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# EDITED TRANSCRIPT

EA.OQ - Q1 2021 Electronic Arts Inc Earnings Call

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## OVERVIEW:

Co. reported 1Q21 net revenue of \$1.46b, GAAP operating income of \$471m and GAAP diluted EPS of \$1.25. Expects FY21 GAAP net revenue to be \$5.625b and GAAP EPS to be \$2.97. Expects 2Q21 GAAP net revenue to be \$1.125b and GAAP EPS to be \$0.21.



## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

**Todd Michael Juenger** *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

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

## PRESENTATION

### Operator

Good afternoon. My name is Daphne, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q1 2021 Earnings Conference Call. Mr. Chris Evenden, VP of Investor Relations, you may begin your conference.

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

Thanks, Daphne. Welcome to EA's First Quarter Fiscal 2021 Earnings Call. With me from their homes today are Andrew Wilson, our CEO; and Blake Jorgensen, our CFO and COO.

Please note that our SEC filings and our earnings release are available at [ir.ea.com](http://ir.ea.com). In addition, we've posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model and a transcript.

With regards to our calendar, our Annual Shareholder Meeting will take place next week on Thursday, August 6, and will be a virtual audio-only meeting due to the ongoing health concerns and physical distance requirements related to the COVID-19 pandemic. Our Q2 fiscal 2021 earnings call is scheduled for Thursday, November 5.

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-K for a discussion of risks that could cause material -- actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, July 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.

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

Thanks, Chris. First off, I hope that all of you listening today are well and that you and your families are in good health. This is an unprecedented time, and it was an unprecedented first quarter for our business at Electronic Arts, with extraordinary growth in our games and live services and



record financial performance. I'll speak to both of those in a moment, but first let me touch on our efforts to continue supporting our teams through the evolving COVID-19 situation.

I'm incredibly proud of our amazing teams at Electronic Arts. The ingenuity, creativity, and determination of all of our talented people is making it possible for us to continue delivering all the great games and content to players, even as almost all of us continue to work from home. The wellbeing of our people is our top priority, and to keep everyone as safe as possible, the vast majority of us at EA will be working from home at least through the remainder of the calendar year. These are challenging times for everyone managing through the pandemic's effect on their personal and professional lives. We're helping however we can with support and resources, including quarterly payments to assist our people with work-from-home costs and care needs, a pandemic care leave program, additional services for mental and physical health, and more.

In addition to the ongoing challenges of the pandemic, these last few months have brought forward important cultural conversations around racial and social injustice, harassment and misconduct. We've long held equality, inclusion and diversity at the center of our beliefs at Electronic Arts, and as a company, we've made our positions clear and demonstrated with our actions that we have a long-term commitment to making a positive impact in our world.

As we've shared previously, our business focus continues to be on our key growth drivers, delivering amazing games and content, offering live services that extend and enhance the experience, and connecting more players across more platforms and ways to play. In our first quarter of FY '21, engagement was exceptionally strong across our portfolio. We launched new games, delivered incredible growth in our live services, and welcomed tens of millions of new players into the EA network since the beginning of April. This drove the biggest first quarter in EA history, with net bookings and operating cash flow both setting new records. As a result, we are raising our full year FY '21 net revenue and net bookings guidance today.

We've seen tremendous growth over the last 4 months in our business and across the industry. As EA, we sit at the intersection of 2 fundamental secular trends that have become increasingly clear. First, social interactions in our world are moving from physical to digital. And second, the consumption of sports and entertainment is moving from linear to interactive. We've seen both of these trends accelerate during the COVID-19 period. Tens of millions of new players have come into our games, and we also have many players returning to our franchises after some time away. In addition to higher engagement from our existing players, these new and returning players are now deeply engaged in our live services, establishing new play patterns and building new friendships in our games. So while there are unknowable aspects to this period of time we are in, and it may be difficult to predict the patterns of new and returning players, we expect these trends to continue during and after the pandemic. We remain committed to continuing to innovate in this space, keeping EA at the forefront of providing social interaction and interactive entertainment to a wide global audience.

I'll share a few highlights here that capture what our teams delivered for players in Q1. We launched 2 new games to players during the quarter. Command & Conquer Remastered, which was incredibly well-received by fans and critics and became a top selling title on Origin and Steam, as well as Burnout Paradise Remastered on the Nintendo Switch. Our teams also delivered over 30 new content updates for our console and PC titles, including two major game expansions, as well as more than 50 updates to our mobile games. All of this, and the continued development of our upcoming titles for FY '21 and beyond, was completed with our teams working from home.

Apex Legends continues its momentum as an exceptional live service, building on strong performance through the last several quarters and bringing even more players together in the game. Q1 saw the most game sessions played and highest revenue total since the launch quarter for Apex, and engagement in Season 5 reached the highest levels since our first new season of content. Creative in-game events continue to be a huge draw for our Apex community, and the most recent event, Lost Treasures, had more than 96 million hours played in the first 2 weeks. We're bringing Apex to players on the Switch and Steam, and we're excited to introduce cross-play later this year so more players can engage and play together with their friends.

The world has an insatiable appetite for sports, and for the experiences that EA SPORTS delivers in our games. With real world sports disrupted, EA SPORTS has become the center of the emotional connection to sports, and we've brought millions of new, returning and existing players into their own personal sports stories through our games.

