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# EDITED TRANSCRIPT

EA - Q3 2020 Electronic Arts Inc Earnings Call

EVENT DATE/TIME: JANUARY 30, 2020 / 10:00PM GMT

**OVERVIEW:**

Co. reported 3Q20 net revenue of \$1.593b, GAAP operating income of \$361m and GAAP EPS of \$1.18. Expects FY20 GAAP net revenue to be \$5.475b and GAAP diluted EPS to be \$9.90. Expects 4Q20 net revenue to be \$1.325b and GAAP diluted EPS to be \$1.05.



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### CORPORATE PARTICIPANTS

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

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

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

### CONFERENCE CALL PARTICIPANTS

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### PRESENTATION

#### Operator

Good afternoon. My name is Shantel, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q3 Fiscal 2020 Earnings Conference Call.

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

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

Thanks, Shantel. Welcome to EA's Third 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've posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks and audio replay of this call, our financial model and a transcript.

With regards to our calendar, our Q4 fiscal 2020 earnings call is scheduled for Tuesday, May 5, 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, January 30, 2020, and disclaims any duty to update them.



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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. It was an excellent third quarter for Electronic Arts. With new games like the outstanding Star Wars Jedi: Fallen Order as well as our dynamic live services for FIFA, Madden NFL, Apex Legends and The Sims 4, we delivered unmatched depth and breadth to players over the holiday season. As a result, our revenue and earnings for Q3 were above our guidance, growing significantly year-over-year for the quarter. We're raising our full year guidance for the second time this fiscal year, and we are on track to post a very strong year against our original projections for FY '20.

What we delivered to players in Q3 reflects the breadth and strength of our business, our focus on quality experiences and a deep commitment to execution. We're growing our IP portfolio with more great new games. Our live services are among the most popular and highest performing in the industry, and we're expanding to more distribution channels so we can connect more players to the games they love. As a result, players are deeply engaged in our top games, sentiment scores are strong, and we are building momentum in the growth areas of our business. I'll touch on a few highlights here.

Our portfolio of Star Wars games across all platforms has never been stronger. Star Wars Jedi: Fallen Order was the action adventure game that fans were looking for this holiday season. Respawn delivered an expertly crafted, high-quality experience with outstanding gameplay that thrilled players made many of the game of the year lists and sold beyond our projections for the quarter. In addition to Jedi: Fallen Order, the quality of the Star Wars Battlefront II experience is shining through as well. Two years and dozens of content updates later spanning all 3 trilogies and more, critics have rereviewed the game to high scores, player sentiment is exceptional, and the Celebration edition helped to drive performance of Battlefront II that was significantly above our Q3 expectations. Our communities in both Star Wars: Galaxy of Heroes and Star Wars: The Old Republic are thriving as well. The power of the Star Wars franchise continues to endure and grow across generations and geographies, and we look forward to continuing our momentum with Disney and Lucasfilms.

It's nearly 1 year since we took the industry by storm with Apex Legends, and the strength and opportunity of this IP and live service continued to grow. Apex is an outstanding example of the innovation across our portfolio. Seasons of new content are coming at a regular cadence for the growing global community. Season 3 was bigger than Season 2 with higher peaks in daily active users. Within those seasons, in-game events are engaging players with content and challenges that show the imagination and creativity that we are continually pouring into the experience. We're also expanding the Apex universe with more ways to play and watch. We have plans to reach more platforms in FY '21, and there's a lot of excitement in the esports community for the Apex Legends Global Series that is now underway. We're pleased to have Lenovo as an official sponsor for Apex competitive gaming, joining Gillette, Snickers, Pizza Hut and other major brands and broadcast networks partnering with us on our esports portfolio.

It's been a great year for EA SPORTS around the world. Madden NFL 20 and FIFA 20 are both demonstrating how exciting and fresh our sports games can be for new and established fans alike. Madden NFL 20 is our most successful game ever in the franchise, setting multiple records for player engagement and the highest net bookings through a holiday quarter. Our FIFA franchise also grew year-over-year in Q3. VOLTA FOOTBALL brought all new dimension to FIFA 20, and the updates to FIFA Ultimate Team have been deeply engaging for fans with fight matches up nearly 40% year-over-year from launch through Q3.

FIFA 20 is also the #1 most engaged title in our subscription services. We're now getting ready to launch 2 major additions to the FIFA 20 experience with the prestigious South American club tournaments, CONMEBOL Libertadores and CONMEBOL Sudamericano as well as the eLibertadores, a new expansion to our FIFA 20 Global Series esports competitions. In addition to South America, Asia is another growth market for our FIFA franchise, with FIFA online up significantly year-over-year in Q3.

In other dimensions of our portfolio, we now have more than 20 million unique players worldwide in The Sims 4 life-to-date. Our eighth expansion pack for the game, Discover University, continue to demonstrate the creative ways we can add to this experience for our amazing Sims community,



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as did the surprise addition of The Child from The Mandalorian series on Disney Plus just before the holidays. Meanwhile, PvZ: Battle for Neighborville and Need for Speed Heat both brought fun and new experiences to fans around the world.

