



Prepared remarks
Q3 Fiscal 2022

CHRIS:

Thank you.

Welcome to EA's third quarter fiscal 2022 earnings call. With me on the call are Andrew Wilson, our CEO, and Blake Jorgensen, our CFO.

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted detailed earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, and a transcript.

With regards to our calendar: our Q4 fiscal 2022 earnings call is scheduled for Tuesday, May 10. As a reminder, we post the schedule of our entire fiscal year of upcoming 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 1, 2022, and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

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

ANDREW:

Thanks Chris. I hope all of you and your families and loved ones are staying healthy.

Let me first say thank you to our talented teams at Electronic Arts – all 12,000 people putting so much energy every day into doing amazing things for our players.

As we begin, I'd also like to say a few words about John Madden. John's passing was a tremendous loss for the American football community, for the sports world at large, and for all of us at Electronic Arts. Through his years as a winning coach, as a beloved broadcaster, and as the pioneering namesake of our game, Coach Madden was football for tens of millions of fans. He taught us many things over nearly 35 years of partnership. Some of his most important lessons, including authenticity, are things we've held close to EA SPORTS ever since. We feel incredibly fortunate to have been part of Coach's legacy, and just as fortunate to be part of how it will live on through our future Madden NFL games. We will have more to share about how we are honoring Coach Madden in the weeks ahead, and from all of us at Electronic Arts, our thoughts and sympathies continue to be with his family, friends, and many, many fans.

It has been a year of outstanding growth so far in FY22. Q3 was a record quarter, with our live services and mobile portfolio delivering strong recurring revenue and year-over-year growth. Our franchises like *Apex Legends*, our EA SPORTS titles, *The Sims* and more have universal appeal, and as we expand to more ways to play across more platforms and business models, we are growing our total players, engagement, net bookings, and underlying profitability.

We did have a challenge in Q3 as the launch of *Battlefield 2042* did not meet expectations. *Battlefield 2042* was always an ambitious game, and our teams pushed to innovate across many dimensions including massive scale and 128-player matches, new modes, new dynamic

gameplay, and more. Developing this game with our teams working from home for nearly two years ultimately proved to be challenging. Through our processes for testing and preparation, we believed the experience was ready to be put into our players' hands. We launched with strong stability, however, as more players experienced the full game, it became clear that there were unanticipated performance issues that we would need to address. Some of the design choices we made with the game also did not resonate with everyone in our community. We are fully committed to realizing the full potential of this game, and fully committed to our Battlefield fans. We have already implemented a series of major updates to the game, and there is more to be done. Players can expect meaningful updates to continue in the weeks ahead, and we are shifting the first season of live service content to early summer as we work closely with our community to evolve and improve the core experience in *Battlefield 2042*.

Despite Battlefield's miss against our expectations, with the strength of our business we are continuing to deliver record growth and performance in FY22. With Battlefield's performance to date and our decision to move the first season of live service into Q1 FY23 so we can focus on the core experience, we have adjusted our full fiscal year net bookings guidance to \$7.525 billion, which remains \$225 million above our original net bookings guidance for FY22. On the strength of our live services, operational discipline, and continuing digital transformation, we're reaffirming our full-year expectations for underlying profitability. We expect strong growth to continue in FY23.

Looking across our portfolio, we saw continuing year-over-year growth in total players, engagement, net bookings, cash flow and underlying profitability in Q3. I'll touch on each of those pieces here.

Beginning with total players, our games and experiences connect a global player network that continues to scale. Over the last year, our network has grown to more than 540 million unique active accounts, across more than 18 games and 25 live services, spanning all major platforms from consoles to PC to mobile and cloud.

From an engagement standpoint, more players are spending more time in our titles. Looking across our portfolio on all platforms, we've had more than 180 million monthly active accounts on average in our games during FY22. *Apex Legends* monthly active players are up more than 30% year-over-year in Q3, and across our combined EA SPORTS portfolio, monthly active players are also growing year-over-year. Engagement is deepening as well, with players spending nearly 20% more time in games across our portfolio in FY22 compared to the previous year.

Growth in our network and engagement continues to drive growth in our business. With our top franchises delivering strong recurring revenue, our net bookings for Q3 grew 7.4% year-over-year for the quarter, and for the full year we project 22% growth in net bookings over last year. Performance across the business and operational discipline also continued to deliver strong cash flow and underlying profitability growth in Q3.

This continuing growth is anchored by proven franchises where we have a strong track record for execution.

Apex Legends is now one of the biggest and most successful ongoing live services in the industry and is built on our owned IP. With more than 28 million new players joining in the last year, and new seasons and in-game events that continue to deliver new experiences to a deeply engaged community, FY22 is the biggest year yet for Apex. Average player investment

in the game has grown significantly year-over-year, and we continue to expect net bookings for Apex to approach \$1 billion in FY22. We are expanding to reach more players and viewers, with new original content on the way, our growing *Apex Legends* esports ecosystem, and *Apex Legends Mobile* which will soon be moving into soft launch as we continue our worldwide rollout. We've had strong engagement and community feedback during closed beta testing, and we're excited for more players to experience *Apex Legends Mobile* soon.

