



Prepared Remarks

FISCAL 2020 Q4

May 5, 2020

CHRIS:

Thank you.

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.

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

ANDREW:

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 wellbeing of our teams and their families during the COVID-19 situation. I'll start by sharing a bit 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 to work 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 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 to the game, and FIFA Ultimate Team continuing 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 multiplayer experiences available, and with each new season of content, Respawn have 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 Four was already outperforming each of the two prior seasons, and the Old Ways event in April has become the most successful ever for Apex. Our Apex esports tournaments have generated approximately two times 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 the 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 on the market, and FY20 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.

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 this has been made possible by the amazing work of our teams, and our technology investments across the company. For more than five 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've 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 throughout 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 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 & Play programs to date, from special community livestreams and giveaways, to athletes and celebrities playing our games with fans. Our esports 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 & 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.

This 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 healthcare 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 for 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 FY21, we are growing our portfolio of high-quality and innovative new games. We are planning to launch 14 new titles to players this fiscal year. That includes four new EA SPORTS titles -- FIFA, Madden, NHL and one more unannounced sports game -- 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 FY21 plans also include four more games drawing on the breadth of our IP, from *Command & Conquer Remastered* to unannounced games for our console and PC players. We'll have more games from indie developers launching this year through EA Partners, and two new mobile titles leveraging top IP that we'll bring to players worldwide.

With our teams' 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 to

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

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 FY21, our outlook for the year is strong. We also know there is uncertainty ahead as the 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 timelines.

We're thankful for the extraordinary people that we have at Electronic Arts, and for their dedication to each other, to our players, our communities, and our company.

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

BLAKE:

Thanks, Andrew.

We've 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 impact we're seeing on 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 challenge of delivering games from home. Developing a game from home inevitably carries risks, and we haven't yet solved all the 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 the next Sims expansion and *Command & Conquer Remastered* to both launch in June as scheduled. Learnings 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 services revenues that continues today. Our results this quarter prove the value of the live services path 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 expect them to be at this time of year. This suggests that people who want a new 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 measure 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 **EPS** of \$10.30, including one-time net tax benefits of \$5.97. 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 revenue for the quarter was \$1.39 billion, above our guidance by \$62 million. **Operating expenses** were \$717 million, slightly less than 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. See our earnings slides for further cash flow information.

During the quarter, we **repurchased 2.7 million shares at a cost of \$291 million**. Since quarter end, we have completed our two-year, \$2.4 billion repurchase program. Due to uncertainty in 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 fiscal 2020's free cash flow.

Now, I'd like to turn to the key drivers of our business this 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 represented 78% of our business on a trailing twelve-month basis, a new record. This compares to 75% in the prior year.

- **Live services** 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 through 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 twelve months, and we continue to model underlying growth at five percentage points per year.

Looking ahead to the next twelve months, we are focused first and foremost on supporting our people, helping them cope with the world in which we find ourselves. Secondly, 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 currently performing extremely well, it 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 proving to be a popular competitive outlet 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 predicated 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 FY21 revenue forecast includes additional titles from both EA and third-party studios which will be announced in coming quarters. We're not seeing material impact on our FY21 title slate, but that could change, and the risk is higher for third party titles, where we have less control.

Finally, with regards to the potential impact 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 three changes we are making with regards to reporting. Firstly, 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 are updating the presentation of net bookings by composition to focus on full game and live services 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 \$1.382 billion and GAAP EPS of \$3.35. As you compare with last year, remember FY20's GAAP EPS includes one-time tax benefits of \$5.97 per share. We continue to forecast our management tax rate for 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 profit more than offset by higher cash taxes, higher variable compensation, and lower interest income.

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'd note that exchange rates are likely to be more volatile in the near term as the result of market uncertainties introduced 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, within Live Services, we expect mobile to deliver net bookings of \$721 million in fiscal 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 control in the face of macroeconomic uncertainties.

Focusing on Q1: we are expecting GAAP net revenue of \$1.22 billion, GAAP cost of revenue \$210 million and GAAP EPS of \$0.93.

We expect Q1 net bookings to be \$1.00 billion. While we're seeing very strong engagement and 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 are 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 for 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 everyone at the company for rising to the challenge. Every one of you has shown energy and ingenuity to enable us to keep delivering games and content at a time when players want them the most. Thank you.

And with that, I'll hand back to Andrew.

ANDREW CLOSING:

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 for people – 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 will continue to serve our people, our players, and our local communities by helping in any way that we can.

To everyone listening in to this call, please be safe and be well.

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 2021 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:

The Impact of the COVID-19 Pandemic: Continued disruptions, postponements or cancellations of sports seasons and sporting events around which the Company seeks to launch games and provide live services; worsening economic conditions that negatively impact discretionary consumer spending and consumer demand; the closure of several of the Company's key locations, including its global headquarters in Redwood City, California and key studios across North America, Europe and Asia which could impact (1) the Company's ability to meet product and live service development schedules, (2) the effectiveness of the Company's quality controls and game testing measures, and (3) the Company's ability to conduct normal business operations; the inability of third-party developers with whom the Company has partnerships to meet product development schedules; sustained closures of the physical stores of key retail partners and deterioration in the financial condition of such retail partners; delays in the release date and the decreased unit volume of next-generation consoles from the

Company's platform partners; volatility in foreign currency exchange rates; and other risks related to the COVID-19 pandemic that may be unforeseen as of the date of this release.

General Business Risks: 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; the Company's ability to realize the anticipated benefits of acquisitions; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to develop and implement new technology; changes in our tax rates or tax laws timely development and release of the Company's products and services; and the consumer demand for, and the availability of an adequate supply of console hardware units.

In addition, other factors which could cause the Company's results to differ materially from its expectations are 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 May 5, 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2020. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2020.