Player acquisition of new and returning players in FIFA grew more than 100% year-over-year in Q1, with more than 7 million joining during the quarter. There are now -- these are now among our most engaged groups of players, demonstrating commitment and longevity in our FIFA live service. FIFA in Asia grew significantly year-over-year in Q1 as well, with FIFA Online 4 now engaging nearly 30 million players to date.

Madden NFL 20 also had an incredible Q1, building on what is already the biggest year ever for our Madden franchise. Player acquisition in Madden NFL grew nearly 140% year-over-year in Q1, and virtually every measure of Madden Ultimate Team engagement is up more than double over last year.

The Sims continues to resonate with more players around the world. The Sims 4 now has more than 30 million players life-to-date across all platforms, and daily, weekly and monthly active player totals in the game all reached record highs for a first quarter. Our Sims mobile games had an excellent Q1 as well. The creative and inclusive nature of The Sims experience on any device is truly unique in all of gaming, and we're especially proud of the way it helps players find community and express themselves during culturally challenging times.

During Q1, we also launched nearly 30 titles on the Steam platform. Bringing our games to Steam enables us to substantially grow our PC audience. Our Origin business grew 75% year-over-year as well, and by opening up the ability for Steam and Origin players to play together, we're now positioned to harness the full power of the PC community. Bringing titles to Steam is also foundational to our EA subscription service that will go live on the platform later this summer. In addition, the total number of players in our subscriptions on Origin, Xbox One and PS4 grew quarter-over-quarter, with new players coming into our services to experience more great games.

It was an unprecedented quarter of growth. Looking forward, we're also seeing strong engagement in Q2. Although it is difficult to predict ongoing levels of growth in this environment, we have grown our player base during this period and added value to our network. Our EA SPORTS live services are acting as social networks for sports fans around the world, and the strength of those connections will grow as real sports seasons return. Players in our communities for The Sims, Apex, Star Wars and more are building relationships through our games, and we expect them to be with us for a long time to come.

Building on this strength, we have exciting new titles and content coming in Q2 and beyond, including Rocket Arena which we just launched with Final Strike Games. We showcased many of these new experiences in our EA Play Live broadcast in June, where our audience grew significantly year-over-year, and the trailers and videos that we debuted have been watched more than 31 million times. We will begin launching our new EA SPORTS games starting in August. Nowhere else in the world can sports fans find the breadth and depth of interactive experiences like the ones in our EA SPORTS portfolio this year. With UFC 4 launching on August 14, we've got something for every fight fan, an amazing roster of fighters, tremendous customization, brand new environments, and more fluid gameplay, all making this the most authentic MMA game we've ever created.

Madden NFL 21 is then set to launch on August 28. On top of major gameplay innovation, a new campaign mode, and more of the Superstar X-Factor abilities that fans love, we're bringing creative and innovative new ways to play Madden that build on the strength of our NFL partnership.

We have more people than ever before playing and connecting through FIFA, and when FIFA 21 launches on October 9, the world's leading football experience will expand with more ways to play with friends. VOLTA SQUADS and FUT Co-Op will bring new social dimensions to the game, and we're also delivering the most comprehensive update to Career Mode that we've ever released.

NHL 21 launches October 16, and we're excited about the great work from our NHL team this year and we'll share more about that soon. Then in the holiday season, EA SPORTS will also lead the way on the new PlayStation 5 and Xbox Series X. Next-generation versions of FIFA 21 and Madden 21 will bring the next level of innovation and interactive sports experiences to fans with the launch of the new consoles. This will be a great year of new games and content for sports fans around the world.

With our cloud-based broadcasting platform for esports operating at global scale, we delivered 85% more esports broadcast content in the last 4 months than we did in all of calendar year 2019. Demand for our FIFA, Apex Legends and Madden esports content across major networks is unprecedented. And the great entertainment we are providing is bringing more players and viewers into new experiences with our games. We're now significantly expanding and diversifying our content for the rest of this year. Our plans are to deliver 3x as many broadcasted events in FY '21

over last year, spanning linear and digital broadcasts, with more athlete, celebrity and fan competitions, in addition to global esports ecosystems for Apex Legends, FIFA and Madden.

We also just launched The Sims Spark'd on TBS and BuzzFeed, our first-ever reality competition TV show. Seamlessly integrating entertaining player stories and gameplay, alongside weekly challenges for the Sims 4 players, it's an entirely new and unique way to create competition. It shows the innovation we can bring to the esports space with our franchises, and we're very excited by the fan reaction to date.

We're also very pleased with the response to our new Star Wars: Squadrons game from Motive Studios set to launch on October 2. This is going to be the game for anyone that's ever had the fantasy of piloting a Star Wars starfighter, with a deep level of immersion built by our teams in collaboration with Disney and Lucasfilm. We're excited to add another all-new experience to the portfolio of amazing Star Wars titles we've delivered to fans, especially one that opens up new dimensions like full VR support and cross-play.

Our business is strong and it's been an amazing start to the year. These are challenging times amidst the pandemic, and we are deeply appreciative of all that our teams are doing to continually innovate and deliver for our players and push the boundaries of interactive entertainment every step of the way even while working from home. We also have to thank all of our players for their support. We're humbled to see so many using our games and our network as a way to connect with their friends and families during this time. There is much more to come from us at Electronic Arts in FY '21.

Now I'll hand the call over to Blake.

