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EA.OQ - Q2 2021 Electronic Arts Inc Earnings Call

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## OVERVIEW:

Co. reported 2Q21 results. Expects full-year GAAP revenue to be \$5.625b and EPS to be \$3.15. Also expects 3Q21 GAAP net revenue to be \$1.675b and EPS to be \$0.61.

## 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*

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## PRESENTATION

### Operator

Good afternoon. My name is Jason, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q2 2021 Earnings Conference Call. Mr. Chris Evenden, Vice President of Investor Relations. You may begin your conference.

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

Thanks, Jason. Welcome to EA's Second 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 adding slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks and audio replay of this call, our financial model and a transcript.

Now that we completely revamped the earnings slides this quarter, they now contain all of the metrics and color that we historically have included in Blake's remarks. These changes free up time on the call for more analysis from Blake and Andrew, and provide more opportunity for questions from you. Please let me have your feedback on this change.

With regards to our calendar, our Q3 fiscal 2021 earnings call is scheduled for Tuesday, February 2. As a reminder, we post our entire year of earnings calls on our IR website. This presentation and comments -- and our comments include forward-looking statements regarding future events and the future financial performance of the company. Actual events and results may differ materially from our expectations. We refer you to our most recent Form 10-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, November 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.

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

Thanks, Chris. I hope this find everyone well and staying healthy amidst the ongoing pandemic. After the biggest first quarter in the history of Electronic Arts, our second quarter of FY '21 showed continued strength with net revenue and earnings above our guidance. We are driving growth

through the breadth, depth and quality of our new games, our industry-leading live services and expansion to more platforms and more ways to play. Let me first say how thankful I am to our teams for their incredible work and everything they are delivering for our players. The well-being of our people remains our top priority. Even amidst these unprecedented circumstances, we are executing and building great strength across our business.

Here are a few key examples. We delivered 8 new games so far this year, and our network has grown to more than 330 million unique accounts as tens of millions of new players have joined to enjoy more of our amazing games and content. EA SPORTS continues to be a leader in sports interactive entertainment. Madden NFL 20 was the most successful game in franchise history last year and now Madden NFL 21 already has nearly 30% more players year-over-year from launch.

Our FIFA franchise is engaging more than 100 million players globally. Even prior to launching FIFA 21, our FIFA franchise is having the biggest calendar year ever with our business across all platforms, up 26% year-over-year in net bookings. FIFA 20 has reached nearly 35 million players on console and PC. FIFA Mobile continues to perform well and FIFA Online Asia broke engagement records across China and Korea in Q2. We just launched FIFA Mobile in Japan in October as we continue to see significant international expansion opportunities for our FIFA franchise.

We continue to have an outstanding relationship with Disney and Lucasfilms. Star Wars: Squadrons launched a great feedback from critics and the community and has performed above our expectations. This is clearly a special game for fans and continues the extraordinary success we've had bringing great games to life with this IP, including Star Wars Jedi: Fallen Order, Star Wars: Galaxy of Heroes, Star Wars: The Old Republic and the Star Wars Battlefront franchise.

Our live services are among the most successful in the industry, and our live services net bookings have grown more than 28% fiscal year-over-year to date. EA SPORTS ultimate team has more than 30 million players so far this year, up 25% year-over-year. Around the world, our multi-platform Sims community continues to grow, and our Sims 4 player base on PC and console is now the largest in franchise history.

Apex Legends has established itself as a top global franchise with major year-over-year growth and continued expansion opportunities. Apex in Asia is having great success with each season of content. We've just launched a game to massive Steam community and cross play is now live, making it easier for people to play with friends around the world.

Our esports programs are scaling the new records in viewership also. Our new Madden NFL episodic content featuring NFL athletes, celebrities and top Madden NFL players is bringing great entertainment to a much wider audience. And our recent FIFA 21 challenge, which paired esports stars with celebrity soccer players was our most watch esports event to date with viewership that place it amongst top esports broadcast worldwide.

Our EA PLAY service is the most successful multi-platform subscription in the industry. With the addition of our subscription on PS4 and Steam, we've reached more than 6.5 million paid subscribers. EA PLAY is now set to go live on Microsoft Game Pass in a few days, and we believe we have the opportunity to double our subscriber base over the next 12 months.

In addition to our subscription, we launched more than 125 games and content packs on Steam this year, with new titles like C&C Remastered and Star Wars: Squadrons leading the download chart on the platform. Bringing our games to Steam is a new and additive business for us. With the EA and Steam communities able to play together, we're able to harness the full opportunity in the PC space as it continues to show strong growth. We continue to lead the industry as the only developer and publisher with the ability to bring this much quality content to players. We've done this through unprecedented circumstances in the last 6 months, and now we're delivering more great experiences in our current quarter.

