



Prepared Remarks

FISCAL 2020 Q3

January 30, 2020

CHRIS:

Thank you.

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. 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 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.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

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

ANDREW:

Thanks, Chris.

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 FY20.

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 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 three trilogies and more, critics have re-reviewed the game to high scores, player sentiment is

exceptional, and the Celebration Edition helped to drive performance for *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 Lucasfilm.

It's nearly one year since we took the industry by storm with *Apex Legends*, and the strength and opportunity of this IP and live service continue 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 Three was bigger than Season Two 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 FY21, 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 an all-new dimension to *FIFA 20*, and the updates to FIFA Ultimate Team have been deeply engaging for fans, with FUT 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 two major

additions to the *FIFA 20* experience with the prestigious South American club tournaments CONMEBOL Libertadores and CONMEBOL Sudamericana, 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, continued to demonstrate the creative ways we can add to this experience for our amazing Sims community – as did the surprise addition of “The Child” from The Mandalorian series on Disney+ just before the holidays. Meanwhile, *PvZ Battle for Neighborville* and *Need for Speed Heat* both brought fun 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 at this – constantly building on feedback to expand and enhance the experience for players. With content updates and in-game events in Ultimate Team, creative and original new Seasons for *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 three major platforms and coming to Steam in FY21, we're expanding our leadership in the high-value, low-friction subscription model for more players. And with FIFA and Madden continuing to grow as leading esports properties, we're bringing *Apex Legends* competitions to the global stage, and we have exciting plans for new content in esports as we move into next fiscal year.

We're looking forward to finishing this year strong, delivering for players and continuing our growth into FY21. Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

EA successfully launched three games last quarter – *Need for Speed Heat*, *Plants Versus Zombies: Battle for Neighborville*, and, of course, *Star Wars Jedi: Fallen Order*. That brings the total for calendar 2019 to eight.

Launching eight major games at quality in a year is a substantial undertaking, but that number only tells part of the story. For example, for *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, and epic new ways to play across all three cinematic eras. For *Apex Legends*, we launched three seasons of content, including three new Legends, five in-game events, three town takeovers, a whole new map and six new game modes. Delivering quality entertainment at this level testifies to how well the teams are aligned across the company, and the way in which we unite to achieve our goals.

And it works. We had another great quarter, with record net bookings in 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 twelve 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 the positive true-up this year to create 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 from last year.

Operating cash flow for the trailing twelve months was a new 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 cash flow information.

During the quarter, we **repurchased 3.1 million shares at a cost of \$305 million**. We've now returned to shareholders over \$2 billion of the \$2.4 billion in our two-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 hit the high end of that in the third quarter, and we now 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 than last year.

Diving into the digital net bookings:

Digital net bookings were \$1.444 billion, up 20% on the year-ago period. Digital net bookings now represent 77% of our business on a trailing twelve-month basis. This compares to 74% in the prior year.

- **Live services** 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 licensing deals, such as the one for *Command and 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 by the opportunities ahead of 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 twelve months. This compares to 47% a year ago. We continue to model underlying annual growth of around 5 percentage points.

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 \$5.150 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 two new IPs we launched last year. This results in diluted **earnings per share** of \$1.05 for the fourth quarter, using the diluted share count of 293 million.

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 the 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'll launch four sports titles, including new games in our blockbuster FIFA and Madden franchises, four other titles that draw from the breadth of our IP, and we'll also publish four more titles globally from smaller developers. Finally, we expect two new mobile titles to make it into soft launch.

We expect growth to accelerate in fiscal 2022 as we leverage the growing base of the 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 dependence on individual titles, decreases risk, and enables us to deliver financial results for our shareholders through a constant stream of high-quality entertainment for our players.

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

ANDREW CLOSING:

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 to 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 FY21 and beyond.

Live services extend and enhance the experience for players in their favorite games, and enable 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 we'll 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 lead with some of our top titles. Our esports portfolio will expand to four franchises this year, with content designed for a wide audience and a growing range of sponsors. We're continuing to add to the value of our subscription offerings, reaching more players 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.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal year 2020, fiscal year 2021 and fiscal year 2022 guidance and title slates, contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "expect," "intend," "estimate," "plan," "predict," "seek," "goal," "will," "may," "likely," "should," "could" (and the negative of any of these terms), "future" and similar expressions also identify forward-looking statements. These forward-looking statements are not guarantees of future performance and reflect management's current expectations. Our actual results could differ materially from those discussed in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: sales of the Company's products and services; the Company's ability to develop and support digital products and services, including managing online security and privacy; outages of our products, services and technological infrastructure; the Company's ability to manage expenses; the competition in the interactive entertainment industry; governmental regulations; the effectiveness of the Company's sales and marketing programs; timely development and release of the Company's products and services; the Company's ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to develop and implement new technology; foreign currency exchange rate fluctuations; general economic conditions; changes in our tax rates or tax laws; and other factors described in Part II, Item 1A

of Electronic Arts' latest Quarterly Report on Form 10-Q under the heading "Risk Factors", as well as in other documents we have filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2019.

These forward-looking statements are current as of January 30, 2020. Electronic Arts assumes no obligation to revise or update any forward-looking statement for any reason, except as required by law. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2019. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended December 31, 2019.