

09-May-2023

Electronic Arts, Inc. (EA)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

Stuart Canfield

Senior Vice President-Finance & Investor Relations, Electronic Arts, Inc.

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

Laura Miele

Chief Operating Officer & Executive Vice President, Electronic Arts, Inc.

OTHER PARTICIPANTS

Andrew Uerkwitz

Analyst, Jefferies LLC

Benjamin Soff

Analyst, Deutsche Bank Securities, Inc.

Matthew Thornton

Analyst, Truist Securities, Inc.

Clay Griffin

Analyst, MoffettNathanson LLC

Mario Lu

Analyst, Barclays Capital, Inc.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Mike Hickey

Analyst, The Benchmark Co. LLC

Douglas Creutz

Analyst, TD Cowen

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Regina and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Fourth Quarter and Fiscal Year End 2023 Conference Call.

I would now like to turn the conference over to Mr. Stuart Canfield, Senior Vice President, Finance and Investor Relations. Please go ahead.

Stuart Canfield

Senior Vice President-Finance & Investor Relations, Electronic Arts, Inc.

Thank you. Welcome to EA's Fourth Quarter and Fiscal Year End 2023 Earnings Call. With me today are Andrew Wilson, our CEO; Chris Suh, our CFO; and Laura Miele, our COO.

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'll post our prepared remarks, an audio replay of this call and a transcript.

With regards to our calendar, our first quarter fiscal 2024 earnings call is scheduled for Tuesday, August 1. As a reminder, we post a schedule of upcoming earnings calls for the fiscal year 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, May 9, 2023, 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 P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

Thanks, Stuart. I hope all of you are well. I want to start by sharing how inspired and proud I am of our teams. Against macro uncertainty and constant change, we navigated the year with resilience and determination. Throughout fiscal year 2023, we showed the strength of our business, delivered for our players, and lived up to the promise of our values. To every EA employee, thank you.

Over the fiscal year, we executed across our business delivering high quality games, launching seven new releases and providing over 450 content updates across 51 titles. Consumer appetite for interactive entertainment experiences is at an all-time high. And with our player network expanding to nearly 700 million, we delivered record engagement across some of our biggest franchises. EA is leading the future of interactive entertainment in a dynamic industry where new audiences, new technology and new media trends are reshaping the world around us. Consumption of sports and entertainment is accelerating and media trends are revolving. We see these transformations as immense opportunities to do more amazing things for our people and our players.

As we look to the future, we're focused on delivering against three key strategies: building games and experiences that entertain massive online communities, creating blockbuster interactive storytelling and amplifying the power of community in and around our games with social and creator tools. Executing these strategies across the modalities of play, watch, create and connect will lay the foundation for long-term growth as we write the next great chapter of EA's story.

Fiscal year 2023 was an amazing year for EA SPORTS FIFA with the entire ecosystem producing incredible results. Console, mobile and PC, both premium and free-to-play, delivered double-digit growth in net bookings, and FIFA 23 became the bestselling title in franchise history. Our interactive experiences are at the heart of global football culture and fandom and are testament to a strategy sharpened by 30 years of passion, creativity and innovation.

Fiscal year 2024 stands to be another important year for EA SPORTS. We will build on a massive momentum in our global football ecosystem to deliver an expanded enhanced experience for fans, EA SPORTS FC. In April, we unveiled the brand identity and vision for EA SPORTS FC. By every measure, this was the biggest brand moment ever created at EA reaching billions of potential players generating thousands of media hits within days and inspiring record positive sentiment amongst our players with the support of hundreds of partners, athletes, leagues, federations and clubs. With EA SPORTS FC, we are building a fan-first future for global football, and we cannot wait to share more in July.

Already the world's preeminent American football experience, Madden NFL delivered an extraordinary amount of content in and around the game in fiscal year 2023 driving deep engagement and becoming the bestselling title in

this franchise's history on console and PC. Madden NFL 24 will build on this excitement offering even more fun and immersive game play.