We started our third quarter by launching 2 new EA SPORTS games. When it went live globally on October 9, FIFA 21 already had a record number of players in the game through the early access benefit of our subscription. Our player metrics in FIFA 21 are strong, and FIFA Ultimate Team also continues to grow with matches in the mode up 30% year-over-year.

NHL 21, which includes the fan favorite NHL 94 Rewind has quickly become the most successful NHL game yet on current gen consoles.

The Sims 4 and Apex Legends show how we build great live services into strong ongoing businesses. This quarter, we'll launch our tenth expansion pack for the Sims 4, along with an important game update to add even more cultural customization options for our players. On the heels of our highly successful Season 6 we've just launched Season 7 in Apex Legends, which is said to be our biggest season of content this year. We now have more than 20 top live services across console, PC and mobile, forming a foundation for continued growth.

We will continue to reach more players across more platforms in Q3. We have more titles launching on Switch and Google Stadia this quarter. Medal of Honor: Above and Beyond will launch on Oculus VR in December, our second VR experience this year. And as I mentioned before, we will take another step in our subscription strategy this week with our expansion to Microsoft Game Pass, opening significant new opportunities to grow our subscriber base.

This quarter also brings the launch of next-generation consoles from our partners at Microsoft and Sony. EA SPORTS is always at the center of innovation for us, and it will lead the way on next-gen consoles. FIFA 21 for PS5 and Xbox Series X will leverage the major upgrading technology to bring players unprecedented immersion, innovative gameplay and minimal load times to put them into the action in under 2 seconds. Madden NFL 21 for the next-gen consoles will blur the lines of sport even further through a new system that is responsive to the way NFL players perform in the real world. We're excited to have an opportunity to bring even more players into our FIFA and Madden franchises this year, and we're providing a smooth transition for players on current gen consoles to move over with the next-gen upgrade.

Looking ahead, I want to offer a few thoughts on our growth drivers for FY '22 and beyond. Each previous console generation has grown in the global market, and we expect this transition will be the same. We plan to launch at least 6 new games on the next-gen consoles in FY '22. These will include a new Need for Speed game that is bringing some astounding visual leaps developed by the Criterion team who have launched some of the most highly rated games in franchise history.

DICE is creating our next Battlefield game with never before seen scale. The technical advancements of the new consoles are allowing the team to deliver a true next-gen vision for the franchise. We have hands on play testing underway internally, and the team has been getting very positive feedback on the game as we've begun to engage our community. The next Battlefield is set to launch in holiday 2021, we're excited to share a lot more about the game in the spring.

Our live services are positioned to be a long-term growth driver. Having built Apex Legends into an amazing live service with a deeply engaged community, the talented Respawn team in Los Angeles has expanded Apex development to include a full team in our Vancouver location, so that we can continue delivering more great content. Japan is now our second largest market for Apex Legends, and we have strong plans to continue growth in that region. In addition, Apex mobile development will be complete in the new year and ready for launch in FY '22.

We also expect another very strong year for the Sims 4, a testament to the strength of that community as it enters the seventh year of live service.

EA SPORTS will be executing on a significant expansion that will span new games, more geographies and more ways to engage. FIFA is growing. In addition to FIFA 21 on next-gen this year and Stadia in the new year, the success of our FIFA Online 4 free-to-play game in Asia now leads us to expand that game to new markets, including the Middle East and Eastern Europe.

Soccer continues to grow on popularity around the world, and we now have 6 new soccer mobile games in development for new genres and new markets. Our roster of top soccer league licenses is also unmatched. Our recently extended agreements with the Bundesliga and La Liga in addition to more than 30 other league partners, including UEFA Champions League, (inaudible) and the Premier League, enable us to continue delivering this franchise to more players around the world with the authenticity they expect.

We also just announced a new multiyear -- we also just announced new multiyear agreements with our partners at the NHL, NHLPA and UFC that is creating more innovative hockey and fighting experiences. We also have plans to add our core EA SPORTS portfolio with multiple new franchises in the years ahead. In addition to our college esports expansion that we've just announced with (inaudible), in the weeks ahead, we'll share more about another major new development in our esports program, capitalizing on our growing fan base and demand from esports teams, sponsors and broadcasters.

Our business has expanded significantly this year. Our pipeline of new games and live services is robust, and we're positioned well for sustained growth. A huge thank you goes to our amazing teams for their incredible spirit and dedication to our players. I am proud of how we have continued to execute. Now I'll turn the call over to Blake.

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

Thanks, Andrew, and I will echo what you said earlier, which is we hope all of you on the phone are healthy, your families are healthy, and you're dealing with this amazing challenge. We continue to be unbelievably impressed by how our teams have actually delivered. And Andrew talked about that, and it is just a testament to the strength of Electronic Arts.

