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EA.OQ - Q3 2021 Electronic Arts Inc Earnings Call

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## PRESENTATION

### Operator

Good afternoon. My name is David, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q3 Fiscal 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, David. Welcome to EA's Third 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 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. Once again, I'd like to direct you to the earnings slides this quarter. They now contain the metrics and color that we historically have included in Blake's remarks.

With regards to our calendar, our Q4 fiscal 2021 earnings call is scheduled for Tuesday, May 11. As a reminder, we post our entire year of earnings calls on our IR website.

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-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, February 2, 2021, 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 finds all of you well and staying healthy amidst the ongoing pandemic. This continues to be a record-breaking year for Electronic Arts. We've delivered net bookings and earnings above our guidance each quarter, and we are raising guidance today for the remainder of FY '21.

After starting this fiscal year with guidance for \$5.55 billion in net bookings, we're now expecting to achieve nearly \$6.1 billion in net bookings for the full year. And we are projecting growth in our business to continue next fiscal year. We're delivering exceptional high-quality experiences across the unmatched breadth and depth of our portfolio. We are driving growth through our live services, and we are reaching new players by bringing our content and subscription to more platforms.

Drilling down on these growth drivers. EA SPORTS is at the core of the sports experience for hundreds of millions of fans. More and more people, especially younger Gen Z players, are now defining their sports fandom through the games they play like FIFA, Madden, NHL and UFC. In the past fiscal year, we've had more than 230 million people engaged with our EA SPORTS franchises and content. We delivered 6 new high-quality sports games in FY '21, including FIFA 21 and Madden NFL 21, on the new Xbox Series X and PlayStation 5, ushering in a new generation of sports games.

FIFA continues to grow on every platform. We set a new record of nearly 6 million daily active players in FIFA Ultimate Team in December, and FUT matches have grown a staggering 177% year-over-year. FIFA Online 4 in Korea has had higher player acquisition in every quarter of this year compared to last year. And we now have nearly 21 million players in FIFA Mobile Asia.

We are driving growth across our EA SPORTS portfolio. Madden NFL has more players engaged in the franchise than ever before. NHL engagement is up 13% year-over-year. And since launch, UFC 4 has consistently had 20% more daily players than our previous game.

EA SPORTS is at the center of innovation, both in our games as well as how fans are connecting through our games to their friends and to the sports they love. For example, in a year where an in-person Pro Bowl event was not possible, we worked with our NFL partners to create the first-ever virtual Pro Bowl in Madden NFL 21. This was a groundbreaking experience for fans, where playing Madden actually helped to select 2 Pro Bowl players.

The Pro Bowl itself then took place in Madden NFL 21 with Deshaun Watson and Kyler Murray leading teams of NFL stars in highly entertaining broadcast that aired on Twitch, the NFL Network and NFL social channels last Sunday. Now the Super Bowl is just a few days away, and we're preparing new content in and outside non-NFL for the increasing number of players engaging with our franchise around the NFL's championship game. Events like this year's Pro Bowl demonstrate how real-world sports experiences are evolving to become interactive, and you can expect to see us continue to lead here.

Our fans are telling us that they want more of what EA SPORTS can deliver. They're playing more of our games than ever before. They're spending more time with our content. And they're connecting with each other, the players and teams and sports they love through our experiences.

We are now set to build on our leadership position with an aggressive expansion planned for EA SPORTS. We have important announcements we are making today and more that we expect to make in the weeks ahead that will lead to more great games and content for fans and significant new growth to our company.

We have a major global expansion of our soccer business underway. As the scale of our EA SPORTS FIFA player audience expands, including a growing Gen Z population, we will offer more great content on more platforms with our long-standing partners across all the top leagues and teams in the sport. We are bringing FIFA Online to new territories, including Russia, Poland and Turkey, with a combined audience of 80 million players. We are also accelerating our focus on mobile with 6 new soccer mobile experiences in development today for different regions and genres.

EA SPORTS is the premier partner for football organizations, leagues and teams around the world. And today, we are announcing that EA SPORTS FIFA will continue to be the exclusive home of UEFA Champions League football. As part of our renewed partnership with UEFA, we'll also be launching new EA SPORTS competitions, and we'll have even more news in this space in the months ahead.

We're bringing new types of experiences to market that will expand the genre. In partnership with KLab, we are developing a groundbreaking new mobile experience inspired by the Japanese market, which we believe will have global appeal.

We're thrilled to announce today that EA SPORTS is returning to college football. So many fans have been asking us to please bring back college football video games. Their passion for this top-selling sports franchise has never wavered. We love college football as well, and today, we're very excited to say, yes, we are coming back. We have started work on an all-new next-gen experience, working closely with our exclusive licensing partners at CLC to include the universities, logos, venues and gameday traditions that fans know and love in college football.

We will grow the EA SPORTS portfolio to include experiences in more sports for more fans around the world. In the weeks and months ahead, we'll make more announcements about our expansion in a different sport, including at least one new experience that will launch next fiscal year.