Our fourth quarter saw a resurgence in Apex Legends performance. Season 16, powered by massive game enhancements like a new class system, transformed the way core legends played. Our strong community of players responded favorably lifting peak engagement more than 20% from the previous season. The resilience of Apex Legends reinforces its unique position as an IP with the power to consistently entertain players as they play, watch and compete in an evolving world. Throughout fiscal year 2023, Apex entertained an average of 20 million monthly active users. This player loyalty is fueled by responsibility to continuously expand and improve the player experience.

No other game in the industry celebrates creativity and individuality quite like The Sims. This diverse and passionate community has fueled imagination and championed self-expression since its launch in 2024 growing to over 70 million players worldwide and counting. Our talented team at Maxis Studios is using the power of creation and connection to shape culture, developing new experiences for The Sims 4 to take entertainment to unimaginable heights.

To continually inspire the world to play, we have focused on blockbuster storytelling. Our history and leadership of bringing together culture-defining IP with interactive entertainment creates incredible opportunities to build an unrivaled portfolio bolstered by powerful collaborations. These are fundamental ways to bring more players into our global network through the lasting power that only blockbusters can deliver.

Just 11 days ago, we delivered on this priority with the launch of STAR WARS Jedi: Survivor. This incredible game has received widespread positive reviews, earned an 86 Metacritic score on console and is being called a Game of the Year contender by multiple press outlets. Our dev teams are working with the community around some high-end PC specs, and beyond this, it has been a strong launch. Within the first few weeks, millions of players have joined Cal Kestis and BD-1 in their rebellion against the Empire. STAR WARS Jedi: Survivor is storytelling at its finest, which is central to the game's success and to our creative collaboration with The Walt Disney Company and Lucasfilm. The game is pure blockbuster entertainment and fans have embraced the story of our Jedi games as a central part of the STAR WARS saga demonstrating how great interactive entertainment can grow and deepen the fandom of an incredibly powerful IP universe.

Games are the social networks of the future. To amplify the power of community, we are innovating across a set of social and creator tools in and around our games. Our strategy is to help players make new friends, build their social network and create community. These in-game social experiences were rolled out in FIFA 23. Among players that interacted with the new feature set, engagement increased over 150%. Our data shows these innovations are driving results in our business and confirm what we know to be true: having more friends and building stronger friendships in our network leads to more time spent playing and connecting.

As a cornerstone of our priorities of growth, we will continue to implement these tools across our portfolio. With a strong close to fiscal year 2023, we are executing on our core strategies, and our focused investments are positioned to drive results across our content and services pipeline. We remain committed to capturing our biggest opportunities and delivering long-term value in our business by doing more amazing things for our players and communities.

Now, I'll hand the call over to Chris to provide additional details on our business.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

Thanks, Andrew, and hello, everyone. Our fiscal year 2023 results again demonstrated the fundamental strength of our portfolio, the resiliency of our live services business model, and our ability to execute in a disciplined manner. We again outgrew an uneven market, took decisive actions to sharpen our focus, and finished the year with a very strong fourth quarter performance. Our fiscal year was highlighted by significant milestones across our portfolio.

In the six months since launch, EA SPORTS FIFA 23 has surpassed lifetime sales of EA SPORTS FIFA 22. Apex Legends continued to engage players around the world, and following our decision to make the base game free-to-enter in October, The Sims hit historic engagement highs with tens of millions of new players in the community.

Throughout the year, we continued to take deliberate actions to focus our company and align our business more closely with the strategic priorities that Andrew outlined, culminating with the actions we announced in late March to rationalize our games portfolio and optimize our real estate footprint. As a result in the fourth quarter, we recognized a charge of \$155 million, with the remaining charges to be recognized during the first half of fiscal 2024.

For the fourth quarter, net bookings were \$1.9 billion, up 11%, or 15% in constant currency. Our results exceeded our expectations and reached a new fourth quarter high, driven by a record live services performance and strength in full game. EA SPORTS FIFA significantly outperformed as net bookings grew 31% year-over-year, or up 37% in constant currency. Apex Legends also delivered a stronger quarter than anticipated, as players returned for Season 16 and our 4th Anniversary Collection Event.