Our people are our greatest resource at Electronic Arts, and this year has been a demonstration of how the creativity and technical expertise of our teams working together around the world allows us to deliver an unmatched breadth of entertainment to players. From FIFA to Star Wars, Apex to Madden, The Sims to Need for Speed and more, we have the titles that fans around the world recognize and love to play. The addition of great new games and experiences is also vital to growth, and we're excited to do that in the year ahead through more of our own IP with partner and indie content and some more surprises to come.

Live services are delivering value for players and continuing growth for our business. Our teams are among the best in the industry. It is constantly building on feedback to expand and enhance the experience for players. The content updates and in-game events in Ultimate Team, creative and original new seasons in Apex Legends that expand the game and its characters, new content in The Sims 4 that continues to add player choice and more content across our top mobile titles around the world, live services will continue to be a key focus and growth driver for us in Q4 and the year ahead.

With the strength of our IP and live services, we're well positioned for growth as the audience expands and diversifies into new forms of content. We are bringing our games and IP to new regions, including continued mobile growth in Asia and plans to launch Apex Legends in China. With our subscription services now available on 3 major platforms and coming to Steam in FY '21, we're expanding our leadership in high-value, low-friction subscriptions for more players.

And with FIFA and Madden continuing to grow as leading esports properties, we're bringing Apex Legends competition to the global stage, and we have exciting plans for new content in esports as we move into the next fiscal year. We're looking forward to finishing this year strong, delivering for players and continuing our growth into FY '21.

Now I'll hand the call over to Blake.

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

Thanks, Andrew. EA successfully launched 3 games last quarter: Need for Speed Heat; Plants vs. Zombies: Battle for Neighborville; and, of course, Star Wars Jedi: Fallen Order. That brings the total for calendar 2019 to 8. Launching 8 major games at quality in a year is a substantial undertaking, but that number only tells part of the story. For example, Battlefield V, we launched a whole new theater of war with maps, vehicles, weapons and more driving a major shift in engagement. For Star Wars Battlefront II, we introduced game-changing heroes, fan-favorite reinforcements, exotic planets -- planets and epic new ways to play across 3 cinematic eras. For Apex Legends, we launched 3 seasons of content, including 3 new legends, 5 in-game events, 3 town takeovers and a whole new map of 6 new game modes. Delivering quality entertainment at this level testifies to how well the teams are aligned across the company in a way in which we unite to achieve our goals. And it works. We had another great quarter, with record net bookings and live services as a whole and in FIFA and Madden Ultimate Teams in particular. Apex Legends is having a fantastic season, and we delivered a new hit with the launch of Star Wars Jedi: Fallen Order. As a result, we generated record operating cash flow over the last 12 months.

EA's net revenue was \$1.593 billion and operating expenses were \$724 million. GAAP operating income was \$361 million and resulted in earnings per share of \$1.18, \$0.26 better than our guidance. The year-on-year increase in OpEx was largely driven by variable compensation, which flexes up and down depending on company performance against plan. Remember that the true-up in Q3 last year was negative that, combined with a positive true-up this year, creates a \$58 million swing year-on-year. There was also underlying growth in R&D as we continue to invest in game development.

Operating cash flow for the quarter was \$1.104 billion, up \$150 million last year. Operating cash flow for the trailing 12 months was a record at \$1.898 billion. Capital expenditures for the quarter were \$28 million, resulting in a free cash flow of \$1.076 billion. See our earnings slides for further details on this information.

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During the quarter, we repurchased 3.1 million shares at a cost of \$300 million -- \$305 million. We've now returned to shareholders over \$2 billion of the \$2.4 billion in our 2-year buyback program that we began in May 2018. We will announce our future plans on our May earnings call.

Our cash and short-term investments at the end of the quarter were \$5.6 billion. Total net bookings for the quarter were \$1.978 billion, up 23% on the prior year despite a \$39 million FX headwind. Sales of Star Wars Jedi: Fallen Order significantly beat our expectations. We had forecast 6 million to 8 million units for the fiscal year, but to hit the high end of that in the third quarter, and now we anticipate selling around 10 million units in the fiscal year, a very strong result for a single-player action game.

Madden NFL 20 is delivering the best performance in Madden's more than 30-year history. Average selling prices were strong across the portfolio with discounts smaller and applied later in the year.

Diving into digital net bookings. Digital net bookings were \$1.444 billion, up 20% on a year ago period. Digital net bookings now represent 77% of our business on a trailing 12-month basis. This compares to 74% in the prior year. Live service net bookings were up 27% to \$993 million. Nothing illustrates the changing nature of our business model like the growth of our live services, and \$993 million is an all-time high. Growth was led by Apex Legends but closely followed by double-digit growth in FIFA and Madden Ultimate Teams. Growth in FIFA Online in Asia was also extremely strong.

Mobile delivered net bookings of \$134 million, down 6% year-over-year but above our expectations, driven by titles across the breadth of our portfolio, particularly in Asia. Including our IP-licensed deals, such as the one for Command & Conquer: Red Alert in China, Mobile is up year-on-year at constant currency. With many promising titles in incubation at EA, we are excited about the opportunities ahead for us in the mobile market.

Full game PC and console downloads generated net bookings of \$317 million, 16% higher than last year. Growth was driven by increased game sales plus the ongoing shift to digital. Overall, 49% of our units sold through were digital rather than physical, measured on Xbox One and PlayStation 4 over the last 12 months. This compares to 47% a year ago. We continue to model underlying annual growth of around 5 percentage points for digital.