We're also incredibly excited to build a racing powerhouse with our proposed acquisition of Codemasters. These are amazing teams that we know very well, and we are adding significantly to our racing portfolio to drive growth. FORMULA ONE is one of the few truly global sports and is already seeing unprecedented growth in worldwide fandom, including in North America and Asia. We believe the combination of EA SPORTS and Codemasters can take the game franchise to an even greater level. We are awaiting the results of Codemasters shareholder vote on our offer, which we anticipate having tomorrow, February 3.

With the strength of our EA SPORTS franchises and these announcements today, we are in a position to deliver the world's best sports games and content. We intend to leverage our capabilities in this space to grow to more sports and more experiences, reaching larger audiences in more markets all over the world. These announcements today are just the beginning. For 230 million EA SPORTS players and viewers, we are providing a social network that enables them to experience more of the sport they love with their friends. We believe we can grow to 500 million players and viewers in EA SPORTS experiences over the next 5 years.

The future of entertainment is interactive, and the future of sports will continue to blur the lines between live sports and immersive and engaging new experiences. EA SPORTS is at the center of this convergence. And in collaboration with our amazing league partners, we are prepared to accelerate the future of sports entertainment.

In addition to EA SPORTS, we are driving growth through our portfolio of more than 20 top live services. I'll give 2 examples from our deep roster of wholly owned IP. We are at the 2-year anniversary of the launch of Apex Legends. And with 30% growth in new players year-over-year, its success is accelerating. The unique seasons of live service content delivered by our talented Respawn team are expanding the Apex audience, bringing in more players with great storytelling and engaging in-game events.

Competitive play in Apex Legends is also reaching and entertaining more viewers with recent events in November driving new viewership and watch time records. This is an outstanding live service business that continues to grow across multiple dimensions. Launching the game on Steam is bringing new PC players. We will launch on the Nintendo Switch on March 9, and we'll expand further with our Apex mobile game rolling out in FY '22.

The Sims 4 has grown every year since launch. As we expand the experience, more new and relevant content, we engage a diverse and growing audience spanning players of all ages and demographics. Life to date, more than 33 million people have now played The Sims 4. And daily, weekly

and monthly average players in the game all reached all-time highs for the third quarter in December. Our Maxis just delivered a tenth expansion pack for The Sims 4, and we see continued growth for our Sims business in FY '22.

We have the ability to bring games to every platform, and we are driving continuing expansion of our total addressable market. Mobile continues to be a key opportunity for us. Games like Star Wars: Galaxy of Heroes continue to be deeply engaging for players and very successful businesses, and we have plans to aggressively grow our mobile portfolio.

We're also expanding our lead in subscriptions. The groundbreaking integration of our EA PLAY service with Microsoft Game Pass has accelerated our subscription business, with nearly 13 million players now active in our service across 4 platforms: Xbox, PlayStation, Steam and our EA client. With more players valuing the subscription model and with our scale across platforms and content, we are building a strong growing business with recurrent revenue.

We also have new streaming players joining our network through Xbox cloud gaming, with Game Pass Ultimate and other partners. And we are committed to advancing cloud as a meaningful part of the future of the gaming ecosystem.

FY '21 has been a year of outstanding growth while working through the challenges of the ongoing pandemic. Our execution continues to be strong even with our employees working from home, and we expect that most will continue to do so through September. The creativity and innovation of our talented teams is enabling us to deliver more great experiences in our leading franchises and live services. We have a deep and robust pipeline of new content with more than 35 new games in various levels of incubation and development for the future.

We're looking forward to sharing a lot more about our FY '22 plans in the months ahead, including our next Battlefield experience, which will mark a return to all-out military warfare. The game takes full advantage of the power of next-generation platforms to bring massive immersive battles to life with more players than ever before. Featuring maps with unprecedented scale, the next edition of Battlefield takes all the destruction, player agency, vehicle and weapon combat that the franchise is known for and elevate it to another level. The team is focused and the game is ahead of our internal milestones. We will reveal the game in the spring and deliver defined Battlefield experience for our players in the 2021 holiday season.

Games helped fill a great need in people's lives through 2020. Our franchise is aware so many around the world are coming for connection, entertainment and inspiration. We're looking forward to delivering more great experiences for hundreds of millions of people engaging with us and driving continued growth in our business through Q4 and into FY '22.

Now I'll turn the call over to Blake.

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

Thanks, Andrew. We delivered net bookings well above our expectations this quarter. The beat was driven by our live services, led by outperformance in Ultimate Team and Apex Legends. We delivered GAAP net revenue of \$1.7 billion and record net bookings of \$2.4 billion.

We've built our live services for longevity. FIFA and Madden have both been around for decades. Measured over the last 10 fiscal years, the FIFA franchise has grown at a cumulative annual growth rate of nearly 50% and Madden at nearly 60%.