As you know from Chris' introduction, we're trying something a little different with our earnings call this quarter. And you should listen to my prepared remarks in conjunction with the expanded presentation we've posted on our Investor Relations website earlier today. It contains the metrics and the color I would normally read and bore you with. But hopefully, it gives you a lot more information than maybe you might hear through the call. This approach gives us more time for analysis and more time for your questions.

So with that, I'd like to briefly highlight a few points. We came in well above our guidance for the quarter. The beat was driven by our live services, led by Madden Ultimate Team and FIFA Ultimate Team. First week sell-through for Madden was up nearly 20% year-on-year, and this after Madden NFL 20 turning the best year ever for Madden on console. This is also the first time we linked Madden Mobile to console Madden, and we saw hundreds of thousands of mobile players registered in the first tranche of Madden NFL 21 buyers.

Credit is also due to the Respawn teams and the quality of the content that they have been adding to Apex Legends. Apex Legends net booking came in 24% above what we had last year and is off to an incredibly strong start in Q3. We started the year expecting Apex Legends to deliver \$300 million to \$400 million in net bookings, is now on track to deliver more than \$500 million. That is Apex will have gone from \$0 billion to about \$1 billion in lifetime net bookings in just 2 years. With this velocity and the addition of mobile, we believe Apex has the potential to grow to \$1 billion in net bookings every year. This is what we do. We've done it with FIFA. We've done it with Madden. We've done it with the Sims, and we're doing it again with Apex due to the amazing teams that we have really driving this business.

Mobile grew year-on-year again, and we're excited about a new title slate for this platform, particularly the Apex Legends and soccer games that Andrew discussed. It's been a strong 3 months for launching new EA games. We launched Madden NFL 21, Star Wars: Squadrons, UFC 4 in the quarter, along with Rocket Arena from Final Strike Games. Squadrons is the latest example of the power of our licensing model in which we leverage the synergy between well-loved IP and the skills of our development teams to bring extraordinary new experiences to fans and gamers.

The FIFA franchise continues to grow. FIFA 20 attracted 12% more players than FIFA '19 and engagement remains strong, making FIFA 20 the most successful FIFA game in the 27-year history of the franchise.

FIFA 21 launched after quarter end and is off to a great start with live services, net bookings for the first 3 weeks, up relative to the comparable period last year. FIFA Ultimate Team contributes to be the most popular mode in the game and also the most engaging for players. After 8 weeks of Madden NFL 21, digital accounted for 66% of units sold through the players. After the first 3 weeks of FIFA 21 number was 50%. These are both up 14 points year-over-year, and we believe this step-up is likely a permanent structural change driven by the COVID shelter-in-place orders.

This adds up to 6 new games launched since the beginning of Q2, including blockbuster franchises like FIFA and Madden and fan favorites like Star Wars: Squadrons. This is more than our peers manage in a year, the further testimony to our team's ability to execute under difficult circumstances. We've reached more players with the EA PLAY this quarter with the launch of the subscription service on Steam. In addition, Microsoft has noted, the value of EA PLAY will bring to their game pass ultimate, and we expect making it available on that platform will lead to another step-up in EA PLAY subscribers.

Operating expenses came in materially below our expectations, driven primarily by variable compensation and phasing of marketing investments. We had a new record in trailing 12-month cash flow of \$2.04 billion. The strength and dependability of our cash flow has led us to start a new repurchase program this quarter and to initiate a dividend for the first time in the company's history. The share repurchase authorization is for a

\$2.6 billion program over 2 years. Our Board has declared a quarterly cash dividend of \$0.17 per share on our common stock, which represents an annualized yield of about 0.5% calculated as of the close of the market on November 4. As a result, we expect to return a total of \$3 billion to investors over the next 24 months. We're now looking ahead to the launches of the new Playstation and Xbox. Console transitions have historically driven broad industry growth and our opportunities to grow our franchises.

In particular, owners of NFL 21 and FIFA 21 for the current generation of consoles can upgrade for free to the next-generation versions any time before the launch of the 22nd or 22 versions of game next year. In addition, we expect to leverage the ongoing strength of FIFA 20, engagement and building an even larger audience for FIFA 21.

Our expectations for full year GAAP revenue remain \$5.625 billion, cost of revenue to be \$1.485 billion and earnings per share of \$3.15. We are reaffirming our operating cash flow guidance of \$1.85 billion. We continue to anticipate capital expenditures of around \$125 million, which would deliver free cash flow of about \$1.725 billion. See our earnings slides and further cash flow information for more details. Remember that our guidance EPS calculation do not factor in any share repurchases.