Our live services net bookings were \$1.6 billion, up 9%, or 13% in constant currency, significantly outperforming our expectations, as EA SPORTS FIFA live services delivered a record quarter. FIFA Ultimate Team net bookings grew 20% year-over-year, or up 26% in constant currency, and saw all-time high engagement. FIFA Online 4 was up 62%, or 71% in constant currency, and FIFA Mobile grew triple digits year-over-year and reached its first \$100 million net bookings quarter.

Apex Legends saw improved performance following a competitive third quarter, rebounding to a low single-digit year-over-year growth quarter in constant currency. And The Sims 4 exceeded expectations as a new expansion pack and free base game updates resonated with the growing community.

Our Mobile business, excluding the strong FIFA Mobile results, stabilized and delivered in line with our expectations. Our strategy is focused on enhancing player experiences by connecting our largest brands across platforms, delivering blockbuster mobile experiences, and optimizing our portfolio for profitable long-term growth.

We delivered fourth quarter net revenue of \$1.9 billion, up 3% year-over-year. Operating expenses were up 5%, excluding our fourth quarter restructuring charge. Our people costs increased as we continued to invest behind our portfolio, and we also saw higher marketing spend to support new releases. These increases were partially offset by prudent management of other variable spend.

Now let me talk about our full-year performance. Our net bookings were \$7.3 billion, down 2%, or up 1% in constant currency, outperforming uneven market conditions and industry headwinds in Mobile. Our net revenue was \$7.4 billion for the year, and diluted EPS was \$2.88. We generated \$1.6 billion in operating cash flow and returned over \$1.5 billion to shareholders.

Now let me turn to the outlook. Our fiscal year 2024 outlook reflects many of the trends we saw in fiscal year 2023. We expect engagement across the portfolio to remain very healthy and our highly reoccurring live services business to show great resilience again. We continue to operate in a competitive market with changing macro conditions, and as such, we will continue to be focused, deliberate, and disciplined as we execute against our strategic priorities.

For FX, if rates remain unchanged, we expect a headwind of nearly 2 points for net bookings and 6 points for underlying profit growth, net of hedges, relative to last year. We expect fiscal 2024 net bookings to be \$7.3 billion to \$7.7 billion, roughly flat to up 5% year-over-year, or up 1% to 7% in constant currency, built on a strong foundation of our evergreen live services, growth in our massive online communities, the introduction of EA SPORTS FC, and blockbuster storytelling through STAR WARS Jedi: Survivor. We expect EA SPORTS FC to deliver low single-digit net bookings growth, building on its momentum growing again on top of a record fiscal year 2023.

We expect cost of revenue to be \$1.7 billion to \$1.8 billion, reflecting gross margin expansion, driven by a mix of revenue across royalty-bearing licenses, platform, and digital. We expect operating expenses to be \$4.3 billion to \$4.4 billion, with continued focused investments in our business to drive long-term growth. As a result, we expect underlying profitability to grow faster than net bookings.

We expect operating cash flow of \$1.7 billion to \$1.9 billion, and capital expenditures of around \$275 million, which would deliver free cash flow of about \$1.4 billion to \$1.6 billion. The business continues to be a strong generator of cash. We expect to continue to repurchase stock under our current authorization, which expires in November 2024. We expect fiscal 2024 net revenue to be \$7.3 billion to \$7.7 billion, and earnings per share of \$3.30 to \$3.81.

Now moving to our outlook for the first quarter, we anticipate net bookings for Q1 to be \$1.5 billion to \$1.6 billion, up 15% to 23%, or up 19% to 27% in constant currency, primarily driven by full game sales of STAR WARS Jedi: Survivor.

For the first quarter, we expect net revenue of \$1.8 billion to \$1.9 billion, cost of revenue to be \$350 million to \$370 million, and operating expenses of approximately \$1.07 billion to \$1.09 billion, resulting in earnings per share of \$0.98 to \$1.14.

Our business is in a strong position, propelled by strong brands, massive online communities, blockbuster storytelling, and evergreen live services. Our efforts over the last year to align our teams more closely with our key priorities has led to a more focused scope of work, which will help us deliver on our multiyear growth aspirations.