The Sims 4 is on track for its sixth consecutive year of growth and Apex Legends for its second at the beginning of what we hope will be a similar long run for this title. I'd reiterate and amplify here that we expect Apex to deliver well over \$500 million in net bookings this year compared to our original expectations of \$300 million to \$400 million.

The Apex team has really embraced the playfulness of the characters and gameplay. The team has focused on having more fun in the craft of building and experimenting with new modes and ways to explore the APEX universe and characters. This has been paying off with a compound average growth rate of 14% per season as measured from season 2. That's equivalent to an annual -- compounded annual growth rate of about 65%.

With regards to the sports opportunity, in particular, we estimate the worldwide sports video game software segment is about \$7 billion on console and PC today. It's grown by about 13% annually since 2016. We're the leader in that segment and are now applying our full focus to the spectrum of sports opportunities from casual to core.

The global gaming market for sports is presently about \$4.3 billion in size and growing fast at about 24% a year. We're barely scratching the surface of this massive opportunity. But we have a lot of projects in flight, and you'll hear more about our activities here in the year to come.

Operationally, we're in working in challenging times, but we've been able to lean into the advantages that come with our scale to deliver games of quality with remarkably little impact on timing. This quarter, we launched FIFA 21, NHL 21, Need for Speed Hot Pursuit Remastered and Medal of Honor: Above and Beyond. We also extended FIFA and Madden to PlayStation 5 and Xbox Series X and Star Wars Jedi: Fallen Order to Stadia and added our EA PLAY services to Microsoft Game Pass. We continued a packed schedule of live events for Ultimate Team across FIFA, Madden and NHL. We launched Season 7 for Apex and launched Season 8 today. We launched the Snowy Escapes package for The Sims.

The step function jump in digital sales prompted by COVID appeared resilient with digital representing 62% of units sold through in the quarter, up 13 percentage points from last year. Mobile showed its third consecutive quarter of year-on-year growth with outperformance across the board this quarter, led by Star Wars: Galaxy of Heroes and FIFA Mobile. We'll have much more to say about our mobile strategy later this year, and we continue to be excited about the games we currently have in play.

Operating expenses came in materially below our expectations, primarily driven by the phasing of marketing investments. We hit a new record in trailing 12-month operating cash flow of \$2.06 billion. The quarter was very close to our record for quarterly cash flow, which we delivered back in Q3 fiscal 2017 with the help of Battlefield 1. Needless to say, we're excited about the potential for the next Battlefield in Q3 next fiscal year.

Our expectations for full year GAAP revenue was \$5.6 billion, cost of revenue to be \$1.447 billion and earnings per share of \$2.54. Remember that our guidance EPS calculation does not factor in future buybacks under our recently announced 2-year \$2.6 billion share repurchase program. 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. Please see our earnings slides and press release for further cash flow information.

We're raising our net bookings expectations for the year to be \$6.075 billion, up \$125 million from our prior guidance. This is driven by continued strength in our live services, particularly FIFA and Apex Legends. It is \$525 million above our expectations at the start of the year despite the changes we made to the product slate during the year. We expect this year to be 13% over prior year, even with a lighter release slate versus the prior year and an FX headwind of about \$55 million.

For the fourth quarter, we now expect GAAP net revenue of \$1.317 billion, cost of revenue to be \$302 million and operating expenses of \$837 million. This results in a loss per share of \$0.07 for the fourth quarter. We anticipate net bookings for the fourth quarter to be \$1.375 billion, which is an increase of \$75 million over our prior guidance.

We've built a foundation for growth in fiscal 2022. We have successfully brought new people into our ecosystem. We're providing great content for people who want to spend more time there. We've been working hard on new titles and new platforms. We expect this to deliver significant organic growth in fiscal 2022.

Formal guidance will follow in our Q4 call, but I can tell you now that the Battlefield team is doing an incredible job. They're way ahead of where they were in product -- prior product cycles, on track for their earliest feature complete in franchise history. Meanwhile, the live service teams for FIFA, Apex Legends, The Sims and Madden all continue to outdo themselves. And of course, we'll have other surprises that we'll reveal when the time is right.

Now I'll hand the call back to Andrew.

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

Thanks, Blake. Strong execution throughout FY '21 has brought us to this point, and the drivers of future growth are foundational to our business. Our teams are creating amazing high-quality games and content for more players around the world than ever before. Our live services that extend and enhance these experiences are keeping players engaged over the long term. And we are transforming our business for continued expansion, growing our portfolio and enabling ways for players to connect with each other and engage deeply with their favorite content. We're looking forward to a strong Q4 and a year of continued growth in FY '22.

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 Brian Nowak with Morgan Stanley.

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

It's Matt on for Brian. Two, if I could. So you guys put out a statement last month that you have multiple Star Wars games still in development. I'm just curious if you can give us an update on those franchises and what we should expect from 2023 forward.