We expect net bookings for the year to be \$5.95 billion, unchanged from our prior guidance. This is driven by ongoing strength in our live services, offset by the move of Apex Legends on Switch and the extra time we're giving to our EA originals titles. Versus our expectations last quarter, those changes amount to about \$120 million of net bookings moved out of the fiscal 2021 year that will benefit fiscal 2022. The annual guidance factors in an FX headwind of about \$80 million. And as you build your models, note that we are forecasting a fall in interest income of about \$80 million compared to last year due to the sustained low interest rates the world is experiencing.

For the third quarter, we now expect GAAP net revenue of \$1.675 billion, cost of revenue to be \$599 million and operating expenses of \$840 million. This resulted in earnings per share of \$0.61 for the third quarter. We anticipate net bookings for the third quarter to be \$2.35 billion, which would make it the largest quarter in EA history.

Some context for this guidance. We are now guiding fiscal 2021 net bookings to be 11% higher than fiscal 2020. This is incredible growth, some driven by the shelter-in-place orders but much also driven by the work our teams do every day in bringing new live services, content and games to players. Even with a strong year, we still expect net bookings and earnings to grow next year. The growth will be driven by a great slate of new titles, including Battlefield, our blockbuster sports titles, Need For Speed and the titles we moved out of fiscal '21 to '22. We anticipate a strong performance from our live services, and we continue to bring our franchises to new platforms, for example, bringing Apex Legends to mobile. With that, I will now turn it back to Andrew.

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

Thanks, Blake. Games are becoming essential trait of the digital lifestyle for people around the world. With more players than ever continuing to connect and engage through our franchises our business has grown significantly this year, and we are confident of projecting meaningful growth into FY '22 and beyond. We hope everybody stays healthy and enjoy some great games this holiday season. And 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 Alexia Quadrani from JPMorgan.

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**Alexia Skouras Quadrani** - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

I'm curious to what trends you might be seeing in Europe and the U.S. now that we see kind of resurgence in COVID-19 cases. Do you think that the second wave potentially could be a bit different than what you saw kind of earlier this year. In the sense people may have more pandemic fatigue and maybe less of a tailwind for sort of engaging in video gaming?

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

Yes. Let me jump in first. I appreciate the question. It's a good question. I think the thing to note is unlike, say, March when virtually the whole world shutdown at the same time, we're seeing stages of changes in different communities around the world. And so we don't expect that we would see the surge that we saw before. But we also know that as we get into winter, flu season, other things. And I don't want to predict the COVID path because that's way out of my expertise. But we do know that people will continue to gravitate to online entertainment.

And what we also know is that much of the traditional entertainment, i.e. movies, TV have been stalled because of the COVID situation. And so people will drift towards more and more online entertainment, which we know they're going to engage in, because we've seen that in the past. And we will continue to do things to try to help people understand why it is a great way to engage with things they love, be it sports, be it the Sims, be whatever it is.

Hard to say and I will tell you we have been very careful not to try to predict that in our guidance. And thus, the reason that we've provided the guidance, we've provided because it is a world in which we have never been in before. And so trust that we'll keep investors and the sell-side up-to-date as we see things, but we want to also be really careful because of the world that, as I said, we just don't have a lot of history in. And we want to be really careful, but we also want to know that we are one of the most important entertainment vehicles for people during this difficult time.

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**Alexia Skouras Quadrani** - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Maybe just a quick follow-up, if I may. Any update on the outlook for China game approvals for Apex?

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

It is a very hard thing to predict. What we know is with our partners in China, we are very optimistic. But guessing approvals is really difficult. But we're optimistic. We believe that this is something that we can ultimately get approval on. But more importantly, remember, the mobile game for Apex outside of China, China doesn't require approval. And so it's more about making sure the game is correct, testing the game and then rolling it out in the key markets, and we're pretty confident on all of those.

As we talked about, the Japanese market is one of the largest markets for Apex, second largest in the world. We believe that there's a huge opportunity for mobile in that market. And so we will continue to focus on where we think those largest markets are for early rollout, and we'll keep people informed as we start to test the game and get it into the market. But I think, as Andrew said, in his comments, we believe that's coming in the coming fiscal '22. And we're excited -- we're very excited about the opportunity there.

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**Operator**

(Operator Instructions) Our next question comes from the line of Alex Giaimo from Jefferies.

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

Andrew, curious if you could provide any more color on the EA PLAY partnership with Microsoft Game Pass? I guess, why does the partnership make sense for EA? And why is it appealing? And then, Blake, if you could just provide any broad commentary around how the economics of that deal works? That would be helpful.

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

In terms of why it makes sense for us, again, our objective from the very beginning has been to ensure that players can access our subscription on any platform in any way that makes sense for them to the best value gaming opportunity in the marketplace.