Mobile is a core growth engine for us, and it is accelerating. With new launches and acquired expertise and technologies leveraged across our portfolio, we expect mobile to be a major catalyst in FY23 with growth well into double digits. Led by Apex Mobile, our newly-updated *FIFA Mobile* game, *Golf Clash* and more unannounced projects, we are expanding our portfolio of more than 15 top mobile live services to reach new audiences and grow our recurring revenue.

EA SPORTS is a powerhouse in the sports and entertainment world. We've driven hundreds of millions of dollars in net bookings growth year-to-date, with our EA SPORTS business up nearly 10% year-over-year. We continue to see incredible growth for the future of global soccer, and our global soccer franchise was the #1 title in the western world in calendar 2021. *Madden NFL 22* was the #1 sports title in the U.S. during the holiday period, and it was the #3 top-selling game in the U.S. for all of last year. Under our leadership, *F1 2021* also continues to perform well above expectations with unit sales nearly doubling year-over-year during the holiday period. In our mobile sports portfolio, we just launched the latest version of our EA SPORTS *FIFA Mobile* game around the world. This was the biggest update to the game ever, and early performance has been exceptional. Engagement is up more than 50% over the previous season, and retention in the first week is nearly double. With the added expertise of Playdemic and Glu and a deep pipeline of new sports experiences in development, EA SPORTS continues

to be an exceptional growth business, built on predictable and recurring revenue with outstanding opportunities ahead.

Our pipeline further amplifies our strength. In addition to our core franchises, we are building new experiences in some of the biggest enduring IP in entertainment. Last week we announced a new agreement with Disney & Lucasfilm Games to develop new experiences in the *Star Wars* universe, continuing our collaboration of more than a decade. Respawn is leading development of the next game in our action-adventure *Star Wars* Jedi series, as well as two additional *Star Wars* titles. This adds to our deep pipeline of announced and unannounced projects with our wholly-owned IP, including Need for Speed, our BioWare franchises, The Sims, Skate, Dead Space, and more.

Looking forward, we are continuing to build on the structural advantages of our portfolio and accelerating growth by executing against our core strategy. We are focused on:

- creating amazing games and content;
- providing creation tools for the community to engage more deeply with our experiences;
- aggregating and distributing our content and experiences to more players on more platforms, more geographies and business models;
- and harnessing the power of social ecosystems in and around our games.

The demand for amazing games and new ways to play, watch, share, and create has never been stronger. As one of the industry's largest and most profitable businesses with strong recurring revenue, we are well-positioned to take advantage of this continued secular growth. We look forward to delivering against these opportunities through FY23 and beyond.

Now I'll hand the call over to Blake.

BLAKE:

Thanks, Andrew.

Q3 was a quarter that demonstrated the strength of our live services portfolio. Despite a tough Battlefield launch, we came within a couple of percent of our net bookings guidance, and beat our expectations for underlying profitability. This quarter was the largest in our company's history for net bookings, underlying profitability and cash generation. Sales of *Battlefield 2042* were disappointing, but they are offset by a strong showing from FIFA and continued strength from Apex and our other franchises. We delivered net revenue of \$1.79 billion and net bookings of \$2.58 billion.

FIFA 22's strong start continued into this quarter, with unit sales now up double-digits over last year, launch-to-date, and players continued to engage in FIFA Ultimate Team and invest in their teams. This has made it the strongest FIFA launch ever measured from launch to the end of Q3.

Apex Legends net bookings continue to grow at an extraordinary rate, and will deliver close to a billion dollars for the year.

Digital represented 64% of full game units sold through on a trailing twelve-month basis, up 2 percentage points from last year. The strong digital mix for full-game sales, aided by growth in live services, pushed underlying Q3 gross margin 2.3 percentage points above last year.

Operating expenses, which include recent acquisition costs, came in below our expectations, driven by variable compensation and savings and phasing of marketing spend. It's worth noting that we were able to hire more people than in any other quarter in our history, and are continuing to invest in our games teams.

Turning now to guidance.

We now expect fiscal 2022 GAAP net revenue to be \$6.925 billion, **cost of revenue** to be \$1.844 billion, and **earnings per share** of \$2.43, up from our original expectation of \$1.34.

We are taking our **net bookings guidance** for the year to \$7.525 billion. Although a \$100 million reduction on our position at the end of Q2, it is \$225 million above our original guidance for the year. The reduction is driven by *Battlefield 2042* in both Q3 and Q4, but offset by strength in the rest of the business, particularly in FIFA and *Apex Legends*. We're committed to turning Battlefield around and building a sustainable live service, even if some of the actions we're taking, like moving the first Season into FY23, impact net bookings in the short term.

Reflecting the strength of our portfolio, our **operating cash flow guidance** is now \$1.900 billion. This would be close to the largest full-year operating cash flow in the company's history, despite nearly \$200 million of one-time tax payments related to acquisitions this year. With **capital expenditures** still around \$200 million, that would deliver **free cash flow** of about \$1.700 billion. Note that this is \$200 million above our original expectations for FY22 free cash flow. See our earnings slides and press release for further cash flow information.