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

Thanks, Andrew. We saw extraordinary levels of player engagement through the first quarter, far higher than we even ever expected or had forecasted in May. And it proved more resilient than we had expected. Engagement was broad-based, with net bookings for live services at extraordinary levels for FIFA, Madden, Apex Legends, The Sims and our mobile titles. And with increased sales of our games across the breadth of our entire catalog, we connected with more people to the games they want and to each other. All this was reflected in our results, with record Q1 highs in net revenue, net bookings, live services and cash flow.

I'll report the specifics of our results on a GAAP basis, then use our operational measures of net bookings to discuss the dynamics of our business. Before I get to the numbers, let me remind everyone of the 3 reporting changes we implemented this quarter and discussed in our last quarter call. First, we now present GAAP net revenues in the income statement as one item, rather than as product and service. Second, we report mobile bookings gross of platform fees, instead of net. And finally, we updated the presentation of net bookings by composition to focus on full game and live services sales. Our historical results have been recast for comparability.

EA's net revenue was \$1.46 billion compared to \$1.21 billion a year ago, and above our guidance by \$239 million. Operating expenses were \$700 million compared to \$607 million a year ago. This was above our expectations, driven by variable compensation due to our strong performance in the quarter, as well as COVID-related costs and lower attrition. Operating income was \$471 million compared to \$415 million a year ago and above our expectations. Diluted earnings per share was \$1.25 as well above our expectations of \$0.93, driven by the topline beat. Operating cash flow for the quarter was \$378 million, up \$220 million from last year. Capital expenditures for the quarter were \$38 million, resulting in a free cash flow of \$340 million. Operating cash flow for the last 12 months was \$2.02 billion, a new record. See our earnings slides for further cash flow information. Our cash and short-term investments at the end of the quarter were \$5.96 billion, up 15% year-on-year.

Now, I'd like to turn to the key drivers of our business this quarter. Net bookings for the quarter were \$1.39 billion, up \$608 million from the prior year, and \$390 million above our guidance, driven by strength across the board, with strong performance from our core franchises and live services. The currency headwind net of hedges was \$42 million year-on-year. Live services and other net bookings were \$1.103 billion, up \$416 million from the prior year. This extraordinary result is a consequence of the years of work we've invested in building teams, processes and content for our titles, which delivered strength across our portfolio. FIFA, Madden, Apex Legends, and The Sims all grew very strongly. Ultimate Team was up 70% on a like-for-like basis, adjusting for the timing of Ultimate Team events, for the extra week in the quarter, and for currency. With Lost Treasures, Apex Legends presented its most engaging event ever, and delivered its biggest season since launch. And, as Andrew mentioned, The Sims 4 exceeded

30 million users life-to-date, and Q1 net bookings more than doubled year on year. Mobile was up 32%, with success across our portfolio led by Star Wars: Galaxy of Heroes, which had the best quarter since 2018. The game has now generated over \$1 billion in lifetime bookings. FIFA Mobile, SimCity, The Sims Free Play and more showed growth of a similar magnitude.

Full game net bookings were \$287 million, up \$192 million from the prior year. 52% of our unit sales are now digital rather than physical, measured on Xbox One and PlayStation 4 over the last 12 months. Net bookings for packaged goods and for the full-game digital downloads almost tripled. This was primarily driven by our deep catalog.

A brief note on financial reporting before we go on to guidance. People are playing our games for longer as a result of the amazing content provided on our live services teams and the social connections they make within our games. So for GAAP reporting, we're increasing the period of time over which we recognize the portion of our net revenue. This begins in our second quarter, only affects GAAP revenue, and only affects the timing of recognition, not total net revenue. We estimate that it will move the recognition of approximately \$300 million in GAAP net revenue from fiscal 2021 into fiscal 2022. It does not affect net bookings or operating cash flow.

Now, turning to guidance. Due to the significant outperformance during the quarter, we are increasing both our net revenue and net bookings guidance for the full year. In doing so, we had to balance the significant boost we saw in Q1 and the confidence we have in our games and live services against the unknowable macroeconomic environment for the rest of the fiscal year. We are taking a cautious view that assumes that we will continue to see a modest tailwind to engagement, driven in part by continued shelter-in-place orders. This is offset by a weaker economy or could be weaker economies around the world and the slightly later sports launches. There are reasons for optimism. For example, we've added tens of millions of players to the EA Player Network since the beginning of April. As Andrew mentioned, FIFA alone attracted 7 million new players on console in the last quarter, and more people are playing FIFA now at this time in -- than any previous cycle. This is significant, in that people have played the game recently are more likely to buy the new one. New players are building networks of friends in our games as they play. Engagement in FIFA and Madden continue to be massively above where we would normally expect them to be. Nevertheless, we haven't launched a major title since the pandemic struck, so it's too early to draw general conclusions.

Our business is strong and our games are on track. Hopefully, our base case around the uncertain economic will prove to be too cautious. Thus, our expectations for full-year GAAP revenue are now \$5.625 billion, cost of revenue to be \$1.483 billion, and earnings per share of \$2.97. We are raising our operating cash flow guidance by \$275 million to \$1.85 billion. We continue to anticipate capital expenditures of around \$125 million, which would deliver free cash flow of \$1.725 billion.