We have strong partnership with Microsoft and Sony and Steam. And of course, we have our own platform with EA PLAY and as we looked at it, we saw this as an opportunity to build an access point for our EA PLAY subscription on the Microsoft platform. We saw it as a way to give gamers easy and frictionless access.

We will -- as part of that, this is not just putting our games at Microsoft subscription, this is actually an entitlement to the EA PLAY subscription. And as a result of that, the relationship that we have with those players who make those subscriptions, they will be the same as if we sold it outside the platform. So you'll continue to see us think about our subscription broadly across platforms and making it available to any player wherever they want in any way they need with as little friction as possible.

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

Yes. What I would say is I can't give you details on the exact economics. You can imagine that Microsoft wanted us to be part of their subscription. We thought it was a great opportunity, and there's a positive economic impact on that.

When it comes to giving guidance next year, we probably still won't give detail because it's not that big of an overall business. I think to Andrew's point is the real goal is how do we grow our subscription and also help Microsoft grow their subscription. I mean this is a great partnership with them. And we're really looking. We are -- think about it as we're in the very early days of the industry on subscriptions for games, and we're doing everything possible to help consumers understand why it is a great potential for them to either be introduced to new games, play the games they love or play games for a great value. And so more to come on it, but you should also trust -- we don't do anything for free. So we -- and Microsoft to figure it out the right way, I think the economics work for both of us and that's how we've approached it.

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**Operator**

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

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

I have a couple on Madden. You guys mentioned that Madden NFL 21 has 30% more players year-on-year. I understand that the title has a new mode this year called The Yard. So any color you can provide on how that mode is performing and if it was a driver to either player or engagement growth. And just in the future, are there any plans to monetize either The Yard or for FIFA the Volta mode directly? Or do you think it's just best suited as an engagement enhancer?

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

Great question. Again, when we think about Madden and we think about FIFA for that matter, we really think about as a platform to bring the fans of these sports together to engage in interactive consumption of the sport. And 10, 15 years ago, we would have had multiple games, arcade style,



simulation style, management style that we would put in the marketplace as separate packaged goods. As we've really transformed our business into the world of digital, as we've moved the experience from product to service for our players what our players have also told us is they want us to keep them together. They want to come together regardless of what format they're engaging with. And so as we continue to develop the Madden franchise, as we continue the FIFA franchise, you should expect that we'll continue to add these new modalities of play to the product or to the service.

What we've seen so far this year in Madden is there's been really good and strong engagement in The Yard. It's early -- it's still early in its life cycle. But it's offering this opportunity for people to come into the franchise in a new way and play a more casual experience. If they haven't really wanted to engage in the full 11, V11 experience that he is going to buy. But it also allows our harder core players to do something a little different, a little more social and a little faster paced than the traditional Madden game. And so overall, we feel like it adds a substantial element to the overall player experience, both for new players and returning players. And the same has been true for Volta inside of FIFA.

In the context of cosmetic sale items, we'll start to experiment with that. What we've seen across the industry is when done right, the purchase of cosmetics that allow you to individualize and personalize your experience and build status in that environment as you play with your friends, have been really, really well received. We expect that will be no different in Madden and FIFA over time, and we'll start to work with our gaming communities as to what are the right things to them? What kind of cosmetics they look like? What are most authentic and relatable to the sports that they're playing in? And what gives them the opportunity to be unique in these large growing communities?

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

Sorry, Sorry, Jason, I don't think we have any more questions in the queue, right? We got one, okay.

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**Operator**

(Operator Instructions) We do have a couple more questions. Your next question is from the line of Stephen Ju from Crédit Suisse.

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**Stephen D. Ju** - *Crédit Suisse AG, Research Division - Director*

So I think this was almost back in July. I think you guys hired a new head of Mobile games, I think, Jeff Karp, I believe. So I'm just wondering what you think he's going to do that's different versus the prior management of that segment. Because I think we've been kind of waiting for some of your larger franchises to become hits on Mobile as well. So what you think the road map is going to be for the future for these entertainment properties to reach an audience that's hopefully multiples of what you have now?

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

Great question. And we're really happy and excited to welcome Jeff back to the organization. He has been an EA veteran and held very senior leadership roles in the company some number of years ago. But spent the best part of the last decade in kind of mobile-first organizations and comes back to us with unbelievable experience and tremendous expertise. And we are now -- you heard me talk about 6 new FIFA titles. You hear us talk about the push with Apex Legends.

What I would tell you is, Jeff has come back and made 3 core assessments. The first is that we have an existing portfolio of games that are tremendously profitable but have significant more opportunity for engagement and monetization than we're presently doing with some changes to the organization and some changes to how we run those live services. And he's already started to work with leaders, and we brought a number of new leaders from across the mobile industry into our company, and they are going through each one of our franchises and looking for opportunities to deliver new content, new experiences and new services to players that will drive higher engagement and result in monetization in our existing franchises.

