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EA - Q4 2020 Electronic Arts Inc Earnings Call

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OVERVIEW:

Co. reported 4Q20 GAAP net revenue of \$1.39b, GAAP operating income of \$401m and GAAP EPS of \$1.43. Expects FY21 GAAP net revenue to be \$5.525b and GAAP EPS to be \$3.35.



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PRESENTATION

Operator

Good afternoon. My name is Suzanne, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q4 2020 Earnings Conference Call. Mr. Chris Evenden, VP of Investor Relations, you may begin your conference.

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

Thank you, Suzanne. Hi, everyone, and welcome to EA's Fourth Quarter Fiscal 2020 Earnings Call. With me from their homes today are Andrew Wilson, our CEO; and Blake Jorgensen, our COO and CFO.

Please note that our SEC filings, our earnings release, our financial model and our earnings slides are available at ir.ea.com. We will post an audio replay, a copy of these prepared remarks and a transcript after the call.

With regards to our calendar, our Q1 fiscal 2021 earnings call is scheduled for Thursday, July 30, 2020. Many of the usual opportunities we have to meet with investors, such as conferences, are unavailable at this time. We're building out a program of virtual tours to reach as many of you as possible over the coming weeks and months directly and through partnering with sell-side analysts.

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 note in particular that these forward-looking statements may be affected by risks related to the COVID-19 pandemic. We refer you to our most recent Form 10-Q and our earnings release for a discussion of risks, including those related to COVID-19, that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, May 5, 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.

And now I'll turn the call over to Andrew.



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

Thanks, Chris. This is a challenging time for everyone. As global citizens, we are all enduring a period of great uncertainty and continuing to fight the spread of the coronavirus pandemic. We're here to report on our quarterly results for the fourth quarter of fiscal year 2020, and Blake and I will speak to those. However, our focus, first and foremost, has been on the health and well-being of our teams and their families during the COVID-19 situation. I'll start by sharing a little about our actions to support our employees around the world.

We have an internal COVID-19 task force that has been tracking and making decisions on a daily basis since January to keep our teams safe, including early decisions to restrict business travel, cancel events and close our Shanghai and Seoul facilities. By mid-March, we shifted nearly all of our global workforce to work from home in response to the growing threat of the pandemic. Through this transition, we've put a heavy focus on ensuring our people have everything they need to balance the challenges of work and home life during stay-at-home orders and physical distancing.

We continue to be in a work-from-home status for all of our locations outside of Shanghai. We have detailed protocols to evaluate our readiness to return in each of our offices when the time is right, accounting for guidance from health authorities and government, the comfort level of our employees and preparation of our facilities for continued physical distancing. We're planning for the return to take place over an extended period, and we make -- as we make longer-term changes to our locations and practices in response to the pandemic. We will continue to do everything we need to support our teams as we go forward.

Moving to our results. We finished a strong year for Electronic Arts with fourth quarter and full year revenue and earnings above our previously raised guidance. The innovation that we are delivering to players across the breadth of our games and live services continues to drive strength in our business. I'll touch on a few examples from the year.

EA SPORTS is a pillar of our portfolio and continues to bring more players together. FIFA is one of the biggest and most engaging entertainment franchises in the world. With approximately 100 million players engaging globally in our FIFA franchise, more than 25 million unique players have joined FIFA 20 so far with VOLTA opening up an entirely new dimension of the game and FIFA Ultimate Team continue to grow as the most popular mode. FIFA Online in Asia also continues its momentum, significantly outperforming our expectations.

Madden NFL is a cultural icon in football, gaming and entertainment, and it just had its biggest year ever. We took a new approach to launching and rolling out new modes of play in Madden NFL 20, and the result was the highest engagement levels in franchise history.

Apex Legends was the most downloaded free-to-play game on PS4 in 2019 and continues to grow as an innovative long-term service for players. It's been continually recognized as one of the best multi-player experiences available. And with each new season of content, Respawn had been delivering more of what players love from lore to new legends to in-game events.

Before COVID-19 stay-at-home orders began, season 4 was already outperforming each of the 2 prior seasons, and the Old Ways Event in April has become the most successful ever for Apex. Our Apex esports tournaments have generated approximately 2x the average viewing audience of other top esports leagues. Respawn have added more teams in our development organization to work on great new content, and we continue to have a strong focus on the thriving Apex Legends community.

Star Wars Jedi: Fallen Order is one of the breakout titles of the last several years. More than 10 million unique players have joined the game since launch, a rare achievement for a first title in an entirely new franchise. It's a meticulously well-crafted game, and it continues to give fans a deeply engaging and original Star Wars experience.

The Sims 4 inspires an entirely different gaming audience and one that continues to grow. It provides a completely unique experience from anything else in the market, and FY '20 was its biggest year since launch. In every quarter this year, monthly average players in the Sims 4 were higher than the previous year. Our Sims community is diverse and highly creative, and our success continues to be built on delivering a wide variety of content and ways to engage for players with very different interests.