A note on OpEx before moving onto the business drivers. The increase from our prior guidance is mainly driven by variable compensation plus higher-than-expected headcount, due to lower turnover during this difficult period. We're continuing to invest in our growth drivers, and, in particular, we're increasing the number of mobile titles we have in development. We now expect net bookings for the year to be \$5.950 billion, \$400 million above our prior guidance. Versus last year, this factors in an FX headwind of about \$100 million. And, as you build your model, note that we are also forecasting a fall in interest rates of about \$80 million compared to last year as we mentioned in our last quarterly earnings call.

For the second quarter, we now expect GAAP net revenue of \$1.125 billion, cost of revenue to be \$280 million, and operating expenses of \$755 million. This results in earnings per share of \$0.21 for the second quarter. We anticipate net bookings for the second quarter to be \$875 million. The significant year-on-year variance is driven by the move of FIFA 21 from Q2 to Q3, and by the later launch of Madden NFL 21 in Q2, which we have previously announced. The change in mix for Q2 weighs on gross margin for the quarter. Madden stays in Q2, but has less live services opportunity than in prior years by virtue of starting later, and FIFA moves to the beginning of Q3.

With regard to live services, remember that we're focused on engagement ahead of new product launches, so expect lower bookings at that point of the cycle. See the phasing that we provide in our quarterly presentations on our IR website. You'll see that the smaller Q2 is more than offset by a much larger Q3, and a slightly larger Q4.

As we approach 6 months working from home, we are finding ways to continue to deliver great games and services. We're excited to showcase the incredible efforts of our Madden and FIFA, NHL and UFC teams have done through the upcoming -- as they lead into the upcoming launches, and by the work of all of our live services teams. The shelter-in-place orders have so far been a strong tailwind for our business, as players look for

safe and social entertainment in these difficult times. A macroeconomic headwind in the second half seems very likely. Nevertheless, our ability to deliver high quality AAA and indie titles for our players, combined with the incredible success of our ongoing live services and increased reach across platforms and geographies enables us to continue to deliver for players and investors.

Now I'll turn the call back to Andrew.

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

Thanks, Blake. These past few months have been unlike anything we've ever experienced. It was an extraordinary quarter for games and for Electronic Arts. Our business is strong. We've just had the largest first quarter in the history of the company, with tremendous engagement from existing, new and returning players. We are well positioned to build on that strength. We will continue to deliver more amazing games and content, including new EA SPORTS titles, more groundbreaking fun esports content, Star Wars: Squadrons launching in October, and more. We'll continue to extend and enhance the experiences in our live services on all platforms, from console to PC to mobile. And our focus on connecting more players across more platforms will continue, as we bring our subscription to Steam, integrate our games with Stadia, expand support for cross-play, and reach more platforms with our games, including the next-gen consoles coming later this year. It's also increasingly apparent that COVID-19 could be with us for some time. Keeping all of our teams safe is our first priority. They are the true strength of Electronic Arts, and their commitment and courage during the challenges of recent months has been deeply inspiring. Not only have they continued to develop and launch games from home. Our employees have supported nearly 1,000 different charities in the last 3 months, including tens of thousands of hours of volunteer time. Their contributions to COVID relief efforts and racial justice organizations, along with matching funds and additional contributions from EA, have totaled more than \$3 million to date. In this environment, supporting our teams, building our culture, and striving to amplify the positive impacts of play in our communities around the world has never been more important. We look forward to sharing more updates with you in the quarters ahead. Be well and stay healthy.

Now Blake and I are here for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Mario Lu with Barclays.

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

I have 1 on FIFA and then 1 on Star Wars. So the first one on FIFA what they're releasing now in fiscal 3Q. Although it was previously announced, this shift does drive fiscal 2Q guidance to come in below the Street. So can you help quantify how much of the shift this cause in terms of bookings? Any other dynamics to keep in mind going forward? And should we expect FIFA 22 to now be back in a normal fiscal 2 release quarter?

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

Yes. It's a good question, and I appreciate you asking. The entire delta is FIFA. Nothing else is going on. As we've tried to be pretty clear about that, I don't think people have necessarily heard that, but that's the entire delta. We've also not changed the back half of the year guidance down. So you should assume we are planning and we will make up anything we might have missed during the quarter or the 2 quarters.

The other thing I would just want to remind people is that it's all event -- Ultimate Team's all event-driven. That means that there may be some events that roll into next year, which actually strengthen next year as well as this year. We made a simple decision, which is we wanted to give both the FIFA and Madden team a couple of extra weeks to final and what has been the most difficult situation we've ever lived through, which is building games from home. We are incredibly impressed with what they've been able to do and how they've been able to innovate the game within this

context. And so our view is -- our hope is that most investors aren't focused on each quarter, they're focused on the full year. We just raised guidance by \$400 million. And I remind people in the history of both Andrew and I running the company, we have only raised guidance in the first quarter once. So you guys all know our conservative approach and how we're always cautious.

We also mentioned today that we know there is and if we went after things that is not economic risk in the back half of the year, I'd like to know that, but we all know there's economic risk. And so I think I would take our raising of guidance and not lowering guidance in the back half of the year even after moving FIFA and Madden is a pretty positive signal. And I think Andrew and I both mentioned in the call, the other thing, which was we are continuing to see engagement and monetization levels higher than we've normally seen during the -- where we currently are in the second quarter. And I'm not telling you that, that's going to change the second quarter or we would have changed guidance because we just don't know yet. But remember, the unbelievably high monetization we saw in Q1 does not drop off a cliff. It will slowly decline as we all go back to a normal life. But if you ask many of us, that might be 6 months, 9 months or 2 years.