Turning to guidance. We expect full year GAAP net revenue to be \$5.475 billion and for diluted earnings per share to be \$9.90. We expect operating cash flow of about \$1.725 billion. We continue to anticipate capital expenditures of around \$140 million, which would deliver free cash flow of about \$1.585 billion, \$135 million above where our expectations were at the start of the year. We now anticipate fiscal 2020 net bookings of \$5.15 billion, up \$25 million over our prior guidance and up \$50 million from where we started the year.

For the fourth quarter, we expect net revenue of \$1.325 billion, cost of revenue to be \$257 million and operating expenses of \$724 million. OpEx is down year-on-year, reflecting the 2 new IPs we launched last year. This results in a diluted earnings per share of \$1.05 for the fourth quarter, using the diluted share count of 293 million shares.

We anticipate net bookings for the quarter to be \$1.152 billion. This is slightly down year-on-year, with broad-based strength this year offset by the massive launch quarter for Apex Legends and Anthem last year.

Looking forward to fiscal 2021, our goal is to continue to grow net bookings and underlying profitability even as we invest in new platforms. We anticipate live services to be the primary growth driver, followed by the launch of new content across a broad range of genres. We're launching 4 sports titles, including new games in our blockbuster FIFA and Madden franchises, 4 other titles that draw from the breadth of our IP, and we'll also publish 4 titles globally from smaller developers. Finally, we expect 2 new mobile titles to make it into soft launch.

We expect growth to accelerate in fiscal 2022 as we leverage the growing base of next-generation consoles with the launch of a new Battlefield. This is on top of the launches of FIFA 22 and Madden NFL 22, plus new and ongoing live services and other titles. We create long-term value by growing strong live services, launching new content and expanding our reach. This broad-based model reduces our dependency on individual titles, decreases risks and enables us to deliver financial results for our shareholders through a constant stream of high-quality entertainment for our players.



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

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

Thanks, Blake. We're delivering for our players, and our business is growing. Our foundation is great IP that excites and engages hundreds of millions of players. We've added the breadth and depth of our portfolio with great games like Star Wars Jedi: Fallen Order and the innovation in FIFA, Madden, and our ongoing franchises is helping us reach new fans and grow our total player base. We're looking forward to delivering more amazing games from our top franchises, new IP, new partner and indie titles and some other surprises in FY '21 and beyond.

Live services extend and enhance the experience for players in their favorite games and enables strong ongoing growth for our business. We design experiences for longevity, creating communities where our players love to connect, share and compete with friends for months and years to come. Our live services for Apex Legends, EA SPORTS Ultimate Team, The Sims 4, Star Wars and more continue to grow in player engagement and will bring more great creative content and in-game events to those communities throughout the year ahead.

Great games and strength in live services also position us well in additional growth areas. New consoles are coming, and we'll be ready to leave with some of our top titles. Our esports portfolio will expand to 4 franchises this year with content designed for a wide audience and a growing range of sponsors.

We continue to add to the value of our subscription offerings, reaching more play through more distribution channels and expanding to audiences in more geographies with IP that they can't wait to play. It's an exciting time of growth in the interactive entertainment industry, and a great time to be making amazing games and bringing them to more players around the world.

Now Blake and I are here for your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Your first question comes from Andrew Uerkwitz with Oppenheimer & Company.

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

Looking at the past 2 Star Wars games, one was a massive multiplayer, one was obviously a big single player. Seems like sales numbers initially are roughly the same, but one's got live services, one doesn't. How has that shaped the way you think about future game design as we head into the next console with a big focus on live services?

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

Great, great question. And part of the reason why we have this breadth and depth in our portfolio is because as the player base continues to grow, so do their motivations. As we think about making games, we think about the motivations of why people want to play: inspiration, escape, social connection, creation, self-improvement, all these types of things. And as we start to look at the broader player base, and we think about each of the cohorts within that, we're looking to build experiences that satisfy their needs and motivations. And what we've come to understand, particularly with Star Wars, is it's a really, really big fan base. And while social interaction, competition and multiplayer is really important for a large portion of that fan base, what we have seen through the last quarter is that also is that inspiration and escape model, that living the Jedi journey, the Jedi



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story. As we think about this on a go-forward basis, you should imagine that we will continue with the breadth and depth across the IP in order to meet the needs and motivations of that broad player base.

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

And if I could just ask one follow-up. As we think about live services but also more distribution channels, more -- easier, hopefully, cheaper marketing. Should we expect you -- expect EA to launch more than 8 games when we look out 3, 4, 5 years? Or it's kind of like the -- is 8 a good number?

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

I would start by saying 8 is a lot. If you think about the various game launches across the industry, there are not many companies that can come together and launch that kind of breadth at that kind of quality with that strength of execution. And so we feel really good about that number. The other thing that's important to understand is, this also has a layering effect. So as we launch games that have live services that last 1, 2, 3, and in some cases, 4 and 5 years, the build that we get over time and the predictability and longevity in our revenue stream is really, really strong. And so I think 8's probably a pretty good number. Some years, there might be a few more of that. Some it might be a few less than that, but we feel really good.