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With more people staying at home in the fourth quarter, we did see rising usage and engagement levels in many of our games. We're humbled to see people wanting to connect through our games during this time, in part, has been made possible by the amazing work of our teams and our technology investments across the company. For more than 5 years, we've been investing in a single technology infrastructure architecture and digital platform as we accelerate into a digital world. That's enabled us to provide mobility for our employees in this environment and maintain strong productivity.

But the real story is the people of Electronic Arts. We have such tremendously talented, dedicated and determined teams. They've come together in the strongest and most inspiring way through this pandemic response period in service of each other and in service of our players. And as a result, we have been able to adapt and scale in this changing environment where engagement in our games has reached new peaks and continues at elevated levels through the current quarter to date.

We've had a deep focus on our players through this time, our amazing studio teams have delivered great live service content while working from home, including FIFA Ultimate Team events, Madden Ultimate Team content for the NFL Draft and new additions to Star Wars: Galaxy of Heroes. We also launched our stay-at-home play together initiative to do some special things for our players as shelter-in-place orders began to take effect in March.

Thanks to the dedicated work of our teams and our partners, we've delivered dozens of stay and play programs to date from special community live streams and giveaways to athletes and celebrities playing our games with fans. Our sports teams launched a fully cloud-based broadcasting platform that allows us to produce high-quality esports content with competitors, hosts and production staff all safely at home. We've since conducted major online tournaments for Apex Legends, Madden NFL 20, FIFA Online 4 and FIFA 20, including the FIFA Stay and Play Cup, a \$1 million charity tournament for COVID-19 relief that brought together top European clubs and footballers and aired in more than 100 countries. We've now executed or plan to execute in the coming months more than 100 celebrity, athlete, community and charity online esports events.

The global crisis has also been hitting local communities very hard, and we've increased the funding in our charitable match program to support local organizations around the world. Our teams have also been doing extraordinary things to help in their communities from sourcing quantities of personal protective equipment for health care workers to food drives and much more, and we're supporting them in any way we can. I want to say a huge thanks again to the people of Electronic Arts in making all of this possible. Because of their fast and determined work, we've responded well to this global challenge, and we're in a good position to continue connecting more players through great games and content and supporting our communities when and where they need it most.

Looking to FY '21, we are growing our portfolio of high-quality and innovative new games. We are planning to launch 14 new titles to play this fiscal year. That includes 4 new EA SPORTS titles, FIFA, Madden, NHL and 1 more unannounced sports title, all of which deliver on the mix of creativity, authenticity and quality that sets EA SPORTS apart. EA SPORTS will also lead for us on the next-generation consoles this year, and we're excited to share more about the breakthroughs in those experiences soon.

Our FY '21 plans also include 4 more games drawing on the breadth of our IP from Command & Conquer Remastered to unannounced games for console and PC. We'll have more games from indie developers launching this year through EA partners and 2 new mobile titles leveraging top IP that will bring to players worldwide.

With our team's expertise in live services, we're also building some of the biggest ongoing experiences in the industry. We have a lot more for the growing Apex Legends community this year, starting next week with Season 5. Maxis will continue delivering Sims 4 content that empowers self-expression and fuels the creativity of our diverse player audience.

In addition, our new EA SPORTS games will continue delivering fans daily connection to sports through our live services even at the real-world leagues and teams aren't back in action yet. And we are also working to bring more content to FIFA Online and Apex Legends in Asia that will excite our current players and welcome new ones.



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This year, we plan to grow our communities across more platforms and ways to play. Building on our announcement with Google Stadia last week, we plan to bring our games to more digital distribution channels. We'll take our subscription service to a fourth platform in Steam, and we're also planning to deliver for more Nintendo fans with multiple EA games set to launch on Nintendo Switch this year.

As we begin FY '21, our outlook for the year is strong. We also know there is uncertainty ahead as COVID-19 situation continues to unfold. Factors like macroeconomic challenges, the status of sports seasons, unknown impacts to our business partners and long-term impacts to our productivity in a global work-from-home environment are among the areas we will be watching closely and could affect both player behavior and our ability to deliver on our planned time lines.

We are thankful for the extraordinary people that we have Electronic Arts and for their dedication to each other, to our players, to our communities and our company. Now I'll turn the call over to Blake.

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

Thanks, Andrew. We had a strong year, but it is impossible for me to reflect on the past 12 months without acknowledging that we are all currently going through a very difficult time, and I hope that you and those close to you are healthy and safe.

I'd like to focus on the impacts we're seeing in our business. First and foremost, we are concerned for the safety and well-being of our people. Andrew has given you a brief introduction to the measures we have taken and continue to take. Teams across the company have shown extraordinary innovation in meeting the challenges of delivering games from home. Developing a game from home inevitably carries risks, and we haven't yet solved all those problems. But for example, we just had a very successful FIFA Ultimate Team Birthday event. Apex Legends Season 5 is about to launch, and we expect to see the next Sims expansion; and Command & Conquer Remastered to both launch in June as scheduled. Learning from this period will forever change the way we work at EA.

Secondly, there is a question as to how this might affect how players behave. From Andrew, you've heard that people are playing our games a lot more, and we've seen a corresponding large rise in live service revenues that continues today. Our results this quarter proved the value of the live service path that we've been on now for a decade. The breadth and depth of our live services give us tremendous flexibility at times like this to meet player needs in a variety of ways.