And what we also mentioned, which I think is the most important component is as people rejoin or join as a new member of a social network around the game, they tend not to leave. And so this should ultimately long-term benefit our business. And it's just -- the problem for us is we've never lived through this before, and none of us have, you guys haven't either. And so we don't have a road map to be able to help us, be able to predict exactly what it's going to look like. And so we're trying to be transparent. We're trying to be straightforward. And we're trying to be optimistic because we are optimistic, but we're also trying to be realistic that we know that there's economic strains out there around the world that could ultimately come back to impact our business or anybody's business.

So sorry to go on about the question, but I think we want to try and make sure we're -- people are understanding that it's both FIFA and -- Madden and FIFA Ultimate Team that are moving. But other than that, we're not signaling anything else other than we made a decision. And we made it some time ago because we announced it some time ago. So we wanted to give the teams a few extra weeks to make sure that the product was exceptional when it came out the door, and we're confident that that's what it's going to be.

Now your second question, sorry, I went on too long in the first question. So I forgot your second question.

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

No, no, that's great. I have a second one. That's very helpful, Blake. So the second one is on Star Wars. Can you provide some color behind the decision process regarding pricing Squadrons at \$40 with no additional MTX. So I do think no, all the games are not pretty equal. So overall, I'm surprised how the standard has been for \$60 video games in the last 15 years. So why go \$40 all-in and not free-to-play? Or just in general, what are your thoughts on potentially pricing next-gen titles at the higher price points, \$70 instead of \$60?

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

Yes. And I guess I'll have Andrew just sort of help out on this as well because it's important to hear from both of us. I mean we always look at the games, and we want to make sure we are providing the greatest value for our players. And games all have different scale. And most of our games right now have huge scale. We designed this game to really focus on what we heard from consumers, which is one of their greatest fantasies and that's to be able to fly a X-wing fighter or a TIE fighter and be in a dog fight. And so it doesn't have the breadth of some of our games, but it is still an incredible game. And so that's why we chose to price it at a slightly lower level to also allow access to as many people as possible who had that Star Wars fantasy. I'll let Andrew jump in and talk about how we view pricing long term. But I think you've seen us over the years differentiate pricing on lots of games. We've differentiated pricing on things like Plants vs Zombies games because we knew that they were skewed to younger audiences, for example, or maybe didn't have the depth of all of the game modes that you might see in an Ultimate or a FIFA or a Madden. Andrew, do you want to add to that?



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

Yes. I would start with what are the player motivations we're trying to fulfill and what are the expectations of those player groups in fulfillment of those motivations. And I think that we start there long before we ever get to price points. And as you've seen from us, we have games across the spectrum of pricing, whether that's free-to-play or at \$60 or at \$60 with an additional live service or as part of our subscription offerings. And at the end of the day, as we think about it, we start with a player, we start with the motivations and expectations that they have, and we build out the game. In this case, this is a very deep and immersive game and that \$40 felt like the right price points, given the breadth of the game. Very proud of what we're doing. We wanted it to be a wholly self-contained experience that was deeply emerging in that fantasy.

As we think about pricing more broadly, I would come back to that position, which is we start with what are the player motivations we're trying to fulfill, what are the expectations that players have around depth and breadth and live service in any given experience, and we build from there. As we think about this year, you've seen what we've done as we've announced that we will offer the ability for players to transition free of charge from existing generation of console titles to the next-generation of console titles for FIFA and Madden. We did that and we set out to build the best PlayStation 4, Xbox One experience as we could as well as the most innovative and creative experiences for Xbox Series X and PlayStation 5. And what we wanted for our players this year because what they asked for was the smoothest possible transition that meant that they could jump into the game when it launched on existing platforms and then move into the next platform as it made sense for them later on in the year. And that has been our focus this year. And we will continue to kind of look at this over time.

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**Operator**

Your next question comes from the line of Todd Juenger with Sanford Bernstein.

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**Todd Michael Juenger** - *Sanford C. Bernstein & Co., LLC, Research Division - Senior Research Analyst*

And glad to hear everybody is relatively well. Can I ask, if you don't mind, just thinking through the changes in real estates and the sports titles. I know that was probably a production driven decision. But when we're looking at the real-live physical sports leagues around the world, especially in the states, obviously there's a lot of uncertainty about the timing and shape of their seasons this year and next. And just wondering how that maps to the release of your games and the events in the live services and how much it matters. For instance, if there was no NFL season in the fall or if it had to be stopped in the halfway through, how does that matter to your games, how should we think about that? I know it's sort of a broad hypothetical, but there's so much uncertainty there. So I guess the underlying question is how much does whatever happens as live sports affect how we should think about and expect people to engage with and spend money in your games? And I have a follow-up.

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

Yes. So what I would -- well, go ahead, go ahead, Andrew.