The second thing he has done has come in and said, there are a number of key franchises like FIFA, who have unbelievable exponential opportunity around the world. And he's put in motion a series of internal development and external development that will really start to execute against our big franchises like FIFA and some others that we will be able to talk about more soon. And then the third thing is, he also has a tremendous network out there in the mobile sphere. And there are a lot of great developers out there who have really great games and really great game mechanics and lot of experience and expertise but they do not have the IP to build their games around or the marketing muscle to really drive acquisition and what is becoming an increasingly competitive market.

And so Jeff is also doing a lot of outreach with external developers and publishers and looking at ways that we could partner differently with them with our slate of IP and with our marketing muscle. Either in the context of licensing or co-development or co-publishing or in some cases, acquisition. And so I've not been more excited for a number of years about what I think we're going to be able to achieve in our mobile business. And again, what we know is mobile is tremendously competitive. It's somewhat unpredictable. There are a lot of games that come to app stores on an annualized basis. But we are seeing that where you build games with great teams around trusted IP that offer unbelievable experience and value to players that monetization opportunity is very, very strong. And we're confident about that going into FY '22 with FIFA and Apex Legends and Star Wars: Galaxy of Heroes and others. But certainly, as we look out further into '23 and '24, we feel like we're well positioned there as well.

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**Operator**

Your next question comes from the line of Robert Berg from Bamberg.

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**Robert Berg** - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I'm just -- on next-generation interestedly here, you're thinking behind the free next year upgrades that you're offering for FIFA, for example, versus the higher price that some of your peers charging to their games and how you set it on your current strategy? And then a quick follow-up with whether you think that even with the free upgrade path, the next-gen consoles is delaying the purchasing decisions of any of your players even in a few weeks or months?

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

Yes. I would say, I mean, we've always known, and we've seen over history that people will delay purchases without gap. I mean, it's just -- it's natural in a console transition. But I would also remember that there will only be a small amount, and this is not a negative on Sony or Microsoft business is just a reality of how many consoles they can produce. Dave, I think both publicly talked about 8 million, 10 million, 11 million, 12 million consoles in the market between now and the end of March. Because that -- it's just reality, right?

So we know that some people will wait but also some people will upgrade over time. And the reason we did the upgrade program is we wanted to make sure people felt that they would be comfortable buying the Gen 4 version and the notion that they would be able to upgrade without any problems. And it's all about the consumer experience, it's about making sure you're staying connected to your social network that plays the same game that you're playing. And we didn't want anyone to feel like for some reason because they didn't want to -- or they wanted to wait for a new console that they didn't fall out of the key component of what is so important in our games, which is the ability to play with your friends. And it's not much more complicated than that.

We do think if we look back on past console transitions, we know that it will take time to build the inventory and the level of new consoles. But we also know, based on what we've seen in the new consoles, it will add incredible opportunities for us to build better and better games over time because of more power. And that's what we're really excited about. And as we've talked about, we will build a series of games this year and continue to add to that, no different than we've done in past console cycles. And I think the rest of the industry is that way. And that's how people approach it, but it is where it gets really, really exciting a year or 2 years from now because I will tell you, games are going to be unbelievable when you start to see them a year or 2 years from now in the new consoles.

**Robert Berg** - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

And a quick follow-up, if I can. The games are going to be, hopefully, as I believe what you said, do you think that warrants a higher price point in the future?

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

Yes. I mean, I don't really want to weigh in on that yet. We've always said that games are getting more expensive. The experience is getting deeper. The time that people are playing games is getting longer. One might argue that, that might require a higher price point over time. But we'll address that as we get closer to more games coming into the next-gen console transition. And when -- what I default back to is, let's stay focused on the excitement of what we can do with the new games, and price will follow that. We'll figure that out. And I don't want people to read into that. We're going to raise prices or not. We don't know yet. What we do know is we're going to be able to do a lot more things with the new consoles and our partnerships with the new console, Sony and Microsoft and others that are making the consoles.

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

Jason, could you give us the next question, please?

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**Operator**

My apologies. I was muted. Your next question comes from the line of Andrew Uerkwitz from Oppenheimer.

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

Have a couple of questions. The first one is, could you give us a little history lesson on the impact that new consoles have on sports titles? It seems that the new powerful consoles could do a lot pretty quickly for ball physics and bodies and crowds and audiences. So do you normally see a pickup within the sports franchises in the first couple of years of a console cycle?

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

Yes, I'll let Andrew answer that because he's lived this a lot more than I have.

