan Gee** - *BofA Merrill Lynch, Research Division - VP of US Equity Research*

Okay. That's helpful. So it sounds like it maybe is more helpful for us to look at subscription plus packaged goods revenue, plus full game downloads revenue because people are shifting in and out of each bucket year-over-year. So maybe that's a better way to look at your business going forward?



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

Yes. I think the other thing to remember is we're now over 50% of full games being sold digitally. You have to imagine that if you're a retailer out there, you are buying less full games. And historically, the business was built on you sold in a huge amount of games and then those sold out over a long period of time and you oftentimes had to support that with marketing or sales reserves. That business has changed dramatically. Retailers are either buying less or maybe not even in business. And that's because people are buying things digitally, but that flattens the sales curve in some way for some of these games. And I think you'll see that across the entire industry, not just with us.

**Ryan Gee** - *BofA Merrill Lynch, Research Division - VP of US Equity Research*

Okay. Great. And then just my second question is related to DICE and Battlefield. So they're not going to have a title next year. Is it fair to assume that they will still have something for next year as you think about the Star Wars Battlefront franchise, if that could be a project for next year?

And why would any project that you do have next year, would you not want that to benefit from the new console launches? As you mentioned that Battlefield 6, or what you might call it, will benefit from a larger installed base. And why wouldn't you just hold titles out, everything till fiscal '22?

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

Yes. So I think there's a couple of things going on there. One is we're not announcing anything else that DICE is doing in specifics for next year. But you should imagine with the number of live services in play, that we'll continue to support those. And Blake talked earlier about the ongoing strength of Battlefront II, and I referenced the ongoing strength of Battlefield V.

As we think about balancing the portfolio around titles launched next year and titles that will get the greatest boost of later on, what we have seen is a great propensity for sports games players to play across both generations of titles, and we've seen that lift.

And some of the things that we really want to do in the Battlefield franchise as it relates to the new fidelity that will really show up well inside the Battlefield game, we'd like to have a deep installed base for. So it really comes down to balancing a whole range of different things across our portfolio, but we feel very good about the opportunity to grow the business next year and have a Battlefield title in FY '22 that will grow there well and deliver on what our fan expectations will be for a Battlefield game on next-gen platforms.

**Operator**

Your next question comes from the line of Michael Ng with Goldman Sachs.

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

I just had two, if I could. The first is just on Madden. Could you comment a little bit about how Madden compares to FIFA from a engagement and content and monetization perspective and whether you see the opportunity to close the gap there in the next few years? And second, with The Rise of Skywalker being the last Star Wars movie until 2022, can you talk about how the timing of theatrical content affects your Star Wars strategy going forward, if at all?

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

So the Madden metrics are actually very similar to the FIFA metrics, with one exception that the Madden metrics monetize better than FIFA because it's primarily a U.S.-based sport and FIFA is very global. And so you obviously have economic differences. So the ARPU effectively is higher in the



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U.S. But the number of people who play Ultimate Team are very similar. The number of people who spend in Ultimate Team are very similar. And the timing of how people play relative to the sports season is similar.

The other thing that FIFA has and Madden doesn't have is that FIFA is a longer season, right? You get a full 9-plus months, where you're not getting that long of a season in Madden. But we've done a good job of extending the events post the Super Bowl to try to keep people engaged around the combine and the draft and all those things that transpire, and we're stretching that engagement out. And so -- but even with hockey, we see similar patterns across Ultimate Team.

It's really at the end of the day, the revenue is driven by: one, the size of the game, obviously, FIFA larger because it's a global game; and two, by the local economics around how much people are willing to spend relative to their overall spend patterns. The second question...

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

On the Star Wars piece, so while The Rise of Skywalker is the last in this particular film set, Disney have talked about having extraordinarily robust plans around that franchise over time. What we talked about was The Mandalorian coming with Disney Plus, the new movie and Galaxy's Edge in theme parks. And so our expectation is that in partnership with Disney, we will get the benefits of the ongoing plans around the continued development and provision of great content experiences for Star Wars fans for many years to come.

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**Operator**

And we have time for one final question. Your question comes from the line of Mike Hickey with Benchmark Company.

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**Michael Joseph Hickey** - *The Benchmark Company, LLC, Research Division - Entertainment Software & Cannabis Analyst*

I think that was Season 2 last quarter, Blake, you gave a little bit more granularity on active players. You said 8 million to 10 million weekly after Season 2. Curious if you could update that. It sounds like it's higher. I just want to confirm that.

And then on your \$300 million to \$400 million for the year that you reiterated, can you give us some perspective where you're trending within that range as we sort of set the stage for growth for fiscal '21? Then I have a quick follow-up.

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

I can't give you any more than the range. But I'll just remind people that \$300 million to \$400 million is a small portion of \$5.125 billion. So don't overindex on it because if it was 3.25 versus 3.75, \$375 million versus \$400 million, I don't think that's going to make or break a year.

In terms of the user profile, I think Andrew mentioned that was very similar. Weekly average users still in that 8 million to 10 million range. We're very happy with that. That's extremely robust and one of the largest games that we've ever seen inside our portfolio and that continues on. So very engaged community and you'll continue to see us add things that drive engagement like esports and obviously, more content. And we feel like it's tracking as we would have hoped.

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**Michael Joseph Hickey** - *The Benchmark Company, LLC, Research Division - Entertainment Software & Cannabis Analyst*

Good, good. I guess the second question from me is as you sort of give us a perspective of '21, '22 fiscal, didn't you see anything BioWare -- from BioWare or Star Wars? Curious if you had any Star Wars-related IP games in development for console, PC over the next couple of years. Or if you that think -- or we should just assume that likely is going to expire? And then on BioWare, I think Dragon Age has been a rumor, but any thoughts on that studio post-Anthem looking at future releases?





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

Yes, I mean you should assume that there's -- Dragon Age out there. We've talked about it publicly that it's in the works. It probably comes after fiscal '22. But we typically don't give multiyear guidance this early in the year, or multiyear guidance period. So I don't want to start giving '23 guidance now that I've started to hint on '22. But you should assume it's out there and plans are underway for that product as well as some other products.

There are some other Disney stuff that might drop into -- Star Wars stuff that might drop into '22 or maybe even earlier, but more to come on that. We're still highly engaged around the Disney license. Believe it or not, we are close to \$1 billion on Star Wars: The Old Republic revenue from the start of its history. It's a business that just keeps on going. And we like those types of businesses, and we're going to continue to layer those in. And clearly, Star Wars is a part of that process.

All right. Thank you, everyone. We'll talk to everybody either between now and the end of next quarter or at the end of next quarter.

**Operator**

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

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