The other thing that we're starting to see is that with the reach and the network power that we have, with subscriptions and our ability to reach players in this high-value, low-friction business model, we now have a lot of other third parties and indies coming to speak with us about distribution of their content. And so while I feel really good about our capacity to continue to execute and deliver great, high-quality content and potentially more than many others in the industry, we're also going to have the opportunity to reach our player base with these very new and interesting titles from third-party and indie developers.

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

Yes. And what I would add to Andrew's comment is, remember, one of the major strengths of our business is the deep catalog. And the deep catalog is based on not just this year's games or last year's games but maybe even games from 2 or 3 or 4 years ago. And we sometimes see north of \$1 billion in catalog sales in the following year. That's very powerful to us. It's very profitable. And it is critical in continuing to maintain the brands that we have built. And fans will come into games at many different levels, either through direct purchase or through subscriptions. And that deep bench is something that creates a lot of value, which I'm not sure people always think about as we're thinking about the value of the overall business.

**Operator**

Your next question comes from Brian Nowak with Morgan Stanley.

**Matthew Andrew Cost** - *Morgan Stanley, Research Division - Research Associate*

It's Matt on for Brian. Congrats on the quarter. The first one is just on the Mobile business. It seems like you made some great progress, obviously, on constant currency growing year-on-year. Can you talk about sort of what you're seeing in that business, and maybe any thoughts you're having on potentially partnering with other mobile app developers. And some of your competitors have seen some success recently following the strategy like that, particularly in terms of going in markets like Asia. And then if you could, just quickly an update on Project Atlas.

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

Yes. So obviously, rolling mobile out in China, you need to have a partner. And we're -- as we've said in the prepared remarks today that we're working with a partner there, and we're very excited about the opportunity. That partner is also helping us develop a mobile Apex for the globe.



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And we'll -- more to come on that in terms of timing, but that's also a big upside for us. We have not built a lot into our forecast for next year on that because the timing is always uncertain. But we do believe that there's a lot of opportunity there. Obviously, we'll also do a PC version of Apex in China through that same partner. But we will selectively use partners where possible. We have some great studios. We think we can continue to build great games. But where possible, where a partner can either increase the time to market or help us in markets where we don't necessarily have the ability to go to market ourselves, like China, we will use partners. And more to come on Apex and any other titles that might fit in that.

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

Just a couple of other thoughts. We've talked in previous calls about kind of a 3-pronged strategy around mobile the first pillar being an underlying belief that we were not monetizing our mobile games at a level that maybe some of the best-of-breed inside the industry had and that we were going to have a real focus on that. I would tell you our studio leadership team has brought some really, really high-powered compelling leaders from the broader mobile industry into the company. They are coming in and working with our teams, and just changing a philosophy around how we think about the creation of really compelling content and the monetization of that content. And we're starting to see that pay out. And you should expect that we'll continue to focus in that area and get more out of the existing mobile titles that actually performed really well in the marketplace and we maybe haven't been as focused on.

The second pillar has been -- we are a game development company. We have spectacular IP that has mobile appeal and mobile application. And we have a number of mobile titles in development that I'm actually very excited about. Two of which, as we said in the prepared remarks, will go into soft launch in the next year or so, and there might be some others that get in a little earlier as well.

And then, third, we continue to look at opportunities for partnership and acquisition. There's not a lot of those out there as it turns out, but we're trying to make sure that we're in every conversation. So we do -- mobile continues to be a focus for us, and we do believe there's a growth opportunity ahead.

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

Yes. And on Project Atlas, the other part of your question, you'll continue to hear more from us about streaming and other components of Atlas. We're in tight connection and conversations with all of the players that are doing streaming. We're very excited about where it's going and the potential as well as how we can continue to improve the tools that people use inside of the subscription models that we've put in place.

So a simple reminder. Our goal is to be on every platform and to offer our great products to consumers wherever they want to play them as long as we can play -- provide them at a quality level that we're comfortable with. So you're going to hear and see a lot more in the next coming year.

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### **Operator**

Your next question comes from Raymond Stochel with Consumer Edge Research.

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

Is there anything that you can discuss as far as VOLTA? Can you give us an update on monetization for VOLTA? And then any more details on FIFA Ultimate Team being up double digits this call. Is that like-for-like as far as launch -- first launch? And then what would be driving that growth?

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

We're very happy with VOLTA. VOLTA brought in a whole set of new players and engaged them in new and interesting ways. As we've also talked about a lot in past calls, as we think about building live services, we really think about building engagement first and monetization to follow. As I say, I think that what the team did with VOLTA this year is really, really strong. They've taken some great learning from feedback they've received



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from the community, and we'll continue to build on that in the years to come. And while we don't have any announcements yet on monetization, a lot of player feedback is that they would also like to see the opportunity to extend and enhance that VOLTA experience in a way they do with other live services. So we're excited about what that might bring.