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

The short answer is yes. I've been doing this for a long time now. And most of my career before I was fortunate enough to have this job, I was building sports video games. And so I went through a number of consoles. And I would tell you, not only do we see the market grow considerably. If you go back and look through history, every console transition meaningfully grows the market, and top-tier frontline sports games almost always drive a lot of that growth and benefit from the growth in player engagement as those console transitions move through and a bigger market buys into the new console generation.

We think about game development in terms of kind of what can you do with a core technology level, what can you do at a future level? And what can you do at a social level and as we've gone through generations, the intelligence and the believability of plays in a sports game, it's had a step change in immersion and authenticity and realism, each console generation.

If you go back, you want the history lesson, PS2 was all about, can you make athletes look like the real-world athlete? PS3 or the next-generation was all about, can you make the moves like real athletes. The generation that we're now is, can you make them (inaudible) like real athletes? And as we look at the next-generation of platforms, it's can you bring all of those together and add a level of intelligence to those players that upholds

the suspense and this belief that you are, in fact, engaging with real athletes in a real game on a real pitch. And so I expect that we will continue to do and drive unbelievable new development in the context of the base technology that drives the game play.

The second thing that you'll also see as we move through transition, is kind of modality shift how people play, single player to multiplayer, multiplier to cooperative play. And you'll see us continue to do that with the power of these new platforms and how we can bring players together in new modalities of play. And you're starting to see some of those things with how we started with Volta, how we've started with The Yard, and you should expect that we'll continue to expand the modalities of play on new platforms.

And then last and this happened as we move from offline to online. It's really the social nature of the game and how you tie the game to the real-world of sport. And you heard me talk about how we're building Madden so that there is a greater influence of what's happening in the real-world of sport on your game. But you should also imagine that we'll start to think about how do we use the technology in these new platforms, how do we use them plus the combination of the cloud to bring millions and millions of players together in a social ecosystem around the consumption of their favorite sport.

And we're excited by that as much as the base technology, quite frankly, because these are becoming social networks for sports fans and COVID has accelerated that for us as the consumption of sport more broadly has moved from lean interactive and physical interaction has moved -- social interactions move from physical to digital. So as we think about the combination of the base technology that influence gameplay, the different modalities of play that the new platforms will enable and the new platforms combined with the cloud to offer an expansion of the social network orientation of these games, we're really excited about the future. And you tie that into what will almost certainly be a growing marketplace. We think we have tremendous opportunity, not just this year, but in many years to come.

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

Awesome. I appreciate the enthusiasm for the game technology. It's great color. And if I can just sneak one more in. Blake, last quarter, you mentioned you remain very interested in M&A and want to be active there. How should investors square that thought with the buyback and the new dividend. Can you give us your latest thoughts on M&A?

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

Yes. I would not connect the dots between the buyback or dividend with M&A. I mean, we -- I think you all know, we're on a consistent path of buyback, and we paused it at the end of the last part of the buyback program when we finished it at the end of March because we were going into COVID, and I think we were pretty transparent with people that it wasn't just a street issue. It was also a concern around how our employees thought about how we are spending our money. And we feel more confident of that today. And in fact, I would say we feel more confident because we've added the dividend.

Now the reality is, if we're talking about the buyback level and the dividend level, we're still either under or coming close to our annual cash flow. And we have substantial cash on the balance sheet and substantial debt capacity. So don't read into that as the inability or lack of desire to do any acquisitions. We are incredibly focused on what could we buy, but at the same time, we're also focused on making sure we don't destroy shareholder value in buying and doing an acquisition. And I don't want to comment on any individual acquisitions, but it's a balance of driving growth, but at the same time, being responsible with your guy's capital because that's with investors' capital because that's what really matters to us.

What I would say, though, is the one thing to read into the buyback and the dividend is an incredible confidence in the business. And that's not short-term confidence because that's not how we operate the company. I remind people, we increased our guidance by almost \$500 million at the end of the first quarter. And if many of you have been around a long time, we've almost rarely ever increased guidance coming out of the first quarter. And granted, we had the COVID situation that created one of the greatest first quarters, unfortunately because of the situation that was going on around the world. But what we are continuing to do is feel very, very confident about our business. I don't want anyone to read the fact that we may not be raising guidance now, as a negative because we need to all remember, we've raised guidance \$500 million during the year.

We thought we were going to do \$5.55 billion, and we're talking about close to \$6 billion and what you heard from Andrew and I today as we're planning on growth again next year. That's the most important message.

What I will also tell you is if anyone can predict right now what's going to happen in the economy over the next 3 months or 6 months, call me and tell me. Because it is going to be very difficult, and we are very careful in how we present and focus our guidance in our business, but we are very confident in the strength of our business right now. And we are seeing things, as we mentioned. A simple example, Apex Japan, and we don't know when it will happen. But if it happens, it will be big. There is so many different things inside our business that are so strong that we are very, very excited about where it can go.