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

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

Thanks, Chris. Interactive entertainment is at an inflection point. The industry is expanding; the number of players is expected to grow significantly over the coming years. The audience is becoming more diverse with cultural and generational trends accelerating content consumption. Engaging this expanding player base means reaching them on devices everywhere through disruptive technologies.

For EA, these transformations represent opportunities to grow today and over the long term. We have the best talent in the industry to execute against our long-term strategy. It's through their passion and creativity that we will continue to deliver on our mission to inspire the world to play.

We are focused on bringing more amazing games to more people around the world, inspiring them to build community, celebrate shared fandom, and have joyful experiences. The future of entertainment is interactive, and no team is better equipped to lead this transformation than EA.

Now Chris, Laura, and I are here for your questions.

QUESTION AND ANSWER SECTION

Operator: Our first question will come from the line of Andrew Uerkwitz with Jefferies. Please go ahead.

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

Hey, thanks for taking my questions. I just got one kind of on June and then kind of a big picture question. Chris, could you help me reconcile a little bit the June guidance? I think a year ago you had one title in the June quarter; you have five this time. And then clearly, there's some strong momentum in live services. So, is this cautious guide? Is there something in the live service momentum that slows down? Just a little bit more color you can give on June would be great. Thank you.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

Hi, Andrew. So you're talking about our guide for Q1?

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

Q1, yes. Yes, sir.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

Yeah. Right. So, specifically, our guide in Q1 is driven really by the performance of our live services business. And as you pointed out, we have some year-over-year things on new launches that are driving that performance.

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

But it seems like five games should drive more than couple hundred million dollars, right, if I'm doing my math right, or...

[indiscernible] (19:13)

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

Go ahead.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

No, sorry, and we're happy to sort of take you through sort of line by line...

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

Okay.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

...on that, but it is relative to size of the launches, I think, that you're referring to.

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

Got it. Okay. That's great. Yeah, thank you. And then just kind of big picture, some of the trends that I think you saw in the previous quarters around kind of weakness in smaller titles, I think you guys or some of your peers called out this idea that gamers are kind of coalescing around the biggest titles. Are you still seeing that? And then, secondarily, maybe more importantly, how has that impacted where and how you invest in future titles? Thank you.

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

A

Yeah, thank you, Andrew. I think it's a great question. As we look at the marketplace and as we look at consumer trends, I think there's two things happening right now. One, which – and both kind of end us in the same place. But I think one is more short term and one has as much longer-term – more longer-term ramifications.

The first is that any time through the history of our industry that there is any kind of consumer softness or consumer trepidation around spending, [ph] also (20:29) macroeconomic uncertainty, what we typically see is consumers move towards the biggest brands and the biggest titles and the most recognizable experiences. And that really comes down to kind of general consumer behavior, which is they have less, less money that they're willing to risk against new things or smaller things or unknown things.

And typically, our brands like FIFA, like Madden, like The Sims have performed very well at these times. That, however, is a moment in time, and our expectation is that as we move through this particular phase, and as consumer spending continues to strengthen over time, that there will be opportunities for new titles and new brands.

But what we don't think that will outweigh is this movement to these broader social ecosystems at our games, games as platforms. At the very core, we are a games company, but what we are seeing is the evolution of the definition of a game. And you hear us talk about play, watch, create, connect. And it's really that last piece, that connection piece, that is driving the future of our business.

And as we think about building FC for the future, as we think about building The Sims for the future and Battlefield and Apex and skate. and other properties in our portfolio, we really think about that in the context of building games as a platform or content as a platform to drive these long-term businesses across play, watch, create, connect. We think this will be longer-lasting than the present kind of macroeconomic climate, and certainly that's where we're investing meaningful parts of our time, money, and resources over the coming years.

That's not to take away from the opportunity to launch incredible things like Jedi, which we've just done, which tell unbelievable stories in an interactive world and become a meaningful part of bigger brand IP, like we have with STAR WARS. But certainly as we balance out our investment over time, a great portion of our investment will go into these building games and the experiences that entertain massive online communities. We will then follow up with a more focused, deliberate investment against telling blockbuster interactive stories.