And then just the second one is at the point that you guys kind of came into the beginning of fiscal Q3, it was on the tail end of the summer. It felt like parts of the country had partially reopened before locking down again. So I just wonder what the experience you saw over the course of Q3 was in terms of had people churned out at the beginning, then came back into gaming as other entertainment options became more restricted. Or what did you see in user behavior over the course of the last quarter?

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

Yes. So let me jump into that in the context of Star Wars. We won't be announcing new things here. But what I would say is if you look at our history with Star Wars, we've had a long and very profitable relationship, first, with Lucasart and then with -- or Lucasfilm and then with Lucasfilm as part of Disney. We have generated a number of great franchises, Star Wars: Knights of the Old Republic, Galaxy of Heroes, Battlefront, Jedi: Fallen Order and most recently, Squadrons. That represents over \$3 billion life-to-date net bookings and 52 million games sold. And Galaxy of Heroes is a \$1 billion franchise.

As we've established the very strong part of that franchise, you should expect that we will continue to invest in those as well as some new experiences across platforms for the future.

With respect to engagement more broadly, I think that we've seen strong engagement throughout the last year. Blake and I have both been relatively conservative, I think, as we look to the future at each moment in time, but we feel good about where engagement has been. And we feel -- we now feel more confident that the increased engagement we've seen in our experiences is likely to continue on a go-forward basis.

Blake, I don't know if you have any more to add to that.

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

No. I would say clearly, looking at Q3 in terms of live services and 24% growth year-over-year of live services should prove only one simple thing, which is engagement is stronger than we have ever seen. It is spectacular. And it's because we're fulfilling the social connection between people

who love the same things, be it some sport, The Sims, Apex. Whatever it is, we figured out how to make that happen. And you don't see growth on \$1.5 billion of revenue without knowing that that's what's driving the engagement and the social networks of what we've created. And that's the secret sauce of what we've done.

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**Operator**

Your next question comes from the line of Michael Ng with Goldman Sachs.

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

Great. I just have 2. First, just on Battlefield. With first-person shooters using free-to-play game mode to expand the top funnel, could you talk a little bit about your ambition to do something like that with Battlefield? Is there anything you could share with us about the content road map?

And then my second question is just on the NCAA deal. For those of us who weren't around when you guys were doing -- I think Football 14 was the last one. Could you just give us some parameters in terms of what the units for -- unit demand for that game was like? Is that a good way to think about some of the future NCAA games that you'll do going forward?

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

On Battlefield, we don't have anything more to share with you at this point other than we believe that it's going to usher in a new generation for Battlefield games and Battlefield fans, and we'll be taking -- benefiting from the full power of next-gen platforms. And you should imagine that we're looking across all forms of the experience to ensure that this is exactly the game that Battlefield fans want to play and the game that we believe will drive growth in the Battlefield franchise. But more on that to come in the month ahead, and we're excited to share more on that at the appropriate time.

With respect to our college football game, again, this was kind of part of my past life leading EA SPORTS. It was a really strong game. It was a fan favorite game. It sold tens of millions of units over its life. And we expect that it will continue to be a really strong fan favorite game. It's measured by the amount of e-mails I get in my inbox each week requesting us to bring back this game.

I think that we could look to the past as a factor for the future. But I'd also say that I think college football, as a fan, audience has grown dramatically since we launched the last game in 2013. I also think the nature of gameplay has changed dramatically as we think about the future of sports, and you heard us speak to the conversion of sports and entertainment more broadly. And so we're excited to bring that back in the years ahead.

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**Operator**

Your next 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 one on Apex and one on FIFA Mobile. So the first one, Apex, very excited for the Nintendo Switch version coming out in March. So with close to 80 million Switches sold worldwide and the fact that Japan is the game's #2 market, can you help us frame the Switch opportunity to the franchise reaching \$1 billion in annual bookings versus growth coming from organic and mobile?

And then secondly, on FIFA Mobile, can you expand a bit more on the current strategy in growing that title? I believe you mentioned there are 6 different FIFA games. Are they going to be similar with each other, just being localized for each region? Or are they completely separate games? And why not just have one title tied to the console, PC version like Madden?



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

Yes. So I'll start with Apex and then Andrew may want to jump on, on FIFA. So on Apex, clearly, as you said, Japan is the second-largest market for Apex, which is very exciting for us. And we know that it's one of the largest markets for the Nintendo Switch. And that's the reason we decided to put it out on Nintendo Switch. But we also know that Nintendo Switch is a global business, not just a Japanese business.

We think the combination of Nintendo Switch, Apex plus mobile Apex will be very powerful. We believe mobile Apex will be in soft launch sometime in the next 3 to 4 months and hopefully gets into the marketplace quickly.

Obviously, it will take longer to get into the market in China because of some of the regulatory issues. But in the rest of the world, we don't see those issues happening. But we also want to make sure it is the exact product that we want. I think the team is very dedicated to making sure the product is the perfect product for a global market. But they've learned a lot from Japan. They've learned a lot from character development and so forth in that market, and we think that will continue to help us.