The closure of physical retail has not yet affected the sales of full games with sales actually above where we would have expected them to be at this time of the year. This suggests that people who want a game are finding a title in our catalog and downloading a digital copy or ordering a physical copy online. In addition, the shift to digital since the last recession reduces both the impact of store closures and of inventory risk. Physical game sales comprised 84% of our annual net bookings in fiscal 2009 compared to only 20% last year.

Turning to our results. I'll report them on a GAAP basis, then use our operational measures of net bookings to discuss the business dynamics. To compare results to historically reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

GAAP net revenue for the fiscal year was \$5.54 billion; cost of revenue, \$1.37 billion. Operating income was \$1.45 billion, delivering an EPS of \$10.30, including onetime tax benefit of \$5.97 that we previously discussed. These results enabled us to deliver free cash flow of \$1.66 billion.

Total net bookings for the fiscal year were \$5.21 billion, up 5.4% year-on-year. At constant currency, growth would have been over 7%. Digital net bookings accounted for \$4.05 billion of this. Live services net bookings were \$2.78 billion, up 15% year-on-year driven by strength across our business.

Moving on to the details of our fourth quarter. GAAP net revenues for the quarter were \$1.39 billion, above our guidance by \$62 million. Operating expenses were \$717 million, slightly less than what we guided. Operating income was \$401 million and resulted in earnings per share of \$1.43, \$0.38 better than our guidance. Operating cash flow for the quarter was \$498 million, down \$101 million from last year, driven by increased royalties and cash taxes paid. Capital expenditures for the quarter were \$40 million, resulting in a free cash flow of \$458 million. You can see this in our earnings slide for further cash flow information.



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During the quarter, we repurchased 2.7 million shares at a cost of \$291 million. Since quarter end, we have completed our 2-year \$2.4 billion repurchase program. Due to the uncertainty of the markets and in the economy, management and the Board have chosen to postpone a review of our capital return plans until next quarter. Let me emphasize that this is a precaution. Our business today is extremely strong.

Our cash and short-term investments at the end of the quarter were \$5.74 billion. Our balance sheet is very strong. With regards to debt, we have \$1 billion in senior notes with \$600 million maturing in March 2021 and \$400 million due in 2026. Our debt equates to significantly less than the fiscal 2020 free cash flow.

Now I'd like to turn to the key drivers of our business in the quarter. Net bookings were \$1.21 billion, well above our guidance of \$1.15 billion, driven by our digital business. Digital net bookings were \$1.12 billion with the beat versus expectations driven by The Sims 4 and Apex Legends. Digital net bookings represent 78% of our business on a trailing 12-month basis, a new record. This compares to 75% in the prior year. Live service net bookings were \$789 million. The year-on-year decrease is driven by the massive launch of Apex Legends a year ago offset by growth across the rest of our live services. Ultimate Team grew strongly throughout fiscal 2020.

Mobile delivered net bookings of \$138 million, up 2% year-on-year driven by our sports titles in Asia. Full game PC and console downloads generated net bookings of \$190 million, down 11% from last year driven by the launch of Anthem in the year-ago quarter partially offset by 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, and we continue to model underlying growth at 5 percentage points per year.

Looking ahead to the next 12 months. We are focused first and foremost on supporting our people, helping them cope with the world in which we find ourselves. Second, we are focused on enabling them to deliver the new content we're providing to our players through live services and the new games we have on our slate.

The market outlook is uncertain, but we're basing our modeling on the gaming software market growing in mid-single digits in calendar 2020 with mobile up 7%, console up 5% and PC up 5% in dollar terms. In addition, although our sports live services are continuing -- are currently performing extremely well, is not yet known when professional sports might resume nor what the impact on our business might be if that takes some time. In the meantime, our esports activities are providing to be popular competitive outlets for football, soccer and hockey fans.

There are also risks associated with our ability to deliver new games, and the guidance I'm about to provide is predicting -- are predicted on the title slate as outlined in the earnings presentation on our website. Note that this slide only identifies those titles that are already announced. As we have previously stated, our FY '21 revenue forecast includes additional titles from both EA and third-party studios, which will be announced in the coming quarters. We're not seeing material impact on our FY '21 title slate, but that could change, and the risk is higher for third-party titles where we have less control.

Finally, with regard to potential impacts of a recession. The video game market has historically proven resilient as players have seen games as a relatively inexpensive form of entertainment. Nevertheless, future economic indicators are extremely weak and may affect our business.

Before I get to the numbers, let me also discuss 3 changes we are making with regards to our reporting. First, we will present GAAP net revenue in the income statement as one item rather than as product and service. Secondly, we will report mobile bookings gross of platform fees instead of net to align with industry practice. Finally, we're updating the presentation of net bookings by composition to focus on full game and live service sales in line with the direction we continue to drive the business. We've published more details on our IR website.

Guidance for fiscal 2021 is for GAAP net revenue of \$5.525 billion, cost of revenue at \$1.382 billion and GAAP EPS of \$3.35. As you compare with last year, remember, fiscal '20's GAAP EPS included a onetime tax benefit of \$5.97 per share. We continue to forecast our management tax rate for the fiscal 2021 to be 18%.