And we think that there will be opportunity for investment over time with the extension of these social and credit tools both for the in-game experience and beyond the game experience broadly. And you'll see us do some more of that particularly in the world of EA SPORTS in the coming year.

Andrew Uerkwitz

Analyst, Jefferies LLC

Q

Thank you, guys. I appreciate that color. That's a good answer. Thank you.

Operator: [Operator Instructions] Our next question comes from the line of Benjamin Soff with Deutsche Bank. Please go ahead.

Benjamin Soff

Analyst, Deutsche Bank Securities, Inc.

Q

Hey, guys. Thanks for the question. Just wanted to dig in a little bit on the expectations for FC. Obviously, you guys had a record year for the franchise, and you're expecting low single-digit growth in the upcoming year. So, just wanted to better understand the drivers there and if you see any challenges or execution risks as you go through the rebrand. Thanks.

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

A

I'll touch on this broadly, and I'll let Chris kind of talk a little bit more on the details of how we're forecasting and planning. First and foremost, we're coming off an extraordinary year. Football as a sport is growing globally. We think the World Cup did great things for continuing to grow the sport broadly and the fan ecosystem around the sport.

I think what we've been able to do with our football franchise is really become central to the fabric of football culture. And the results that you are seeing is really demonstrative of that importance that we play in that fan football culture.

My belief and my belief all along has been that as we move through this rebrand, and certainly as we talked about in the prepared remarks, this rebrand was probably the single biggest rebrand moment in the history of the company, and almost certainly the most successful by a fairly wide margin. We've never seen this kind of consumer energy and this kind of positive consumer energy around a launch of this nature, particularly for a business that we've been in for 30 years.

And so I continue to believe that moving through this rebrand actually presents us extraordinary opportunities for growth. And I've talked about this before in the context of what we can do for the player broadly, how we can extend the play, watch, create, connect experience, how we can extend the relationships that we have with commercial brands that are equally valuable in football fan culture over time.

And I think that as we move through this year, and you see what we're doing in the context of the game experience and what's going on around that, we feel very bullish and very confident around growth opportunities of our football business. But we're coming off a pretty big year and it's a pretty big comp. And so I'd hand off to Chris to kind of talk you through how we're thinking about that.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

Yeah. Thanks, Andrew. Exactly as Andrew said, we're seeing an incredible year for FIFA. We talked about it extensively on the call. Actually, FIFA for the full year across all platforms grew 20% this year in constant currency, and that's off of a 2022 that also grew double digits. And so, the momentum in the business has been fantastic.

As we look forward into the launch of FC, as Andrew said, we're really focused on the player experience and making this a great experience. We're pleased to be able to grow the business again off of two consecutive years of double-digit growth.

Benjamin Soff

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. And then just one on the guidance, I think last quarter you talked about mid-single-digit operating income growth. And if I'm doing my math right, I think the midpoint of your guide implies more of a low single-digit growth rate. So first of all, is that correct? And what changed? And is it FX or maybe something else? Thanks.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

Yeah, sure. As we gave the guide at the beginning of Q4, we went through a number of planning assumptions that we shared with you in terms of what we [ph] thought (26:45) in terms of player engagement, quality of games, and execution.

I would say the biggest difference between now and then is honestly the performance that we had in Q4. We had an incredibly strong Q4 exceeding our own expectations on a number of fronts that we talked about in the prepared comments. And as we look forward into 2024, our outlook and our planning assumptions for 2024 in many cases remain unchanged, in the sense that all the things that we focus on, which is quality of games, execution, and delivery of our resilient live services, those remain quite stable and consistent and unchanged. And I would say the comp is just quite a bit higher.

Benjamin Soff

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Makes sense. Thank you, guys.

Operator: Your next question comes from the line of Matthew Thornton with Truist Securities. Please go ahead.

Matthew Thornton

Analyst, Truist Securities, Inc.

Q

Hey, good afternoon. Thanks for taking the question. Maybe first on STAR WARS Jedi: Survivor. Andrew or Chris, just wondering if you can maybe give us a little color, put a little more meat on the bone, just maybe how that's faring relative to its predecessor and how to think about that title for the balance of the year.