And let's all remember, less than 2 years ago, no one knew this product existed. Today, it's over \$1 billion. We think there is a huge upside to this product over time, and I just encourage people to keep focused on that because we don't have a mobile product today. We don't have a Switch product today. There are still other platforms around the world that we might go on. This is an opportunity that will last for a very long time, and we're trying to build it for the long range, not just a 1-year blip. So we're very excited about it.

With that, Andrew, I'll throw it over to you on the FIFA question.

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

Yes. On FIFA, I think the best way to think about this is soccer is the world's largest sport by a wide margin. Mobile is the world's largest gaming platform also, as it turns out, by a wide margin in terms of magnitude of players. What we know about soccer as we travel around the world and what we know about mobile as we look at the growing player base is that soccer means different things to different people in different markets. And certainly, as we look at the magnitude of players that come into the mobile ecosystem, they're often looking for different types of experiences with respect to subject matter that they love.

And so as we look at our FIFA business, building off the strength of our licensing relationships on a global basis, we think there is an opportunity to deliver a number of different experiences across the mobile platform from different geographies and different player cohorts based on what they're looking for. And we think that represents a tremendous growth opportunity for us.

**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*

First on live services. So I think the last quarter was down 7% year-over-year. This quarter was up, I think, 28%. But given the timing shift for some of the sports games, I don't know that either quarter is really that representative. So I was hoping you could clarify what the right cadence is for Ultimate Team since FIFA and Madden launched and how much live services this quarter may have benefited from subscriptions and Game Pass partnerships with Microsoft [is like]?

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

Yes. I would say, Ryan -- thanks for the question. I'd say the impact on subscriptions is relatively a rounding error. I would say year-over-year growth of 24% would imply that it's a pretty strong business. And last year, based on what I'm looking -- the numbers I'm looking at wasn't down. It was up year-over-year. It's been up year-over-year every year for I don't know how many years.

So it is extremely strong, and it's strong across almost all of our live services: FIFA, Apex, Madden, Medal of Honor and Sims. And even Hockey had one of the best quarters they've seen in years. And so what I would try to remember is the bulk of our business this quarter is still live services. And we're seeing incredible growth across it year-over-year. And subscription, while there's nice growth, it's still very small compared to the overall live services growth across all of the games.

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

Okay. Yes, I was referring to the down last quarter because there was timing of FIFA for live services down year-over-year, but I get your point nonetheless.

The other question was really just -- could you kind of give us -- with the new next-gen consoles out there in the market, can you give us maybe your high-level observations on consumer response and how the pace of adoption has been relative to your expectations and whether those that now have the console, the new one, have exhibited any different purchase behavior, time spent, engagement versus the prior gen? That would be great.

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

So I think that...

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

Andrew?

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

Yes. On balance, it's probably a better question for Microsoft and Sony at this point. I think it's too early to tell for us. I mean anecdotally, what we know to be true is demand is extraordinarily high for both consoles and that retailers, both digital and physical, are struggling to keep them in stock. What we've seen is the games that we've been able to build on those platforms are really, really strong.

And as I look to the games that we're going to be able to build on those platforms on a go-forward basis, I'm really excited about the new innovations and creativity and gameplay we're going to be able to deliver. And inevitably, I think that is going to offer a more engaging and immersive experience for our players that will ultimately see growth both in players overall and the time spent in our games.

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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*

I've also got 2, one on basketball and one on the broad topic of social. Just if you talk about the expansion of sports and lots of dimensions, noticeably absent was any mention of NBA or basketball. I just wondered if you could comment on your sort of latest thinking on that. And in particular, maybe

college basketball might be a particular opportunity white space there. That certainly has a large fan base and wonder if that is a potential way for you guys to get back in the basketball business in a big way.

Second question on the broad topic of social. It's a pretty broad question. I'll try and make it short. But I think the word social was mentioned in your prepared remarks multiple times. Surely, we all could agree that the convergence of what we call gaming and social is happening in front of our eyes, Fortnite, Roblox. Just wondered how you think about, as you evolve your portfolio of games, what that means for your evolution, where your biggest opportunities are to take advantage of that. To me, clearly, The Sims is an obvious place that comes to mind. Are you proactively doing anything to be more sort of aggressive in pursuing that aspect of gaming?

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

Two great questions. First off, no announcement on basketball to make today. I would say 2 things. One, I think we underperformed on basketball over the last number of years, and that's been very disappointing to us. With that said, we continue to have a really good relationship with the NBA and remain committed to basketball long term. And you should imagine that we are thinking through the best ways for us to use the strength of our business, the strength of our technology and the amazing creativity of our teams to deliver really cool, new, innovative experiences for basketball fans.