With regards to cash flow for fiscal 2021, we expect operating cash flow to be approximately \$1.575 billion. We anticipate capital expenditures of around \$125 million, which would deliver free cash flow of about \$1.45 billion. Free cash flow is down slightly year-on-year with higher underlying profits more than offset by higher cash taxes and higher variable compensation and lower interest income.



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Turning to business drivers. We anticipate net bookings for the year to be \$5.55 billion, up 3.3% year-on-year on a like-for-like basis. Growth is primarily driven by live services plus strong sports launches and a broad portfolio of partner titles. Our projections assume a headwind from FX to net bookings of roughly \$60 million, although we note that exchange rates are likely to be more volatile in the near term as the result of market uncertainties induced by the pandemic. Both of these numbers are net of hedges. Our currency assumptions are disclosed in our earnings presentation on our website.

Drilling down further into the key drivers of our full year net bookings guidance, we expect live services and other to be \$3.85 billion in fiscal 2021, up 7% compared to fiscal 2020. And full game net bookings to be \$1.7 billion, down almost 5% year-on-year. Finally, with live services, we expect mobile to deliver net bookings of \$721 million in fiscal 2021 (sic) [2021], up 1% on a like-for-like basis.

On a management reporting basis, operating expenses will grow 2% in fiscal 2021, reflecting tight expense controls in the face of macroeconomic uncertainties. We expect Q1 net bookings to be \$1 billion. While we're seeing very strong engagement in net bookings growth to date, we're only a month into the quarter, and our current levels of engagement and monetization could subside as stay-at-home orders are eased and lifted. In addition, the swing factors discussed above in these unprecedented times are potentially huge, impossible to forecast and beyond our control. Thus, we're taking a more cautious view than normal.

As usual, we have presented the quarterly phasing of our net bookings in our earnings presentation. Note that this year, the phasing includes the effect of revenue recognition from the games we are launching for the current generation of consoles that can also be upgraded free for the next generation. We've made a preliminary estimate of that impact in the phasing, but it should be noted that this will not affect net bookings for the full year nor cash flow, just the timing of recognition.

I'll finish by personally thanking everybody at the company for rising to the challenge. Every one of you have shown energy and ingenuity to enable us to deliver games and content at a time when players want them the most. Thank you.

With that, I'll hand it back to Andrew.

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

Thanks, Blake. We feel very fortunate at Electronic Arts to have the opportunity to bring games and entertainment to people around the world. That's true every day, but it's especially true during this unprecedented situation. Our ability to fulfill important motivations to players, inspiration, escape, social connection, competition, creation and learning has brought more people to connect and spend time in our games in the recent weeks and months of COVID-19 stay-at-home orders. We've seen games be a source of joy for hundreds of millions of players. We will now look to be delivering for these players for a long time to come.

Our focus continues to be on delivering great games and content through the breadth and depth of our portfolio in our ongoing live services and by connecting more players through our games via more distribution channels and platforms.

With the incredible determination of our teams, we've been able to keep producing new experiences from our homes around the world. And as we continue to work through this global challenge, we plan to continue delivering a lot of new games, new experiences and exciting ways to play this year.

How we live, work and play will undoubtedly be changed by the COVID-19 pandemic. We're humbled that games have been part of how people are coming together. We'll continue to serve our people, our players and our local communities by helping them in any way that we can.

To everyone listening into this call, please be safe and be well. 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 Matthew Thornton with SunTrust.

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

Maybe 2 if I could. You guys have talked a little bit about Battlefield being pushed out to fiscal '22. Wonder if you'd maybe just give us any other color or comments or thoughts on other kind of pipeline projects as we look out in the out years. And then secondly, on Apex, just wondering if you could give us any incremental thoughts or color around the launch on mobile, the progress in China, any minimum guarantees that might fall into this year. Any color you can offer there would be helpful.

Andrew Wilson - Electronic Arts Inc. - CEO & Director

Let me take the kind of out year projects and maybe Apex in Asia. First, I would say, Battlefield is progressing very, very well. We're excited by what the team's doing. And again, in the context of the work-at-home environment, they have been truly inspirational in how they've continued to develop great entertainment in the context of our Battlefield universe. I'm excited for when next year comes.

In terms of specific announcements around what might be coming in the out years, I would tell you that we don't have anything to announce today. But more broadly, you should imagine that we're going to continue to invest heavily in our EA SPORTS-branded properties, bringing some new properties back over the coming years. We've talked before about having new IP in development, both for console and PC and for mobile. We're excited about that. And I'd also say we've got a number of new incubation products that are starting to come together that are looking exciting for the future as well. So I don't think we've ever had as robust a pipeline of content ahead of us as we have right now. I don't think we've ever had the level of execution that we're seeing around the development and launch of content and the management of ongoing live services than we have right now. And while there are always challenges and interesting hurdles that we face delivering great interactive entertainment experiences, I would tell you, I'm very excited by what I see more so than I have been for our pipeline for a long time.