And then just secondly, on Mobile, we've got The Lord of the Ring (sic) [Rings] (27:53) title here in the first quarter. Curious how material you think that can be to the full year. And Mobile more broadly looks like it's starting to perk up a little bit or stabilize a little bit. Maybe just little more color on what you're seeing in that market as we head into fiscal 2024. Thanks so much.

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

A

Yeah, on the Jedi piece, and then I'll let Chris touch on Lord of the Rings, and maybe Laura can give you a little bit more color on the launch of that and what we expect. On Jedi, again, we're overjoyed. We made the bold decision to move the title six weeks to give the team the opportunity to really get to the quality of game they wanted. And of course, as you heard in our prepared remarks, the quality has been very, very strong, and many are proclaiming that it's going to be a game of the year contender.

And certainly, playing it and speaking to people who are playing it, it represents incredible storytelling in the STAR WARS universe. And so, I think we're building on where we were with Jedi: Fallen Order, and it's certainly been a very strong launch for us. It's very early. I think we're 11 days in at this point. We're in a different kind of market dynamic. But I would tell you, it's pacing very strongly against our expectations and against Jedi: Fallen Order.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

Great. Thanks. The only thing I'd add to what Andrew said about STAR WARS is that, as exactly as he said, we're incredibly excited about the launch. This is a title that we expect to contribute to our financial performance for a very long time. And so, we're in early days.

In terms of The Lord of the Rings mobile launch, again, another title we're very pleased at in terms of the quality of the game and the expectations around it. We are being modest and prudent in terms of the underlying implied financial performance within our guide, consistent with what we've talked about in terms of launches of some of our other titles over the last couple of quarters.

Operator: Our next question will come from the line of Clay Griffin with MoffettNathanson. Please go ahead.

Clay Griffin

Analyst, MoffettNathanson LLC

Q

Hey, good afternoon and thanks for taking the question. I had a question on Apex. Just I noted that Overwatch is experimenting with its first kind of IP crossover collaboration, what have you. And correct me if I'm wrong, it has not been a lever that Apex has really pulled. So I'm curious just to get your sense of the pros and cons of maybe going down that road. I don't know if it makes sense strategically for Apex, but just kind of the broader point is just trying to better understand kind of what you guys want to do with Apex in terms of monetization or engagement as it relates to those types of activities. Thanks.

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

A

Yeah, I think what you've heard from us, and certainly the performance in Q4 is testament to this, is Apex is one of the strongest franchise in our industry and certainly one of our strongest franchise. When we talk about content as a platform or game experience as a platform, Apex is certainly front and center as we think about our business model. We have a substantial player base with incredible retention. And as is the nature of these free-to-play

environments, there are ebbs and flows. And I think what is unique to Apex is its ability to engage and reengage through those ebbs and flows.

We're going to continue to invest in the IP broadly, both geographically from a platform, extending modalities at play, extending story. And for what it's worth, I don't think anything is off the table. I think that as we think about game IP today, it's kind of like comic book IP of 20 or 30 years ago. This is the IP that Gen Z and Gen Alpha perhaps identify mostly with. And I think the opportunities for us to continue to grow and expand and stretch the nature of the experiences that we're able to offer to our global player base over the next decade and beyond is unfettered.

Clay Griffin

Analyst, MoffettNathanson LLC

Great. Thanks, Andrew. Appreciate it.

Operator: Our next question comes from the line of Mario Lu with Barclays. Please go ahead.

Hi, everyone. This is [ph] Joey (32:08) on for Mario. Thanks for the questions. Two if I can. So, is there any color you can provide on your Mobile revenue outlook in fiscal 2024 that's embedded within the guide? And then separately, for EA SPORTS FC, appreciate the callout on the slides that fiscal 2024 bookings anticipates low single-digit growth for the title. Are you expecting any margin benefit that will flow down to the bottom line, now that the FIFA license is gone? Thanks a lot.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

Got it. Thanks, [ph] Joey (32:40). Let me address your first question. I'll start there. And then I sort of missed the first part of your second question, so if you can repeat that here in a second.