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

And what I would say on Ultimate Team, and this is not just FIFA, this is Madden and this is NHL and our other games. The thing you need to remember on Ultimate Team is we continue to refine and improve the weekly or monthly events that we're running on Ultimate Team that bring people into play. People won't play Ultimate Team if they're not having fun. And so the key is how do you build an event that they're going to have fun competing and interacting. It's a social network, and it's all about the design of events. And I think the team continues to get better and better every year, either refining existing events or adding new events. And that's what really drives the overall monetization in Ultimate Team across all of our sports. And it's the thing that people sometimes don't understand when it comes to live services, that it's not about the monetization. It's about how do you create fun for people to be able to come in and enjoy social connection and that competition with others. And that's what really drives that across all of our live services.

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**Operator**

Your next question comes from Gerrick Johnson with BMO Capital Markets.

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

Two questions. First, gross margin. Maybe you could provide us with the puts and takes, the bridge from last year to this year. And then also on the other titles that you did have guidance for, any update to that guidance for those titles.

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

Yes. So gross margin's really simple. We sold more Madden, more FIFA and more Star Wars Jedi than we expected. And all 3 of those are royalty properties, so we had to pay royalty on them. Royalty gets booked in gross margin. That's a good problem to have. I'd take that all day long because, obviously, it's driving the overall business and the profitability of the business. So nothing more than that. It's pretty straightforward.

I don't think we have any new news on guidance for anything else. Obviously, we've tried to give people some sense of what next year looks like. As I said in my prepared remarks, we would like to -- our goal is to drive both top line and bottom line guidance, and we think we've set up a slate of properties for next year to do that. And we've also provided people the knowledge that Battlefield is coming the year after that, which should also drive growth the following year. And we see that as a big positive for, as we've said, the continued plan to try to have a strong growth, top line, bottom line cash flow as we go forward.

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**Operator**

Your next question comes from Alex Giaimo with Jefferies.

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

Hoping to dig into Apex aspirations a bit more without getting too bogged down into the F '20 or F '21 guide specifically, how should investors be thinking broadly about the growth aspirations for that franchise? I think you've mentioned in the past that you view it as a 10-year franchise and it's obviously early, but should we think about it sort of as a modest straight-line grower moving forward? Or is it a bit more lumpy? And then



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just given the free-to-play nature of that game, hoping you can just update us on how the profitability of Apex compares to the broader profitability of EA as a whole.

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

Yes, it's good questions. I mean, as I think Andrew said, we're just getting into our 1-year anniversary in the game, which is fantastic. We've been very pleased with where the game is. The team has done an amazing job of continuing to innovate and add content and also leverage an incredibly engaged audience to try to feed them and give them things that they wanted to continue to play in the game and excitement and surprise. We will continue that journey no different than we've done with live services. You -- people sometimes forget, Ultimate Team was like an \$8 million business 12 years ago. And our goal is to always be innovating and improving over time to try to grow the business, and that's how we're thinking about Apex. And we've continued to bolster the team with new talent, new live service talent, but also make sure that the existing team is very focused on how they're building out the business and rewarded for their great efforts there. I mean it's just an incredible job they've done. It's hard for us to predict. If you would have asked us a month ago, 6 months ago, we probably wouldn't have known. And we still don't know, but our goal is to continue to grow that business and to maintain. But when we come to our May guidance, we'll try to give some people some sense of it. What we are -- we're going to stop talking about monthly or weekly or daily active users because I'm not sure what anyone can do with that information. And if anyone questions that, I -- they go back 7.5 years ago to my very first quarter at the company where I said, "We will take away metrics that don't make sense for investors." And we're not necessarily trying to hold back any information. We're not signaling anything. We just realized that we want to make sure you're not doing something with numbers that don't make sense. We'll try to give you as best guidance as we can. We want to grow the business. We think it's got a long history to it, but more to come, and we're very excited and very optimistic about where the opportunities can go with Apex.

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

And just a small add. At a game level, as we look at the industry and the games that have actually lasted a decade or more, things like League of Legends, things like CS: GO, things like Dota 2 that continue to engage huge populations of players around the world. There's really kind of 3 core pillars of those games: really compelling and identifiable characters; a truly compelling world; and competitive skill-based, highly social game plan that continues to evolve and emerge over time as players continue to get better in the game. They are the 3 core tent poles of Apex Legends as a game. And as we think about the year -- the next year and the year after and we add new geographies and we add new platforms, again, as we -- as Blake said, it's hard to predict exactly how that will grow. But our belief is that we have growth ahead, and we're very, very encouraged and excited by the fact that the team gets better and better at answering needs of the players. Season 3 was bigger than Season 2. We expect Season 4 will grow again, and we're excited about what will come.

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

Yes. And you mentioned our comments in the past around we're trying to build a long term franchise. At the end of the day, we would much rather have something that lasts for many, many years doesn't -- is not a boom and bust. And that's how we're trying to design the business. The team is very aligned with that. And if it can turn into, essentially, an annual shooter for us as part of our franchises, we think that adds huge value to the overall company. So that's how we're looking at it and how we're approaching it. And we think everyone's aligned around that, and more to come.

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### **Operator**

Your next question comes from Jeff Cohen with Stephens.

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

Could you talk about how big of a driver Jedi: Fallen Order was for new subscribers to Origin Access? And then broadly, just can you talk about how churn has trended within your subscription products?