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

Sorry, I would just -- I would start with kind of 2 things. One is, my sense is that we will have sports of some shape or form in the real-world over time. The second thing is regardless of whether we do or we don't, sports fans have an insatiable appetite for sports day in, day out, week in, week out, month in, month out. And what you heard us talk about in the prepared remarks and what you have seen in Q1 is we've been able to fulfill that insatiable appetite for sports with our games. And there's really -- when we think about our sports games, we think about it on 2 vectors. One is the connection, the emotional connection to real world of sports and all that's happening with the players and teams and the leagues that you love. The other is we provide you a tool set that features those players, teams and the leagues that you love, but allows you to tell your own personal sports stories. And what you saw from us this past quarter is we really leaned into that. And we actually augmented that some. So while we provided opportunities and events so that you might tell your own personal sports stories with your friends and your rivals, we also dropped in about additional esports content, celebrity content and esports and celebrity competitions. And what we've seen is that we've been able to uphold and fulfill the motivations of sports fans and the needs of sports fans and allow them to remain connected to the sports they love. And I would tell you,



I think that we are comfortable doing that for as long as it needs to. And then to the extent that sports come back online, we believe that's a further accelerator to our business.

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

Yes. And what I said in the remarks was Ultimate Team in the quarter was up 70%. I don't think we've ever seen a growth like that. And as part of that, we know, for example, Madden Ultimate Team was up over 300%. And there was no sports -- live sports going on at any point in the time during that quarter. And I think Andrew made the point, and I would just stress this as when people are sports fans, remember they are sports fans connected to a social network. No one plays a fantasy sport game alone. No one plays Ultimate Team alone. They play with each other. And that means that it builds off of the social network more than anything else. And so in the absence of sports, people double down and are excited. And so while we always want live sports to go on because it helps feed the engagement and excitement around the business. We also know sports fans are not going to stop being sports fans if the underlying sports stops. And I think the first quarter proves that better than anything we've ever seen. And so we hope sports is back because we all love sports, and we want to engage in it. I'd prefer not to watch sports with an empty stadium. But at the end of the day, it's better than no sports at all. And our games allow people that continued engagement with something that they really love. And I would tell you, that extends well beyond sports, right? I mean, you might ask, well, if there's no Star Wars content in the next 6 months because movie studios are shut down or TV studios are shut down, does that hurt your business? No, no, it goes just the opposite, which is, if you're a Star Wars fan, you want to find every single opportunity to engage in Star Wars. And that's why we saw growth of Star Wars Jedi: Fallen Order, growth of our Star Wars online business and continued growth of the catalog of Battlefield 1 -- or Battlefield I and Battlefield II during the quarter. It's -- when you're Star Wars fan, you want Star Wars, and you got to get it somewhere. So that's why we keep coming back to -- this is an incredible opportunity for us. But at the same time, we also understand that we don't -- we can't predict the future. And so we're always careful of trying to predict the future, but we do see a huge opportunity.

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**Todd Michael Juenger** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*

If you don't mind, just 1 follow-up. Somebody's got to ask the M&A question that you get every quarter. So maybe I'll go this quarter and just it seems more right than ever, given your cash balance and the cash generation and the value of your currency, there's at least one big asset we know of that is believed to be in the market. Just wondering your disposition toward the thought and the appeal of acquisition, how you are thinking through that given where the industry sits right now and anything you'd share on that?

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

Yes. Juenger, what I would say there is, it is very rare that we don't get a chance to look at anything that's up for sale. I mean, you can imagine, people call us and say, we're thinking about selling this business or we're thinking about selling ourselves. We are a place that a lot of people want to come as a long-term home if they decide to sell the business. So we get to look at almost everything. I can't comment on any specific acquisition other than what I will tell you is, as we've said, you've seen in the past, where we've done the best is where we have long-term relationships with people and we're really trying to buy great talent versus games. And I think Respawn is a classic example of that. We were able to bring them into the fold, give them incredible support, and it was all driven by the fact that they had incredible talent. It wasn't about Titanfall, that's no offense to Titanfall. It's become an amazing game and we'll maybe see Titanfall at some point, sometime down the road, but it was really about the team. And it starts at the top with Vince but it goes all the way through the whole organization. So we're always looking at that. We'll always continue to look at that. We would hope we can find more. Our hope was that some of the challenges in our broad world economy would actually make people think and understand that being subscale is difficult. But at the same time, as you've seen from our results, I think everybody is going to do well in the next couple of quarters in our industry. And so it might take some time, but trust that we are more interested than ever because we see talent and building great new franchises as critical to the long-term growth of the business.

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**Operator**

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

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

So I believe I heard you guys said, Ultimate Team was up 70% year-over-year. I believe that's revenue. Can you remind us what that growth rate looked like going into shelter in place? And here we are, end of July, how it looks kind of quarter-to-date? And then I have a follow-up.

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

Yes. I mean, I don't know off the top of my head, remember, but I think we were bouncing between high single digits and low double digits, maybe mid-double digits, like between 15% and 20%. I mean, we were having a strong Ultimate Team quarter. If you go to the fourth quarter, if you go back and look at the transcripts, you could probably see it, I just don't have it in front of me. But I mean, this is off the charts different, right? I mean it is exceptional. And particularly for games like Madden, where normally, the soft spot in a game like that, where we really come out of the Super Bowl, and there's only a few places where you can kind of continue to drive engagement on around things like the Draft and the Combine. And you would expect this year, maybe because many of those things were not done in person that might have hurt Ultimate Team. But remember, the team, a couple of years ago, started working on changing and adding new modes to the game and improving, and it really came to play in the past year. So we were seeing super strength in both Madden base game and Madden Ultimate Team coming into the quarter, and it just continued to get stronger and stronger.