So I just -- I don't want anyone to get ahead of themselves on guidance, but I don't want anyone to think that the message we're sending out is in any way negative that we haven't raised guidance because remember, we raised guidance by \$500 million, and we've told people, we're going to grow again next year. So keep it in that context, that's where it gets exciting. That's where the opportunity is. I know that's not the question you asked, but don't read anything into things like share repurchase or dividend as a negative. They're all positive.

It's a commitment and a confidence in the business that I think we're -- that's where Andrew and I are and why it's so exciting in our industry is so exciting going forward. So sorry to a little too much more than everyone wanted to hear, but I just -- I think both Andrew and I are really passionate about where we think this is going. And we want to make sure people don't get over indexed on the short term, and they actually read what we're telling people as the real opportunity.

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

No, I think that's -- I think that's great color. I appreciate that. I think that's a lot of the questions I've been getting so far tonight. Had a mixed feeling but, I can't even predict what I'm having for dinner tonight. So great quarter, and we'll talk to you next one.

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

Thank you. Chris, any more questions in the queue?

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**Operator**

There certainly is. Your final question comes from the line of Alex Giaimo from Jefferies.

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

Let me hop back on. We've seen a lot of game delays in the space recently and even on the AAA side. So just curious, as you think towards next year in Battlefield, obviously, that's a big theme for fiscal '22. So just curious if you can provide an update about how you're feeling about the development process? And if there's any risk a year from now that maybe that game doesn't launch on time? It would be helpful to get an update there.

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

Yes. Great question. Again, if you look at our prepared remarks and the conversation we've had today, we've launched 8 games and over 200 live services and season 7 of Apex Legends during this time. Working from home is -- there's no doubt it's extraordinarily hard and we're doing all we can to support our teams in any way we can. There are some benefits that come from having our scale and having our organizational structure that allows us greater fluidity of our talent.

We're able to move talent from project to project. We're able to kind of leverage our scale in the development process. And you've seen that play out this year in our ability to launch as much high-quality content as we have. And even as of 11:00 a.m. this morning, season 7 of Apex Legends is on track to be our largest launch day since the launch of the product.

Steam in the first rolled out performance has been extremely strong. Our new champion edition is already a top 3 bestseller on Steam. We've had the most minutes watched on Twitch since the launch of the product. So another testament to just the unbelievable inspirational capabilities of our teams and our ability to continue to deliver amazing games, experiences and content in the face of these ongoing challenges.

As we think about Battlefield next year, again, you heard me talk about we're doing internal play testing. We're starting to go out to our community and get feedback. I was part of the product review last week. We have rallied that entire studio around the development of Battlefield, specifically. We've given them an extra year of development. You'll remember to ensure that they can, in fact, build a true next-gen vision around that game. DICE is one of the most talented studios on the planet, and we've been able to add leadership from our EA SPORTS business and David Rutter, who understands both live services and the rigor of development.

We've brought in talent from across the industry who have really bolstered our belief and our confidence in our ability to launch that game next year. So lots more to come in the next couple of months. But even in the face of challenges, I think we've demonstrated an ability to launch amazing games and content. I feel really, really good about the content we're coming next year. And part of why we have the confidence in FY '22 that we have to grow off this year, which is going to be an unbelievably extraordinary record year for us is because our scale and our organizational structure and our amazing talent, our amazing people are really coming together to deliver amazing content next year. So...

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

So with that, I'll turn it back to Andrew just to a couple of closing remarks. I do thank everybody for spending the time and the commitment on following us. And obviously, you know you can always connect with Chris, [Aaron,] myself and others on any questions, but I'll turn it back to Andrew.

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

Yes. And thank you, everyone, for joining us, and we do hope you stay safe and healthy in what appears to be a second surge of COVID in parts of the world. What I think you've earned from me today is extremely confidence in where we're at right now and where we're going for our business. We've had strength and growth in our business this year, already forecasting 11% growth year-over-year for FY '21. We've launched great new games in content, FIFA, Madden, Apex Legends, the Sims, all continue to be major growth drivers, and we've got further expansion opportunities this year and beyond. We are excited for the upcoming console launches. New hardware has historically always grown the market and offers us another opportunity to grow FIFA and Madden franchises with our next-gen games, and we're projecting continued growth in fiscal year FY '22 and beyond with an expansion of our sports portfolio, a double down in mobile, extension of our live services and of course, a new Battlefield game. So thank you for being here today. Thanks for your questions. Be well. Thank you so much.

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**Operator**

That concludes today's conference call. Thank you, everyone, for joining today. You may now disconnect.

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