



PREPARED REMARKS

Q1 FISCAL 2021

CHRIS:

Thank you.

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. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar: our annual shareholder meeting will take place on Thursday, August 6 and will be virtual, audio-only due to the ongoing health concerns and physical distancing requirements relating 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 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.

ANDREW:

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 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 FY21, 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 FY21 net revenue and net bookings guidance today.

We've seen tremendous growth over the last four months in our business and across the industry. As EA, we sit at the intersection of two 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 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 two 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 FY21 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 two 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. 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 first 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, which we'll share more about 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 NFL 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 four 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 three times as many broadcasted events in FY21 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 *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 & 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 and for playing our games. 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 FY21. Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

We saw extraordinary levels of player engagement through the first quarter, far higher even than the unprecedented levels we had forecast 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 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 measure of net bookings to discuss the dynamics of our business.

Before I get to the numbers, let me remind everyone of the three reporting changes we implemented this quarter. First, we now present GAAP net revenue 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. 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, 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 and was 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 twelve 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 & 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 players 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 its best quarter since 2018. The game has now generated over \$1 billion in lifetime bookings. FIFA Mobile, SimCity, The Sims Free Play and more all 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 twelve months. Net bookings for packaged goods and for full-game digital downloads both almost tripled. This was primarily driven by our deep catalog.

A brief note on financial reporting before going on to guidance. People are playing our games for longer as a result of the amazing content provided by 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 a portion of our net revenue. This begins in Q2, 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 continue to see a modest tailwind to engagement, driven in part by continued shelter-in-place orders. This is offset by a weaker economy and by 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. FIFA alone attracted over 3.5 million new players on console during the last quarter, and more people are playing FIFA now than at this time in any previous cycle. This is significant, in that people that 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 economy will prove to be too cautious.

Thus, **our expectation for full-year GAAP revenue** is 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 about \$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. We're continuing to invest in our growth drivers, and, in particular, we are increasing the number of mobile titles 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 income of about \$80 million compared to last year.

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. 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 regards to live services, remember also that we focus on engagement ahead of new product launches, so expect lower bookings at that point of the cycle. See the phasing we provide in our quarterly presentation 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 six 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 teams through 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 the 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 increasing reach across platforms and geographies enables us to continue to deliver for players and investors.

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

ANDREW CLOSING:

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 and 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 three 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, everyone.

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 2021 guidance information and title slate 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; sales of the Company’s products and services; the Company’s ability to develop and support digital products and services, including managing online security and privacy; outages of our products, services and technological infrastructure; the Company’s ability to manage expenses; the competition in the interactive entertainment industry; governmental regulations; the effectiveness of the Company’s sales and marketing programs; timely development and release of the Company’s products and services; the Company’s ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company’s ability to predict consumer preferences among competing platforms; the Company’s ability to develop and implement new technology; foreign currency exchange rate fluctuations; general economic conditions; changes in our tax rates or tax laws; and other factors described in Part I, Item 1A of Electronic Arts’ latest Annual Report on Form 10-K under the heading “Risk Factors”, as well as in other documents we have filed with the Securities and Exchange Commission.

These forward-looking statements are current as of July 30, 2020. Electronic Arts assumes no obligation to revise or update any forward-looking statement for any reason, except as required

by law. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended June 30, 2020.