With respect to social, in general, the short answer is yes. Part of what we have recognized now is that our players, particularly over the last year, have been using our games as ways to remain connected with their friends even while they are apart. And you may have heard me say this before, but social interaction is moving from physical to digital more broadly for the Gen Z population. And the consumption of sport and entertainment is moving from linear to interactive for the Gen Z population, and we kind of sit at the very intersection of those 2 secular trends.

And so what we've started to do is really build around our content to ensure that we are providing more social opportunities for our fans and the Madden, Pro Bowl over the weekend was one such example of how we can take our game at the center of a social ecosystem and build around that for fans, both fans who play our games and fans who interact with plays of our games.

When we think about our sports franchises, when we think about Apex, when we think about The Sims, when we think about mobile on a go-forward basis, we think there is a tremendous opportunity for us to build more into that and deliver on the social interaction our fans are asking for. And you should expect us to talk more about that in the future as we think about community, commentary, social interaction, competition, all wrapped in the data that our Gen Z fans are using on a day-to-day basis to play our games.

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**Operator**

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

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

Congrats on the quarter, guys. Just 2 as well. The first one on your BioWare studio. It looked like you've had a few more executives turn over there. I think Casey and Mark left the studio. Can you update us on the executive leadership of BioWare and the product road map from those guys? Would be helpful.

And then on Star Wars, obviously, that license is not exclusive. It seems like you'd probably be doing less years. How do you think about sort of realigning your development resources? And broadly speaking, how do you think about licensed IP versus owned IP in the sort of nonsports category?

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

Two great questions. First off, on BioWare, again, that is an incredible studio filled with incredible people who do incredible work. And I think that from the outside wall, there have been some blips in their delivery over the last couple of years, but that has come as a result of them pushing deeply into innovation and creativity. And we feel very, very confident about their future road map, and we've talked about games like Dragon Age and Mass Effect in their future.

With respect to Casey and Mark leaving, again, both good friends of mine. We have tremendous respect for both of them. But this happens in the natural course of creative organizations from time to time. And we feel very, very good about the ongoing leadership of that studio and the many people who come to work every day to deliver great innovation and creativity.

We look forward to sharing more about what's coming from BioWare in the near future. And you will have just seen our Mass Effect trilogy Legendary Edition announced, and that has been extraordinarily well received by BioWare fans. And so we're encouraged by what that studio will continue to deliver.

In terms of Star Wars, I don't think you should imagine that the fact that some other people will build some Star Wars games is going to change our commitment to that IP or our ability to build the appropriate number of games. And as I said before, we've had a long partnership with Disney, both before our exclusive period that gave us a great opportunity to really establish some very strong franchises like Battlefront, like Star Wars: Galaxy of Heroes, like Jedi: Fallen Order, like Squadrons. You should expect us to continue to invest in our Star Wars relationship. It's been very profitable, to this point, over \$3 billion in net bookings, and we're excited by what we'll be able to do in the future.

But you shouldn't read this as necessarily us building the less titles. I think what you should take from us more broadly as a company is that we believe in our ability to execute and deliver great, high-quality, deeply engaging content for our fans across both our sports business, our wholly owned IP business and our licensed partnership business like the one we have with Star Wars. And we feel confident and comfortable that we're going to be able to deliver great games for the future.

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**Operator**

Your next question comes from the line of Drew Crum with Stifel.

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

A question on Codemasters as it relates to your commentary on sports and the accompanying growth rates by platform. How has racing as a genre performed? And how quickly would you intend to ramp live services on the Codemasters titles?

My second question for Sims to your guidance. So last year, with fiscal 3Q earnings, you suggested that fiscal '22 growth would accelerate with the next-gen consoles and Battlefield serving as the key drivers. Maybe fast forward to today, your comp will presumably be much higher than where you thought it would be. But you still have those 2 pieces in place, plus you're adding Codemasters, and you've talked about a number of initiatives with FIFA and Apex today. So given that, is accelerating growth in fiscal '22 remotely possible?

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

Yes. Let me -- Drew, let me start with the second question. We wouldn't come out and say that accelerating growth was possible, but we're confident of it -- if we weren't confident of it. I mean what we're saying is we believe that the trends that we see in this year's business will continue. We have Battlefield next year, and we haven't actually even put in place what we think Codex -- or Codemasters could deliver because the deal is not closed yet.

And so we're clearly thinking and saying we see -- coming off of the year in which we started at \$5.55 billion, we're now telling people we're close to \$6.1 billion in revenue. And we're telling people we're going to grow again next year. I think you guys should take that as an incredible level of commitment and confidence on where the business is going, absent even additions from nonorganic growth because we spilled out, this is organic growth we're talking about. And so I would get people -- I'd be very focused on that.