I think the other thing is that all the Ultimate Team teams stepped up to think about what new events could they run in a world of stay at home or work from home or whatever it might be. And so they doubled down on social and really drove opportunities in a world in which there was no sports. But as I said in the last question, sports fans were looking for their sports excitement and fix essentially to be able to play. And so you saw that in our esports calendar. As Andrew mentioned, we completely doubled down on esports even though we had to do it all from a virtual broadcasting facility versus our own broadcasting facility. And our team did an amazing job of creating some incredible content. And I'll just give you a personal example. When I see my wife watching a Madden esports tournament and cheering on TV, I know -- because she's a massive sports fan, I know we've hit the right tone with consumers. We're delivering for consumers what they want.

So what we've seen so far, as I mentioned on the call earlier, we saw this peak of massive engagement in the April, May time frame, and that slowly declined as some people have gone back to work or to their offices. But it is still well above what we've normally seen, particularly at this time of the year, which is the slowest time as we move from one sports event to the next. And I can't tell you how that's going to look for the rest of the quarter or for the rest of the year. But remember, we know we've got a lot of new people into the game. A lot of people are engaging in Ultimate Team and the sports franchises. And we don't think that shuts off overnight and maybe never shuts off. And we hope that will give us longer term growth. But that will ultimately be a question when we start talking about next year's guidance and all those things that we normally do. But don't take our conservatism in any way on guidance going forward as saying anything about the games and about engagement, it's all about the economy at the end of the day. And you guys tell me, you saw the GDP numbers this morning. Are you confident the economy is going to be strong for the next 6 to 12 months? I just don't know. That's the thing that weighs on us the most. And yet at the same time, we know that the engagement in our games has never been higher. To see The Sims up 110% year-over-year, I mean, that's driven by a lot of new people and lapse players coming into The Sims. And we know with The Sims, remember, it's grown every year for the last 6 years. That means that people who come in don't churn out. They get engaged and then they continue to engage in all the content that's been produced and the new content. And that's where we get pretty excited.

So sorry, a bigger answer to your question than you probably wanted, but we're -- I want to make sure everyone understands. We are prudent, we are conservative, as you guys all know, and yet at the same time, we are unbelievably optimistic about the business, even though we got here via a really difficult time around the world.

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

No, that saved for me from asking several questions and then getting hard time for asking too many. So maybe I'll just finish with 1 question on FIFA. So the 7 million players that you guys added sequentially coming into FIFA, can you shed some light on who these players are? Are they kind of casual French players just looking for something to fill time, not spending, not converting? Or are they the ones that you've seen payer conversion,



ARPU in line with your legacy hardcore players that have been in there basically since FY '11 playing FIFA Ultimate Team. Anything you can say about the new players you're reactivating?

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

Yes. It's hard to say. And Andrew, you can add to this. It just -- it's just early, right? So you want to see a pattern over time. But Andrew, go ahead and jump in.

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

Yes. I would say -- and you heard this a little bit in my prepared remarks. But it is early. The 7 million is made up of lapsed players, players haven't been with us for a season and some completely new players. What I would tell you is, while it is early, and it is a little bit difficult to predict future behavior on these cohorts at this juncture, they are performing like some of our strongest and most engaged groups in the game. And I think that's testament to the fact that this game does facilitate its connection to friends, in connection to the sport and a live service that sits within that game is now so intrinsic to the experience and a big part of the joy that players get. And what the teams have done through this last quarter is spectacular in terms of their ability to entertain existing players, lapsed returning players and the new players and we're seeing those groups come together and perform in the same way that are traditionally very highly engaged strong play groups have. So we're -- to Blake's point, it's early, it's not easy to predict, but the early signs are very strong and we're very optimistic about what this means for the FIFA community long term.

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**Operator**

Your next question, he's already in queue, Mr. Michael Ng.

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

I just have 2. The first is, I was wondering if you could just expand on your capital allocation plans, which you put on pause, at least with the buyback last quarter. Do you have plans to authorize a new buyback? And then the second question is, could you talk a little bit about how the 7 million additional players that you added sequentially in FIFA informs your expectation for FIFA 21 unit sales this year? Is it clear that, that should be up year-over-year from a units perspective because of the enlarged player base?

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

Yes. I mean, we're always assuming that if we bring new players in, we can most likely increase the player base and the future purchases. I would say right now, as you can see, we didn't take our guidance down for the back half of the year. We simply moved FIFA 2 weeks and that's a quarterly change. So I wouldn't take any of that as a message that we have moved or changed our forecast either way. It's just -- it's still too early to say on that. And so more to come, I think by the time we get to our second quarter earnings, we'll have a much better sense of do we think guidance is going to go up or down based on where both FIFA, Madden and Hockey are all -- Hockey and UFC are tracking. But we're very optimistic about all those.

On capital allocation, we paused our program because we felt like at the time, it was -- we didn't pause it. I mean, sorry, we didn't restart a new program because we were at the end of our old program. We felt like it was not the right time to send a message, both externally as well as internally into our company that we were starting a new program until we got through this pandemic and had a little bit of feeling about how things would look in the future. And I think we're closer now. I can't tell you when we would restart a program. There is no doubt that there is a commitment to have a program. It's really a timing issue and it's a timing issue driven by the COVID situation. And I think that's pretty consistent with almost every company out there. There's only a couple of companies that have started new programs in the last quarter. And so that's the answer. There's no change in our thinking. We believe we want to effectively and always be returning capital to shareholders. As you saw, we had the greatest cash



flow we've ever had as a company over the last 12 months. We know that we should be returning some of that on a large portion to the shareholders. And so expect you'll hear something from us in the future. I just can't predict exactly when that's going to happen.