With respect to Apex, I think it falls into that category. I -- we don't have anything specific to announce beyond what we've already talked about other than to say I just saw the results of our Season 5 trailer for Apex today. So we dropped it. It has a 99% approval rate and is the top trending video on YouTube games today. That, in conjunction with some game players we saw in our Apex mobile title, I feel very excited about that franchise overall.

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

Yes. Just to add, trust that we are well along the way with our partner in Asia on Apex mobile and PC. We're very excited about what's going on. And we have a very, very small number in there for this fiscal year. So I don't see any risk if that takes longer, but the partner's working very hard to get it out as fast as possible. And I echo what Andrew just said. If you check out the trailer on Season 5, I think what you'll see is we continue to evolve this live service. And remember, this is a live service. That's why it's so exciting. And we're adding interesting, exciting new content. And then as you look at the trailer, remember, the team did a huge part of this game from home, and I think that's an important message that shouldn't be ignored because it is not easy. And what we've proven to ourselves, we didn't think it was possible, but it's proving that, at least so far, we know there's risks going forward, but it's amazing what the teams have been able to do working apart from each other from home. And just check out the trailer.

Operator

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



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

Hope everyone in the team is safe and well. Maybe 2 questions. I think investors have struggled with sort of understanding maybe the rate of change of engagement and monetization. Is there a way to sort of frame either specific titles or across your portfolio what you've seen in March and April versus what historical trends have been in January and February before the new normal? And then a bigger picture question, are there learnings you're getting from this period in March and April that are informing the way you're thinking about either product development or ways in which to tie engagement and monetization more broadly together as you think about the long-term future for gaming.

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

So let me start with the first part, and then Andrew can probably talk a little bit about the development piece. I think as most people know, we -- our back half of this year, unlike last year, didn't have any new titles. We obviously benefited from follow-on sales for Jedi: Fallen Order, which were strong, but it was really a live service quarter for us. And as you can see from the numbers, it exceeded our expectations and our guidance substantially. The big drivers on that are Apex, the Ultimate Team businesses across the board and our catalog of great titles. And people always underestimate the power of 2 things inside of EA: the catalog and live services. And we continue to build more and more live services that engage people socially and bring people to -- or allow people to enjoy things that they love. In a world where there was no sports, we became sports for people. And if you look at our business across Madden, FIFA, hockey, it's incredible, the level of engagement we saw and obviously, the level of revenue growth we saw during that time frame.

Madden, on its own, was the biggest Madden year we have ever seen and the biggest Madden Ultimate Team year we have ever seen and much of that due to the amazing work the game teams did in building Madden with incredible new modes and components to it and a ton of fun and then pushing that into Ultimate Team as well. But I think people always need to understand the stability of our business is driven by this incredible machine that we've built around live services and the underlying strength of our portfolio and our long and large catalog. Andrew, I'll let you jump in on development.

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

Yes. And so I would take it in 3 categories. One, are there any metrics that we could point to just kind of speak to the level of elevation we've seen? I would tell you that FIFA hours watched in April were up 135% over last April and are up 115% for Madden. Our esports TV broadcast hours in the U.S. in April were up 250% over last year, and April alone was 30% bigger than all of calendar year 2019. So we're seeing tremendous engagement in the unbelievable creativity and innovation that our teams are delivering.

As we think about this on a go-forward basis, I think about it in 2 buckets. One is just how do we think about building games going forward and how do we think players will engage as things start to return to normal. Again, I would take this opportunity to celebrate the creativity and ingenuity of our teams. They have been truly inspirational in how they have come together and how they work and build games and create games and deliver epic entertainment to our global audience of players. We had already, over the last 5 years, started to move towards a distributed development model. We utilize the best creative talent in a number of different regions around the world to come together and build spectacular entertainment for players. I think what we have learned through this process is that there are new areas of innovation and creativity that we can unlock in a distributed model and some of the foundations that our teams are building in the context of developing games, of developing motion capture, of developing commentary, of filing games are going to be really helpful for us on a go-forward basis.

I also spoke to -- in the prepared remarks, about how our esports teams have built a fully cloud-based broadcast model. Again, we have a wonderful facility at our head office, and we'll use other people's facilities to bring people together and broadcast esports events. But we've been able to deliver hundreds and hundreds of hours of esports content completely remotely with host, broadcasters, players and fans all safely at home. I believe this will accelerate our ability to develop and deliver amazing esports content to a global audience and continue to fulfill the insatiable appetite that is absolutely there that we're seeing right now.



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As it relates to gamers, again, I think it's too early to tell, but a few things we know are true. One is that games fulfill these core motivations that we have, the ones I talked about in the prepared remarks, like inspiration and escape and social connection and competition and creation and learning, better than just about any other form of entertainment on the planet. And there are many, many new players who are coming and discovering just how wonderful games are and the joy of games and how spectacular they can bring people together. And our expectation is that people having invested this time and built relationships with friends through new games they're playing will continue to drive engagement over the long term. And our objective, of course, is to fully support them as they move through this COVID-19 phase and ensure that we are able to continue to fulfill the motivations they have even as we get on the other side of this.

Operator

And your next question comes from the line of Laura Martin of Needham.