But in terms of the Mobile growth for next year, our expectations are that Mobile business in aggregate will be down year-on-year after FY 2023. A large part of that related to the decision to sunset the Apex Mobile title. And so that obviously is in the comparable for 2023, won't be in the comparable for 2024. And that's a big piece of the Mobile business revenue performance expectation for 2024. And can you go ahead and repeat your second question? I missed the first part of it.

Yeah. Yeah, got it. So, are you guys just expecting any sort of margin benefit that will flow down to the bottom line without this FIFA license, for EA SPORTS FC?

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

Got it. Okay. It's FC. I missed the part which game you were referring to. So thank you for that clarification.

Q

No problem.

Christopher Suh

Executive Vice President & Chief Financial Officer, Electronic Arts, Inc.

A

As we think about the transition to FC, we really are focused on the player experience and making this transition a great one for our fans around the world. We are going to invest behind that across our brand, rebrand launching as well. And so, as you think about the total economics of the business, I would not anticipate it being materially different year-on-year.

Q

Got it. Thanks. Appreciate it.

Laura Miele

Chief Operating Officer & Executive Vice President, Electronic Arts, Inc.

A

Yeah, and Mario, I'd just like to add some context – a little bit more context maybe on how we are thinking about our Mobile growth and even our future beyond this coming year. I mean, clearly, we all have seen Mobile grow in the past decade from \$11 billion to \$106 billion globally, which is massive and significant.

But what we'd like to share is that the industry pursued that growth with the philosophy of user acquisition or development for that matter at any cost. And how we're looking at things now is that that era is over. The economics didn't make sense, and we were really focused on – the industry was kind of focused on the wrong things. How we are looking at it and what we are prioritizing and our new management kind of a refined approach is around profitable growth.

So this means equal attention to top line and bottom line in the market and our business dynamics. It's easy clearly to focus on top line and just look at that growth area, but when we look at our business and our new management approach, we have seen Mobile profitability across our portfolio in the last two to three years increase. And specifically, when we look at Glu, we've increased from – increased 3 times from FY 2022 to FY 2023 in our profitability. So we're really pleased that under our management and how we're thinking about things that we are still focused on growing the overall business in a profitable way.

Now, a couple things. Andrew mentioned in his outline incredibly well about this connected ecosystem and our connected communities. Mobile is going to play a meaningful role in that. When we look at our FIFA success that we've talked a lot about in this call already but it's just so strong and it's been such a meaningful contributor to the overall ecosystem, players that play [ph] FIFA HD in (35:42) Mobile generate a far higher daily average revenue than FIFA players who only play on just one platform. So we know that there's a meaningful contribution that Mobile can play in the overall ecosystem.

The second area that we're spending a lot of time in is our existing live services. So we talked earlier about that we launch the Lord of the Rings game clearly, and that has really modeled after our Star Wars: Galaxy of Heroes game, which has generated nearly \$1.5 billion over the lifetime. When we look at the market and we evaluate what's working, when you look at the top charts in Mobile – the top ten charts in Mobile, only two entrants have come in the last two years. Everything else has been there for quite a long time. So we see a pretty significant

runway and continued growth potential in our existing live services. We have Plants vs Zombies. We have Sims. We have Design Home. Clearly, we have FIFA. We have Tap Sports. We have a really meaningful live service business that we see a really strong runway and still again and growing that in a profitable way.

Mario Lu

Analyst, Barclays Capital, Inc.

Appreciate the color. That's all for me. Thanks.

Q

Operator: Your next question comes from the line of Eric Sheridan with Goldman Sachs. Please go ahead.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Thanks so much for taking the question. And maybe if I can go back to ask another big picture one. Obviously, there continues to be a lot of debate in the industry about distribution and content companies and vertical versus horizontal scale in the industry. Andrew, I want to know as we get deeper into 2023 and even against some of your longer-term thoughts, how are you thinking about scale both from a distribution standpoint and from a content creation standpoint and how that factors back into possible capital allocation for the company over the medium term. Thanks so much.