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

Yes. So remember that it's the premier subscription that gets frontline titles, which is only part of the overall Origin Access model and not in the Sony or Microsoft program. Obviously, it added to it, but it's early days. So it's hard to understand if people came in and then went out because they're still playing the game. We have not seen big changes in churn. It's been a big question for us because we don't have titles coming in every single month from our portfolio. So you're always going to wonder about churn. But it's -- we're continuing to grow the subscription business on Origin as well as on our partners. And we think any time we've added new content, that drives people in. Even -- we believe when we put Jedi in the regular subscription, which will be still months from now, we're sure that, that will also bring people in.

And the most important part is -- what we found out is people actually come in for certain titles. We know this because we watch the data before they join the subscription and after. And we find out they play titles that they've never played before and then start playing them a lot. So we've reduced the barrier of trial. They don't have to go and buy the game, they actually get a chance to just try it inside the subscription. And that's a huge win as we start to build people into new either games or genres or sports that they've never played before because it only increases the growth of their interest in playing great games.

### **Operator**

Your next question comes from Matthew Thornton with SunTrust.

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

Without getting into maybe any specific dates or even titles, specifically, maybe to give us a little more update just on kind of how you're feeling about the pipeline maybe relative to where we were 6, 12 months ago, the products that are out there across the various studios. Any color there would be helpful. And then just coming back to Sims and Apex in particular, Blake, I think you had talked about those franchises doing, call it, \$300 million to \$400 million for the year. Are those still reasonable ending points for those franchises?

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

Yes. I would say they're definitely reasonable franchise -- points for those franchises, and both are doing -- continue to do well. The Sims added an expansion pack in the fall that has done extremely well. And it is just an amazing business that continues to grow as more and more people come in. And then those people go backwards by expansion packs from history as well as by the new expansion packs, and it just builds on that social network that we've effectively created inside The Sims. And we'll see similar behavior with Apex, even though it's not expansion packs. More and more people come in each season and start to gain excitement around what they're seeing and build around the social network.

No more color yet on the forward looking. Obviously, you can assume that the base set of sports games will be in every year. Obviously, next year, we're going to -- we've said we'd most likely add at least 1 new sports game. And we have some third-party games we will have in for next year. And a couple of things that we haven't yet announced. But as we said earlier, we're very focused on growing both top line and bottom line, both next year and the following year as well as future years. But I just want to give people a sense that we've got a fairly extensive set of titles that people should get pretty comfortable on going forward.

And obviously, we're also working on a lot of our famous franchises that will come in the future, plus some continued new franchises that we'll continue to add and live services associated with all those.

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

Yes. Just as a kind of an add to that, again, we benefit from a large number of very well-established studios with great teams with a track history of delivering really high-quality content. So as we think about Maxis and BioWare and Motive and DICE LA and Respawn and our EA SPORTS studios,



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there are titles in various stages of development across all of those studios and more. I also talked about a number of mobile titles, a couple of which will come in to soft launch next year. But I would tell you, I'm more excited now about our mobile pipeline than I have been for a number of years. And again, I would say also that mobile is an unpredictable marketplace and it's very challenging. And all companies have discovered that. But I feel better about what I'm seeing coming out of our mobile studios now than I have for a number of years. And so we feel very good about the long-term trajectory of where our studios are going and the amount of games and new and creative IP that we have in the pipeline.

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

Yes. And you guys kind of imagine, and you've seen this historically in console transitions. As new consoles come out -- I don't want to get ahead of our great partners, Microsoft and Sony, but you should assume that the power of those consoles are going to be a lot better than the power of the existing consoles, which means a really simple thing, we can do a lot more. And so you will start to see things over the next couple of years that we're doing with games that will blow people's minds. And that's the fun part of this business because we are going to see so much innovation not just with us but across the whole industry. And that's why you've seen growth across the software business as part of this overall video game business in every single console cycle over the last, what, 20-plus years. And so that's where people sometimes get hung up. They get too focused on the short term and not think about what's transpired historically. And the power of the new consoles is going to be substantially greater than the existing consoles, which means we can just do a lot more. And it's going to be fun and great to see how our existing games will evolve like a FIFA or a Madden, but also see how new games will evolve or be developed under that much higher power.

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### **Operator**

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

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

A couple on live services. So first, very encouraged by the outperformance of Star Wars Jedi from Respawn. So you guys now have a large player base into which you could generate some additional revenue. So what is the opportunity ahead, either for to generate live services revenue from that in fiscal '22 and/or maybe some sort of add-on content pack for that game. And then as it relates to live services from Ultimate Team, the sequential acceleration to double digits last quarter. Are you guys able to see how much of that is a function of just easier year-over-year comps to the Ultimate Team business versus execution getting players further down the conversion funnel and getting higher spend out of existing payers?

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

Yes, let me hit the Ultimate Team one first, and then maybe Andrew can address the the Star Wars Jedi. Ultimate Team really has benefited from more people and more engagement versus, once again, trying to change the ARPU in some fashion. We're very conscious about not trying to get people to spend beyond what their spend levels are. And so the best way to get people is to get people to spend in that is to engage in better and more events that they're excited in. And so as I said earlier, the team has been very good at trying to design new events, add new events and keep people really excited about playing versus trying to get more money out of on any single event. And I think that's been our biggest single driver, plus growing the overall base of FIFA over time and the number of people that are into Ultimate Team. I mean we're -- more and more people play Ultimate Team. And we think that's very engaging for them. But it's not all that different than what you see in traditional sports where people are highly engaged with the underlying sport. These are hard-core sports fans and this is what they want to do, and that's why they engage in Ultimate Team.