Laura Anne Martin - *Needham & Company, LLC, Research Division - Senior Analyst*

So it sort of sounds, Andrew, from a lot of your comments that we're getting nice TAM expansion. You said Sims 4 had a new and different audiences from your other games, and then you said Apex Legends esports was up twofold audiences. I guess my question is do you think that one of the unintended consequences of COVID-19 is we're going to get more gender diversity and a faster move out of sort of passive programming into sort of more interactive or more lean forward programming that you guys benefit from. And then, Blake, for you, Andrew was just talking about these maybe more distributed -- pivot towards more distributed you've been working on for the last 5 years. Could you talk through what the impact on the P&L would be over -- maybe in 2021, a little further out maybe than the COVID-disruptive period and how much money that might save on the P&L if we do move to a distributed talent base system?

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

Yes. Let me grab the first one and then I'll hand off to Blake. First and foremost, what we have tried to do as a company is build a broad and deep portfolio that speaks to and entertains a diverse global population. And you see that across our sports titles and Battlefield-like titles and Sims titles and Apex titles that give you different experiences across different platforms, across different business models and different geographies. And that has been the very core of our strategy at Electronic Arts. And what we're seeing through this period of time is, as more people come to recognize the true joy of interactive entertainment, the true joy of gaming even as I think linear media has also benefited through this time, I do believe that engagement will be more consistent in the interactive industry over time. I do believe we're seeing new players come in who maybe hadn't played before and who are experiencing the goodness that comes from connecting with friends in a truly interactive environment through games. We're excited about that. We're excited to deliver new and interesting and innovative and creative entertainment to fans. And we're very happy to see that the core strategy of a broad and deep portfolio that speaks to and entertains a global diverse audience is answering the needs of the global community at this time.

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

Yes. In terms of the expense side, it's really still early to tell. We know for the next at least 2 quarters, the quarter we're in now and the following quarter, we will see virtually no travel and entertainment expenses that we would normally see. We're obviously -- both gamescom and E3 have been canceled. Many of the industry events that typically we would bring people together or our own internal events where we would have brought people together were canceled. So obviously, we'll see some savings there. We don't really have a full sense on what the future will bring a year from now, but I know we will think differently about how we operate, how many people we have in certain offices, what that looks like. That could actually change expenses in a negative way. I hope not. I don't think that's what we're focused on. We hope that we can actually have more people working from home that changes expenses to a positive. But it's early days to say, but I know at least in the near term we will see some savings. And we've tried to reflect that in some of our guidance, but we don't really have a sense of how long this will go. We're currently working on plans as to how we would bring people back into offices and what the pace would be. We're not going to bring everybody back on day 1. And I think most companies are going through the same thing. But I do think, in this year, we're probably in a better position for not having large OpEx because



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we're not hiring as much and we're not spending as much on things like travel. But I do think the unknown is really the following years going forward.

Operator

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

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

Two on M&A. Just curious if you're, I guess, more interested on potential deals here considering the current environment or if you're seeing more opportunities emerge to partner or acquire smaller game companies. And then the second question, obviously, the gaming business is already looking good compared to the traditional media business. But now I guess considering how you -- some of your peers are performing, player engagement's strong and the ability to continue to create content from home, as you said, is significant, kind of cyclical to economic downturn, do you think this could sort of, I guess, reshape the perception of your business from potentially larger media companies or otherwise and that's the catalyst for potential acquisitions over time?

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

Yes. It's -- Mike, it's hard to say. I mean right now we're working, obviously, as we've talked about with a lot of third-party companies for titles for the coming -- this year and following years. So that's a -- for us, we stay very close to them, and we're doing everything possible we can to support those companies in a tough position. But at the same time, companies that do have games in the market are obviously doing well, similar to what you're seeing with us and other public companies. So I don't know if it's turning a catalyst to M&A.

We do feel like this will continue longer term to emphasize the fact that scale is incredibly important in this business, and maybe that turns into something which helps us with M&A going forward. We're -- our model right now is just really simple, which is stay close to all the companies we know. It's harder because you can't go meet with them face to face, but stay close to them on the phone, on Zoom, wherever it is, and make sure you're supportive because we believe, longer term, that helps us potentially become a deeper partnership with them. And that's about all I can say now, and we'll see how that plays out over time.

Operator

And our next question comes from the line of Alexia Quadrani of JPMorgan.

Zilu Pan - *JP Morgan Chase & Co, Research Division - Research Analyst*

This is Zilu Pan on for Alexia. We were just wondering if you can give us a sense of what you think spending might trend after stay-at-home orders get lifted. Any patterns you might be seeing in countries that have already eased restrictions? And then just as a follow-up, are there any concerns that the sports games might get a little stale without live sports events resuming in time for the fall releases?

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

Yes. It's too early for us to be able to really assess any places where regulations have lifted because I mean shanghai is probably -- China's probably the only place we're starting to see that, so it's early. I don't -- I think you should assume our costs won't change versus what they've been historically. The real question is going to be do we benefit from slower hiring and less travel during the coming few quarters. And I think we will, and that's built into our guidance. But I don't have a sense of does that last another year or more. So I think that will take some time for us to really better understand that.