There is a lot of spin right now in the marketplace around the fact that we decided to capitalize part of the GILTI tax regimes, R&D expenses in our fourth quarter to try to get behind it because we had a strong year. And so the reason we have a fourth quarter that shows a GAAP -- not a non-GAAP, but a GAAP decline in EPS is purely getting ahead of what is going to be a tax cost for every company out there that gets hit by GILTI. And we're trying to be aggressive and stay in front of that. But the cash impact of that is minimal. And we think in a year in which we are already well above our EPS and our earnings, it was the exact right thing to do.

And I'm not sure why everyone wants to spin on that, but I would dig in a little bit, ask the questions and make sure you understand what that really means. I know that's not the question you asked. But I want to make sure it's clear to everybody that that's exactly what's going on right now.

Now Codex (sic) [Codemasters] on its own could be a nice addition to the company. We know that they have some incredible franchises. The F1 franchise is so nascent. It's a new franchise for them. We know if you're based in the U.S., there's very little F1 racing going on in the U.S. And yet we know that the owners of F1 would like to build an F1 business in the U.S.

We know that there's still expansion around the globe. It is probably one of the best growth opportunities there is and the reason that we're willing to pay what we were willing to pay for it, on top of the fact that the DiRT franchise, the GRID franchise, all of their franchises are incredible games, but none of them have actually taken advantage of a large publishing organization and a marketing muscle that we're able to deliver. And we think that has growth to it, not to mention the talent that's in that organization that could continue to help our Need for Speed business or our Real Racing business. It could be very powerful.

So we know it is not a FIFA-sized business, but we know there is incredible opportunity to own essentially all of the driving business there is. So with that passionate answer, I've forgotten what your other question was. So...

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

The racing genre, yes, how racing has performed as a category.

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

Well, you know what, we know that every year, we put out a Need for Speed, it does extremely well. It's one of those kind of games that if mom goes into the store or goes online and doesn't want her son or daughter to be playing something that might look a little too competitive or might be too sports-oriented, driving has always been an incredible opportunity in the marketplace. And we know it's not going to be the size of FIFA, but we believe that there is a huge potential, particularly as you think about the growth of the underlying franchises that we might be able to help drive. And that's why we're so excited about it.

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**Operator**

Your next question comes from the line of Matthew Thornton with Truist Securities.

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**Matthew Corey Thornton** - *Truist Securities, Inc., Research Division - VP*

Maybe 2, if I could. One, just touching back on Codemasters again and then just one on some of the FIFA mobile and online initiatives. On Codemasters, can you talk maybe just conceptually about what cadence could look like in that genre? Because obviously, you already have Need

for Speed in the docket for next year. But is that a genre where you could conceivably see a track title plus a rally title plus a street title every year? Or does that get too crowded? I'm just kind of curious how you're thinking about cadence maybe just conceptually because I know that the deal is not closed yet.

And then just secondly, and I apologize if you hit on this. The initiatives around FIFA Mobile, the 6 games in development as well as the PC online for expansion to more markets, any time line color you could provide and kind of when that commences, when it starts, when we start to see developments and how fast that kind of happens? Any color there would be helpful.

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

Yes. So let me -- on Codemasters, it's still early -- too early for us to kind of be able to outline all of that. Again, the deal hasn't closed yet. But as I think about this as an opportunity, I start with the fact that we will be able to bring together all of the greatest racing talent in our industry or most of the great racing talent in our industry.

When I think about taking that collection of talent and pointing them at Need for Speed, pointing them at FORMULA ONE, pointing them at GRID, pointing them at DiRT and thinking about how all of that might happen with regular launches of those titles with really strong live services wrapped around them, which we don't yet see in the Codemasters games, all powered by the leverage of the marketing organization that we have behind us, I think the opportunity is really, really strong.

And so you should imagine that as we think about this, Need for Speed, which is already one of the leading racing franchises that we launch every other year, we think there might be opportunities around growth of releases and certainly growth of that title. We think that F1 plus live service plus our marketing muscle is a profound opportunity. And we think that GRID and DiRT also represent great new additions to our portfolio. But the big win here is bringing together what we believe is going to be the greatest collection of racing talent in the industry.

With respect to FIFA, all of these things are in play. You will have seen, and we talked about this, even our existing FIFA Mobile game has grown year-over-year. Our FIFA Mobile Asia game continues to expand and has grown year-over-year. We are working with KLab in Japan on a Japanese-inspired game, folks on the Japanese market that we believe will have global appeal. But Jeff Karp has come into our mobile organization. We've consolidated that organization. We brought all of sports and all other mobile titles together, and we have identified sport and particularly soccer as a really, really big global opportunity.

As a background, Jeff at one time ran marketing for EA SPORTS many, many years ago. On leaving EA, he ran a number of mobile companies and has come back and is having a tremendous impact on that business. And so no more announcements specifically today, but you should expect over the next year or 2 that we're going to roll out growth in this business.

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**Operator**

(Operator Instructions) Your next question comes from the line of Andrew Marok with Raymond James.