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

On Star Wars, no announcements of anything at this point. But what I would say is, you're right, we have a very, very strong player base, a very engaged player base who feel like what they've just had the ability to experience as one of the most compelling Star Wars experiences of their life



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of any formal media. I would also highlight, it is a single-play game. So any kind of live service or additional content would be different than what we would see in an Ultimate Team or an Apex Legends what -- that this team who is working on this is one of the most creative teams in our company and certainly in the industry who are thinking about where to take this journey next for players that love this style of play. We're excited by what we're going to come up with. And in the meantime, I also think that this will be one of the strongest catalog sellers for this company over the next -- over the coming years and will almost certainly help continue to grow our subscription as it moves into our various subscription offers across platforms.

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### Operator

Your next question comes from Mario Lu with Barclays.

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

Two questions on my end. One on the Switch and one on Sims. So Nintendo today announced that the Switch exceeded 52 million units shipped worldwide, which is similar or more than the Xbox One. So therefore, should we expect that to publish more titles on the switch going forward? As I understand, currently, there's only 3 EA titles on the platform, including Unravel, Fe, and the legacy version of FIFA. And then secondly, on The Sims, the success of Sims 4 is very intriguing to me since the industry is filled with multiplayer experiences. And Facebook recently actually announced that they're coming out with Horizon, a social experience in VR. That kind of reminds me of the Sims online which launched 18 years ago. So any thoughts on relaunching an online version of the franchise given its large popularity?

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

So let me hit the Switch question, and then I'll go to the question on Sims. So we are very pleased with how well Nintendo has done with Switch. I mean it is -- people love the platform. They enjoy it, it's great. And remember, there are a lot of people that have both an Xbox and a Switch or a PlayStation and a Switch because it, in many ways, provides a different experience, particularly a way to access great Nintendo software. We are always looking and discussing with Nintendo what else we can put on the platform. And as you can imagine, as the platform grows, our interest in adding content grows for that platform. But we're also conscious of the fact that the top-selling titles, by a long shot, are all Nintendo software, which is fabulous software, but it helps us balance sort of the realities of how big our markets can be there. But trust that we're looking at that. You will hear some more things in the future about what we're putting on the platform, and we're very pleased with how it's grown alongside the growth of both Sony and Microsoft's platforms.

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

Great question on the Sims. A little known fact, I guess, for many, the Sims will be 20 next week. And that Maxis team and the teams that have been part of Maxis over the years continue to deliver unbelievably innovative and creative content for a constantly growing Sims community globally. As we think about The Sims, again, I referenced the motivations of why we play games earlier: inspiration, escape, social interaction, creation, self-improvement, competition. Typically, what the Sims has done is really focused on fulfilling the motivations of inspiration, escape, creation, self-improvement, these stuff, and not necessarily focused as much on social interaction and competition. But a few things are, in fact, true over the years. One is that The Sims community has continued to grow, and with the broader social platforms, continue to connect with each other and share what they do in and around the game they play. And we've seen that manifest in games like Sims FreePlay, which was a more social experience for us. And we're also seeing that the competition nature of The Sims is also rising up. And we're seeing people compare and contrast not competition in the traditional sports sense, but how they create and what they create and how they use their imaginations and what they're able to build inside of their Sims universes. And so as Maxis continues to think about The Sims for a new generation across platforms in a cloud-enabled world, you should imagine that while we will always stay true to our inspiration, escape, creation, self-improvement motivation that this notion of social interaction and competition like the kind of things that were actually present in The Sims FreePlay -- sorry, in The Sims online many, many years ago, that they will start to become part of the ongoing Sims experience in the years to come. We're very excited. This is a game that it really doesn't



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have any competition in its category for delivering and fulfilling these motivations for players, and we think it's a tremendous growth opportunity for us for many, many years to come.

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

And the one thing that we have with The Sims that we have with all of our games, but probably the most with The Sims is its incredibly engaged community. And The Sims team has done an amazing job interacting with the community and trying to understand what they want. And so it allows us to develop expansion packs, additions, whatever it is, or game approaches, that is really coming from the community, and we will continue to encourage that. So as we see interest or demand that allows us to go chase that as we develop the product. And I think that's an amazing thing that you don't necessarily have in all games, and The Sims is a leader there for us, and it makes it such a fabulous opportunity to continue to feed what the community wants.

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**Operator**

Your next question comes from Mike Ng with Goldman Sachs.

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

I just had one on unit sales. If you look at full game downloads plus packaged goods, it looked like that was up \$168 million year-on-year. And it seems like the key moving parts for Star Wars, Need for Speed more than offsetting Battlefield V. I was just wondering if there are any other factors to consider whether those were catalog sales being better or worse or pricing or the digital shift impacting unit sales that could help us think about things that may have impacted units for the quarter?