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As both Andrew and I said on the call, our focus is on how do we hold together our team. We do not want to have to reduce what we believe is one of the greatest teams in the industry, and that's our #1 focus. And I think everybody aligns with that. And they understand, okay, we will do everything we can to not spend to make sure that, that happens.

In terms of the sports calendar, I mean, the biggest unknown for us right now is 2 things. The economy, what really happens to the economy over time. Today, we see our core audience spending because they're at home more. But does that change over time? And then the second challenge is what's the impact if the sports calendar does not start up at some period of time. We know, today, people are engaging with sports because that's what they love to do. If you are a sports fan, it doesn't stop. And so the only way they're getting their sports engagement is through our games, and that's a huge benefit for us. But we don't know because there's no precedent on this, is what happens long term if any of the sports seasons get delayed even further. But we do believe that everything we're seeing now and everything we're seeing particularly in esports is we can be a huge factor in helping people socialize and do what they love around the sport they love.

And don't forget the social part because, remember, people don't sit and watch a sports game alone. They sit and watch a sports game and interact with all their friends that they know engage in that sport. And what we're doing is we're enabling that to happen through our games and through the watching of esports online. So we hope that, that bodes for a great season going forward, but we've never been at a time like this before. And so that's why you're hearing any caution from us.

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

And I would echo Blake's caution, but I would also point to the amazing work our teams have done in the past and have been doing over the last couple of months. We have a long history of creating spectacular sports content that's not actually directly dependent or reliant on the real world of sports, Ultimate Scream, team of the partial season in FIFA, Zero Chill in Madden, Ultimate Freeze in Madden Mobile. Our teams are very close to the playing communities. They interact with them deeply on a daily basis and have been truly creative and innovative how they have put things together and delivered the experiences to players through the last few months to ensure that those players remain connected to the players, the teams, the leagues and the fans that they love to spend time with. I actually believe that there is an opportunity for us to continue to do that for players even if sports are delayed or don't make it back this year.

Operator

And your next question comes from the line of Alex Giaimo of Jefferies.

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

I was hoping to just get a general update on your relationship with the NFL. We saw a competitor agree to publish non-simulated NFL games. So I guess the question is do you think there's any risk that the NFL opens up its simulated license at some point. And then sticking to sports, sorry if I missed this earlier. But was there any update as to your plans with the NBA Live franchise?

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

I would -- again, I would point to the year we just had with Madden NFL, the single biggest year in the franchise, a truly innovative, developed game and an innovatively launched game in the context of how the team, the development team came together and built new experiences, targeting new and younger players in the context of NFL football and how our marketing teams kind of launched those experiences in multiple launches and target those multiple groups of different players. And the result is the best year in Madden history. I would tell you, our relationship with the NFL was very, very strong. We look forward to building NFL games for many years to come. And what you should expect from us over time is that we will continue to build out our NFL football offerings, both in the context of building on the Madden platform.



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Again, when you think about gamers the biggest -- one of the most important things to them is a sense of community and being part of such a big community like the Madden community, whether they're playing frontline 11-on-11 simulation football or they're playing the fast knockout modes that we launched this year or whether they start to play some of the new modes that we plan to deliver in the future on console, on PC and on mobile. So we're excited about our football future and believe that it will continue to be a strong part of our portfolio and a really strong offering for football fans in many years to come.

With respect to NBA Live, nothing more to announce at this time other than I would also tell you we have a great relationship with the NBA. We've been partners with them for a very long time. I've personally spent time with the NBA at the most senior levels talking about innovative new ways to deliver new interactive content to NBA fans that maybe aren't engaging in games today. And we'll have more to share on that in the coming months.

Operator

Our next question comes from the line of Drew Crum of Stifel.

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

Blake, wondered if you could deconstruct the performance of live services during the quarter, understanding that the Apex comp was difficult. What were some of the puts and takes on the 7% decline? And I apologize if I missed any commentary on Ultimate Team. And then separately, can you just comment on your expectations for your mobile business to be up 1% in fiscal '21 against the market? You're forecasting to be up 7%.

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

Yes. Sure. Thanks. Good questions. So on live services, almost all of the delta was driven by Apex Legends. And remember, we came out of the gate last -- or last February, excuse me, on fire, like you never would have believed, right? And so a massive business. And then we settled into a regular cadence, and we've been able to grow that each quarter through all the seasons that we've had, and we're feeling very good about that.

The second piece is we -- as the sports calendar shut down, we made the decision to move the -- what is the -- it's called the FUT Birthday, FIFA Ultimate Team Birthday event from the end of March into the first 2 weeks of April. And it was really driven by trying to pace out sports content knowing that there was no sports content in the world. And so -- but it's one of the biggest events of the year. And so you can imagine that also impacted the year as we went from Q4 compared to previous year Q4. Those were the 2 biggest drivers.