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**Andrew Jordan Marok** - *Raymond James & Associates, Inc., Research Division - Analyst*

With the news on FIFA today, I guess if we could just get some of your updated thoughts on how you're thinking about the market opportunity for FIFA and Madden and Stadia. And to the extent that it's relevant, are there any learnings to take away from Jedi on the platform so far that could be brought to sports?

And then second, as Apex expands, it really just has the one core game mode right now. And as you're looking into options like Switch and mobile, could that potentially expand? And in that case, would that put increased overlap with Battlefield on the table?

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

On FIFA, Madden and Stadia, again, this is early. We believe that cloud is going to have a tremendously positive impact on total addressable market in our industry over the long term. And we also think that cloud is going to offer all kinds of new innovation and creativity about the types of games we can build where we can harness the power of cloud compute, compute at the edge and 5G networks that drive latency-free gameplay in between those 2 end points. And so when we think about Stadia right now, it's really about working with our cloud partners to innovate and lead in what we believe is going to be a meaningful future for our industry over time.

With respect to Apex, no announcements here. I would just come back to Respawn are amazingly creative as a studio. They've built unbelievable games both in the content of Titanfall Apex and more recently, Jedi: Fallen Order. As we continue to expand that -- they're on their eighth -- they've just launched their eighth season. Every season adds new characters and new gameplay and at some point, new maps. You should imagine that, that team is thinking about how to further expand that universe over time, and we'll be excited to share more about that in the future.

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**Operator**

Your next question comes from the line of Tyler Parker with Keybanc Capital Markets.

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**Tyler Lee Parker** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Just wanted one more question on college football. Without student athlete images and likeness this time, it's going to look a bit different than historically. So I'm curious what we know historically about gamers' motivations. Are they going in there to play their favorite players or play their favorite teams? How is that going to look? And how do you expect them to react to a game that doesn't have necessarily student athlete names and likeness in there?

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

You might remember that our last game also didn't have student name and likeness. The game has always been built on the power of the relationship that fans have with their colleges. We'll have over 100 colleges, all of the logos and kits and stadiums and on-field pageantry that makes college football great. And we are very excited and believe that we can build a really compelling college football game with all of those components in partnership with schools across the country. And the response that we've had to the announcement kind of ratifies that excitement. And so you should hear more from us on that in the months ahead.

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**Operator**

Your next question comes from the line of Eric Handler with MKM Partners.

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**Eric Owen Handler** - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

I actually got 2 questions. First, Blake, I think you did touch on a GAAP basis, but your fourth quarter non-GAAP guidance for operating expenses is like 719 -- \$718 million, \$719 million, which is a huge step-up from last year's third quarter and a step-up from the normally big third quarter. So what's really driving that increase? And should that carry over into next year as well? And then I have a follow-up question for Andrew.

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

Yes. So think about it, Eric, as a couple of things. One is we've continued to try to do everything possible to support our workforce in a work-from-home mode and COVID support. And so you can assume that some portion of those expenses are associated with that and maybe expenses that would drift into next year.

Second is we are having -- obviously, we're having one of the best years we've ever had. And what does that mean for us? It means we want to take advantage of the strength in our organization and the ability to hire people, particularly when other companies are not able to do that. And we think this is a unique opportunity for us to go out and continue to try to grow great teams.

I mean to give you a simple example. It's not like we have a group of people just sitting around doing nothing that are waiting to build college football. We're going to need to grow a team to do that. We think it's the right thing to do. We, I think, manage the economics of our teams well. But we're going to continue to hire people, particularly in a time in which we've been able to prove to our employees and those people who see our employees that we are a great place to work. And so that's driving some of the uptick in expenses that you're seeing.

And then I would just go back in history and look at, okay, how good were we at always forecasting OpEx? Are we that good at it? Probably not.

So with that, I'll turn it to Andrew for your second question.

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**Eric Owen Handler** - MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst

Andrew, one big picture question here. When you look at the success Roblox has seen this year, and obviously, Minecraft has been a huge hit, do you think any of your content could translate well to sort of a user-generated platform?

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

Great question. And the short answer is yes. And again, Sims has been a user-generated platform since its inception. And we've seen creation and sharing on that platform, maybe not to the extent of a Minecraft or a Roblox certainly, but as we look at the Maxis team, that's certainly something that is front and center to how they think about that franchise.

We're also thinking about this in the context of some of our new experiences, and we have an entire group inside the company right now focused on player agency and creation at a player level. And as we roll out those experience over time, you should expect that some of those will be kind of bound to a gain in the way that Minecraft is that -- Sims and Maxis would be a great example of that. And some of those will be platform level.

Again, we have some great game development tools, and we think over time, there might be an opportunity to share those with our communities and allow them to create new content with those tools over time. It's certainly a developing area of our industry. It's something that Gen Z players are really gravitating towards. And when we think about developing a social network for Gen Z plays around each of our major franchises, we think about user-generated content as a very central strand of the DNA of those experiences in those communities.

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**Operator**

No further questions at this time. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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