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

Yes. Well, clearly, digital sales continues to grow. I would -- I'd say, remember, Star Wars tends to skew a little lower digitally than our average titles just because a lot of the gifting that goes on at holidays. And live services, obviously, was a big driver. But if you thought -- if you think about sort of our expectations, as we mentioned, we overdelivered on Star Wars, we probably underdelivered slightly on Plants vs. Zombies, but that's one that will sell well over a long period of time so -- in a relatively small title, so that wasn't a big driver. And then Need for Speed's kind of as we expected. We did, as I mentioned in my prepared remarks that, this year, we had stronger pricing than we have in the past, and we did discounts later in the season than we did in the past. And that was part of our strategy, but it also helped across the board as we look -- as you look at overall revenue.

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**Operator**

Your next question comes from Drew Crum with Stifel.

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

Can you update us on the progress you've made with FIFA Online 4 in China during the current fiscal year and how big of a role that plays on growth for fiscal '21 and when you get back to the, I think, \$200 million annual run rate? And then separately, with some of the management changes you've made at DICE, and I guess, specifically, Vince becoming the director of the LA office, how involved will he in Respawn view with the development of the next Battlefield game?



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

Yes. So quickly on the on FIFA Online, we're still running both FIFA Online 3 and FIFA Online 4 in China. That has not impacted the business that much. In fact, we're pretty close to getting back to our historical level. We've shut off FIFA Online in Korea. And FIFA Online 4 there has responded very well. We had strong growth year-over-year in the quarter for that, and it was mainly driven by Korea. We will play it over the next few quarters as to when and how we're going to shut it down in China. But we're conscious that we don't want to disrupt the consumer there. And right now, both Online 4 and Online 3 are doing well in that marketplace. So more to come on that. But we're pretty close to back to where we were, and we're really excited about the growth that's coming off of FIFA Online 4, both in Southeast Asia and in Korea that we're seeing and even in China. So more to come there, but that's kind of the quick answer.

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

Good question on Vince and Battlefield V. You might recall that we announced that Vince was leading a creative council for the organization. What this creative council does, it kind of operates like a brain trust like what's happening at Pixar and really brings creative leaders across the company together to review and comment, be constructive and help and provide insight across the broad set of creative initiatives that we have going on. And Vince is very proactive in that and very involved in that, and that's having a tremendous impact across the company and helping us drive this kind of aligned, focused push against both quality and execution.

With him taking on DICE LA, traditionally, DICE LA have been supporting DICE Stockholm, but they have a great creative team there and great creative leadership and have also been incubating some other things, and we're very excited about those things, and Vince will be deeply involved in those as he takes on leadership of that. And then with the leadership change that we made in Stockholm, we've got really strong traction against the next Battlefield game. I'm really -- I talked about this last call. I'm really excited about what that team is doing. And [David Rota], who is leading the studios in Europe now, is also having a really strong impact, and the team is going to do some pretty amazing things.

### **Operator**

Your next question comes from Mike Hickey with Benchmark Company.

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

Andrew, Blake, Chris, congrats on the quarter. Had one on Vince. I think you've kind of answered it, but maybe go a layer deeper. Obviously, he's a super talented guy. I mean his success in the shooters genre is truly remarkable with Medal of Honor, Call of Duty, Titanfall, Apex Legends. Obviously, he founded Respawn. I guess just your thoughts on Respawn ex Vince, how that studio continues to behave and the leadership there. And then the new DICE Studio, it sounds like they're going to rebrand that or rename it. You mentioned that perhaps he's inheriting some games in development there, predevelopment, preproduction, but curious if we can look forward to sort of a AAA game from Vince in the shooters genre emerging 2 to 3 years. And then, I guess, broadly speaking, in the new consoles, Blake, great to hear your excitement on new consoles coming to the market and what that means, I share that. It's also seemingly a good time to come out with new IP. So thoughts, I guess, broadly on how you think about new IP on the front end of the console cycle.

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

Yes. Just to be clear, Vince hasn't stopped working at Respawn. He's still running Respawn. We're asking him to do more. And part of what Laura Miele has been doing is trying to make sure Vince has all the resources that he needs. And so giving him the chance to oversee DICE LA also gives him the opportunity to pull resources into the Respawn team if he needs to. So there are probably -- I don't know how many new IP ideas we're incubating. So more to come on all of that. Everyone's pretty excited. But I don't want anyone to be mistaken that expanding Vince's remit means in any way that he's not overseeing Respawn. He's got a great team there. He's got a great management team there. We continue to bolster that team. But he is still very helpful every day at Respawn as well as helpful across our entire portfolio.



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So we're very excited about he and the whole team as to how they've integrated into the company. It's never easy to be a small company and get acquired by a big company. And I think what the Respawn team, hopefully, has found out is that we're actually not bad guys and we're pretty fun to work with. Bad people, sorry, I didn't mean to say bad guys because Laura's a really good girl -- lady. But I just want people to know. I mean we try to leverage -- and it's not just Vince, it's people across our entire portfolio. We try to leverage our best sports experts, our best managers wherever they are. And that we've got a collection of quite a few of those people, and that's why we can continue to produce the games that we produce every year. You don't put out the best -- the biggest sports games in the world year-after-year on time and on budget if you don't have amazing people doing that. So -- and Chris is telling me I got to shut it off because we're out of time. But there was one last -- what was one part of your question, Mike, that we didn't get to? We lost you. All right. All right, everyone. Thank you.

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

Thank you.

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

Talk to everyone next quarter.

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**Operator**

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

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