On the positive side, Madden both live service, the Ultimate Team has been on fire, which in the February, March time frame is rare because it's post the Super Bowl but it's been very strong. FIFA Online 4 in Korea was very strong. Remember, we -- I think we said in the last earnings call, we shut off FIFA Online 3 in Korea. We're still running both FIFA Online 3 and FIFA Online 4 in China at this point. But as we shut off FIFA Online 3 in Korea, we saw massive growth in FIFA Online 4. And so that's kind of the puts and takes. And then on top of that, I would say, Sims 4 continues to be the title that just doesn't stop. And I think as Andrew mentioned in his previous comments, it has continued to grow quarter after quarter after quarter. It is an incredible team, an incredible product and amazing engagement. And so you can say, put it all on the Apex last year, unbelievable benefit and then the FIFA move of the FUT birthday in the quarter.

Mobile, the way we've approached mobile for the year in terms of our guidance is we basically have assumed that mobile titles will stay in soft launch much longer than they have historically. And so we have relatively little new mobile growth from new products in the year. Our hope is that we can exceed that, but that's how we've built our guidance because we know the mobile industry continues to get harder and harder. And that means people are keeping mobile titles in soft launch for longer and longer to try to tune them. The good news is that we still have a strong set of mobile titles today that are highly profitable. You look at Star Wars: Galaxy of Heroes, for example, continues to perform extremely well. Things like SimCity continue to perform extremely well. And while we're not growing dramatically, we're still extremely profitable across those titles, and our hope is the new titles that we have in the mix will get out of soft launch faster than we anticipate and possibly help us generate something above what we forecast for the year.



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Operator

Our next question comes from the line of Andrew Uerkwitz from Oppenheimer.

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

One kind of big picture one very near term, a big picture question. With so many different new platforms to launch on, should we expect sort of the cadence between titles to kind of lengthen and going forward, kind of dig into the catalog and find things that either could be brought back to life or remastered? Or how does the broader platform strategy affected -- how should we think about it affecting future game development? And then my second question probably is more for Blake. Could you -- if you could give us some color on sort of almost -- has the sports title seen any sort of deterioration at all relative to the other titles through the month of April at all? Or how should we think about the guidance on a going-forward basis of how you're building sort of recession, no sports, lots of sports? So maybe [any] part of the day when you think sports are coming back?

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

Yes. Okay. Andrew, you want to start with the first one?

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

Yes, absolutely. I would say the strength of Electronic Arts is built on our ability to be platform agnostic. We have been able -- throughout our history, we've been able to get to more platforms with more titles of higher quality than most everyone else in the industry. It is a position we're very proud of, and we continue to drive against that. 6 or 7 years ago, we anticipated there to be many more new platforms we would have to build on over time and that ultimately the cloud would also emerge as its own platform across a number of different companies or portals. And part of the reason we moved the organization to a single digital platform, single ID, single commerce, single data, single infrastructure, single security and we moved the organization to a single engine in Frostbite was in anticipation of this so that as these new platforms come online, we're able to get to them more quickly and more efficiently and at higher quality than maybe our competitors can who are working on multiple platforms and multiple engines and actually really use our scale to our advantage in our ability to do that. And what you're seeing from us now is our ability to get to console and new consoles and PC and Steam and Stadia and mobile, and you should expect that we have -- and Switch. And you should expect that we will continue to look to deliver great content on any and all new platforms that we think have the ability to reach critical mass of gamers.

In the context of overall time between games, I think it's different by game. What we know to be true is that games are getting bigger and more complex in development, but they're also entertaining significantly more players on each release basis and holding onto those players for much, much longer through ongoing engagement in live services and social interaction.

And so as we think about our broader portfolio, you'll continue to see us launch games on an annualized basis. Our sports games would be a good example there. You'll continue to see us launch games on a multiyear basis. Things like Battlefield or some of our titles out of Dragon Age would be a good example of that. You'll continue to see us think about games on a 5- and 6-year time horizon. The Sims, which launched again over 5 years ago and continues to grow every year through extra content and live services, would be an example of that. And then you'll see us launch true platform games like Apex Legends, which we expect will have -- continue to grow over the next decade.

So again, I would come back to I feel good about how we have moved the company on a technology basis. That puts us in a position to reach as many players as possible across geographies, across platforms, across business models, across genres as this global playing audience continues to expand.



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

Yes. And I'll try to address your second part of your question. First, I would just remind everybody, which I think you all know, but we've just finished a year in which we raised guidance 3 times and delivered on that with beats every time. We just put out guidance for next year -- or this year, coming year that we're in right now, in probably the most uncertain time that we've ever faced, and yet -- and we've cautioned everyone and we've put caveats on everything. And I don't know what's going to transpire, but we were still willing to come out and put out guidance that we thought would grow both top line and bottom line year-over-year.

Look at Q1. The largest Q1 in the history of the company was \$0.31 in EPS, and we just provided you guidance for \$0.70 in EPS. And that could -- the business could fall off the cliff tomorrow, and we would be dead wrong. But I think all of you know how Andrew and I and all of our teams have been very conservative. I would think about that as you're thinking about the year forward.

So with that, wonderful soliloquy, however you say that, we will end the call, and I appreciate everybody. And most important, make sure your families are healthy, you're spending time with them and you all stay healthy as well because we need to have you guys around to help us in the marketplace. So thank you.

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

Be well. Stay healthy. Stay safe. Thank you.

Operator

And this concludes today's conference call. You may now disconnect.

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