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**Operator**

And your last question comes from the line of Brian Nowak with Morgan Stanley.

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

It's Matt on for Brian. So can you talk a little bit about the difference in behavior, if any, that you're seeing between your users in the U.S. and Europe? I know we've spent a lot of time in the Q&A talking about potential phasing and how it's kind of obviously really hard to tell the sort of retention and behavior you're going to see on players at this stage. But to some extent, some -- many European countries are a little bit ahead of North America in terms of where they are reopening post COVID. So are you seeing a market difference in the behavior of those users? Are they dropping off more? And one of your competitors talked last week about seeing weakness in Europe relative to the U.S.? And is that something that is consistent with what you're seeing? And then I have a follow-up.

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

Yes. What I would say is, one, I'll let Andrew jump in here, but trends are -- if you see a trend for a week, you should be really careful because it may not be a trend for 3 or 4 weeks. And the European economies are all going through very different swings. Spain is obviously going through another jump in COVID cases. And so you want to be really careful. Also, every game is different. So the trends in FIFA aren't going to necessarily match the trends in whoever the competitor was that they said was slowing or versus any other game. So I'll let Andrew jump in and he's going to say something, it sounds like.

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

No. I would just say, I would echo Blake's comments. I would also point to the performance of FIFA throughout last quarter, and we saw tremendous engagement through the quarter. And I think Blake spoke to kind of a peak and that we've seen some change in that, but the engagement through FIFA and our other games has been very, very strong throughout the entire quarter and continues even now to be much, much stronger than it would be typically at this time of the year. And so to Blake's point, I think it's too early to tell what we have seen in our games is continued strong engagement. And we believe that, that's because we are providing, particularly as it relates to FIFA in Europe, that emotional connection to football that was missing. And what we saw is football came back online, at least somewhat in Europe, is that further bolstered that emotional connection to the sport that our FIFA game was able to provide. So too early to tell, but we've seen continued strong engagement even in Europe as they -- as some of those markets have gone back online.

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

Great. And then just on the topic of working from home, obviously, we're much further in now to the process of everyone getting up the curve of learning how to operate in this environment. Have you learned anything new? Are there any changes the way that you guys are thinking about having your workforce, working from home, any new challenges. I know there were some public comments from some people that respond that maybe there were some challenges that they hadn't anticipated with Apex. Just any thoughts that you have there?

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

Yes. I would -- again, we're all -- I mean, everybody on this call is working from home and there are many great benefits to working from home as it turns out. We've cut down our permute time tremendously. We don't travel as much. So we have the opportunity to spend more time with our



families. And in some cases, I think we are significantly more productive in a work-from-home environment as it relates to our efficiency levels. At the same time, I think we would all acknowledge that there are other components of work from home that are very challenging. Home schooling is challenging. The mental and emotional well-being can be challenged if you're spending all your time in 1 place. I think as an organization, we've remained committed to our employees. We are providing financial assistance, mental and physical and emotional assistance. We're offering flexibility in work hours wherever possible and offering caregiver leave as members of our employee base think about home schooling or caring for family and loved ones. I think there's a lot of things that we've learned. I don't think we'll ever go back exactly to the way things were. But at the same time, I don't think we would ever move to a place where the entire workforce would work from home. I do believe there is a kinetic energy that come from putting creative people together in a building, at least for some part of the time. And again, we're just a few months into this. As I said in my prepared remarks, we will likely -- in all likelihood and what we've communicated to employers that we'll be -- most of us will be work from home through the rest of this calendar year, at which point we'll reevaluate. And that we are being very open in our dialogue and communication with employees. And to the extent that there are things that we can do to help them through this process or to the extent that there might be longer term changes that we might make, we're opening up that dialogue and having those conversations now. So not much a share at this point in terms of long-term changes other than there will likely be some, but those some probably won't involve the entire workforce staying work from home forever.

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

Yes. And the only thing I'd add to that is, I just remind people to go back, and on net bookings, our live services was \$1.103 billion, up \$416 million from the prior year. Most of our revenue for the quarter was live services. And live services require people to be doing something every single day. We're running events every week. We're developing new characters. We're developing new content. We're changing things. We're managing security, managing monetization. That is as hard as game development is the fact that we have proven in the quarter that we could show live services growth like we have. I mean, Andrew and I, every morning wake up and realize we are unbelievably blessed with an incredible workforce that has figured out how to do this. Because once again as I said earlier, there's no playbook that how do you run live -- how do you run Ultimate Team or Apex from home. No one's ever did that. And it just shows the strength of this organization and the commitment that people have to drive the business in ways that they've never thought they could. And that's pretty powerful. And so for anybody who's over-indexing on us moving FIFA out of the second quarter to third quarter, I just suggest, go back and just think about \$1.1 billion in live services in the quarter. That is amazing. And so that's why I think we're trying to send the signal to people is we don't like the fact that we had to get here for the -- via the COVID virus, but we've proven that this is something that's really special.

So with that, I'll end the call and look forward to seeing everyone or talking to everyone in person, maybe someday soon or maybe a year from now, who knows. But we appreciate everybody's interest and time. And I know it's a busy day of earnings, so it's tough for teams. But thank you, guys, for your good questions as always and listening in. We'll talk to you next quarter.

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

Thank you. Do well.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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