For the **fourth quarter**, we expect **GAAP net revenue** of \$1.759 billion, **cost of revenue** to be \$404 million, and **operating expenses** of \$1.086 billion. This results in an **earnings per share** of \$0.46 for the fourth quarter.

We expect **Q4 fiscal 2022 net bookings** to be \$1.761 billion. This would be our largest Q4 ever, even if we only count organic growth.

We'll formally guide FY23 in May, when we report Q4, but we've heard that some of you are concerned that the Battlefield performance might impact next year's growth. Let me emphasize here again that we are a portfolio company. As originally forecast, the Battlefield franchise

would have accounted for significantly less than 10% of this year's net bookings and well below 5% of next year's. We're revising those numbers, but you can see it has little impact on FY23 growth. The main drivers of growth next year remain FIFA on console, *Apex Legends*, particularly Mobile, and *FIFA Mobile*. *Golf Clash* will also contribute to year-on-year growth, since we acquired Playdemic halfway through the year. With regards to new launches in FY23, we've disclosed that Need for Speed is on the slate, and we'll announce more titles closer to the time. In total, we still expect mid- to high-single digit growth next year.

To summarize: we just delivered the largest quarter in the company's history. FIFA goes from strength to strength, and *Apex Legends* continues to show extraordinary growth. Battlefield disappointed, but our broad portfolio of games and live services insulates us from the impact of any one title. Our portfolio approach enables us to deliver double-digit organic growth this year, continue to deliver strong cash flow, and provides a strong foundation for growth as we look to the future.

Now I'll hand back to Andrew.

ANDREW CLOSING:

Thanks, Blake.

These are exciting times in our industry. Interactive entertainment continues to grow by every measure – our audiences are expanding and diversifying, major franchises are at the center of culture and entertainment, and the world is recognizing how games have the power to connect global communities.

Our focus continues to be on our people, our players, on our amazing portfolio of games, content and services, and extraordinary growth opportunities in the future. Thanks to our incredibly talented teams at Electronic Arts, we are delivering entertainment to hundreds of

millions of people around the world and connecting them through some of the most powerful and enduring franchises. With the breadth and depth of our business that continues to expand our network, deepen engagement, and drive growth in our recurring net bookings and ongoing profitability, we are well-positioned strategically to continue building on our success and delivering for our players.

As we look ahead, we were excited to announce yesterday that Chris Suh is joining Electronic Arts as our next CFO. Chris is coming to us after more than 25 years at Microsoft, where he served as Corporate Vice President and Chief Financial Officer of the Cloud + AI group, which he led with incredible success during Microsoft's transformation to a cloud-first company. We have a big vision for the future, and in addition to Chris' financial leadership of our organization, I look forward to having him as a strategic partner with extensive experience driving scale and growth to help us achieve our goals.

As we announced previously, Blake will be leaving our team after nearly a decade of leadership at EA. Blake has been an incredible leader, partner, and advisor. More importantly, he is a dear friend, and I feel deeply grateful for our time working together. His expertise and the team he has built have been instrumental in our growth and financial achievements, and have positioned us well for continued success. Blake will remain with us until the summer to assist with the transition and special projects.

Thank you, Blake, for everything you've done and continue to do for our company.

Now, we are here for your questions.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2022 guidance information and fiscal 2023 expectations contain forward-looking statements that are subject to change. Statements including words such as "anticipate," "believe," "expect," "intend," "estimate," "plan," "predict," "seek," "goal," "will," "may," "likely," "should," "could" (and the negative of any of these terms), "future" and similar expressions also identify forward-looking statements. These forward-looking statements are not guarantees of future performance and reflect management's current expectations. Our actual results could differ materially from those discussed in the forward-looking statements.

Some of the factors which could cause the Company's results to differ materially from its expectations include the following: the impact of the COVID-19 pandemic; sales of the Company's products and services; the Company's ability to develop and support digital products and services, including managing online security and privacy; outages of our products, services and technological infrastructure; the Company's ability to manage expenses; the competition in the interactive entertainment industry; governmental regulations; the effectiveness of the Company's sales and marketing programs; timely development and release of the Company's products and services; the Company's ability to realize the anticipated benefits of, and integrate, acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to develop and implement new technology; foreign currency exchange rate fluctuations; general economic conditions; changes in our tax rates or tax laws; and other factors described in Part II, Item 1A of Electronic Arts' latest Quarterly Report on Form 10-Q under the heading "Risk Factors", as well as in other documents we have filed with the Securities and Exchange Commission, including Electronic Arts' latest Annual Report on Form 10-K, filed with the Securities and Exchange Commission on May 26, 2021.

These forward-looking statements are current as of February 1, 2022. Electronic Arts assumes no obligation to revise or update any forward-looking statement for any reason, except as required by law. In addition, the preliminary financial results set forth in this release are estimates based on information currently available to Electronic Arts.

While Electronic Arts believes these estimates are meaningful, they could differ from the actual amounts that Electronic Arts ultimately reports in its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2021. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-Q for the fiscal quarter ended December 31, 2021.