Q

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

Great question. As you might imagine, we spend a great deal of energy thinking through this puzzle. I think, on balance, what we have done as a company over the last 40 years is navigated various distribution modalities from cartridge to disk – floppy disk to cartridge, cartridge to disk, disk to digital, digital to live service. And our expectation is that will continue to evolve, and we think we're at the forefront of that, particularly, as you think about our live services business.

A

When we think about scale broadly, I think there are three core elements to scale. One is the scale of our network, the amount of players that we interact with each year and each month and as we talked about in the prepared remarks, we've just hit 700 million which is an extraordinary amount of people and represents some of the greatest scale in and around our industry.

The second area of scale, of course, is meaningful IP. And what we've discovered over time is that our biggest brands continue to get bigger as we invest in them. And this year, as we take more ownership over our football brand with FC, but certainly FC and Apex and The Sims and Battlefield and Need for Speed and so many of our great brands, there's a level of portfolio scale that gives us optionality for the future that most in our industry or entertainment broadly just simply do not have the benefit of.

But there's another element of our business that I think is the most important. And that's our people. The scale of teams that we have that can deliver titles and content and live services year in year out and has continued to do that through the ebbs and flows of our industry, and through the dramatic consumer trend changes, and distribution changes, and platform changes. Many other companies have tried, not many have succeeded as it turns out. And as we look to the future, as we see that interactive entertainment is becoming a more and more important part of entertainment broadly, I think that our team scale is actually one of our greatest strengths.

Our ability to launch the number of EA SPORTS games and updates every year, our ability to take Apex to 200 million people, our ability to take The Sims to 70 million people, our ability to bring Battlefield back in an entirely

new way in the future and reinvent and rethink what Skate might be as a consumer connection platform around Skate culture. There are very few companies, if any, in our industry or in entertainment more broadly that can do that at the scale that we can do it. And it's inherent in who we are as a company.

We invest deeply in it, in the culture of our organization, in really supporting creators. And I think that as we move forward in entertainment, that the combination of our network, our IP, and more importantly our teams gives us the kind of scale that means that we have unbelievable opportunities for growth and certainly opportunities for success as we embark in what will be a new competitive marketplace.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Thanks, Andrew.

Q

Operator: Your next question comes from the line of Stephen Ju with Credit Suisse. Please go ahead.

Stephen Ju

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thank you. So, Andrew, as I listen you talk about the connected ecosystem, as well as blockbuster franchises, it seems like the complexity to develop a really successful franchise is only ratcheting higher. And hence, there is probably higher level of risk around all these projects as well. So, do you think you'll allow development teams in, say, the non-sports games longer lead times to make sure the quality is high and the risk to franchise damage is minimized? Thanks.

Q

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

Yeah, I think it's a great question. And I go back to some of the comments we made earlier, which is as we think about the notion of a game, the definition is evolving pretty dramatically. And so when we think about time for development, it's not just the creation of a world or the development of characters or the telling of a story. It's really about how do we build this as a platform that drives long-term live service business over a 10-plus year period. And I think as we think about supporting and investing in and growing our creating capabilities, our developer capabilities, our studio capabilities, that's really where we're investing meaningfully.

A

And on balance, yes, we will give them more time, and we will let them evolve how they build and what they build and how they launch their games over time. But it's really not just about the complexity of games. It's really about the changing nature of what it is that we're building, but more importantly the changing nature of how we derive value from that development over the long term. And so, where we once built games in one year or two years and then monetize them over five weeks or five months, now games as a platform are taking longer, but the benefits are exponentially greater.

And what we're seeing out of FC and what we're seeing out of Apex, what we're seeing out of The Sims, which again launched in 2014 is meaningful return over a decade-long life cycle. And as we set ourselves up for the future, that's going to be a meaningful part of how we invest in our company, how we invest in the content service that we provide to players, and how we support our development teams to do that.

Operator: Your next question will come from the line of Mike Hickey with Benchmark. Please go ahead.

Mike Hickey

Analyst, The Benchmark Co. LLC

Q

Hey, Andrew, Chris, Laura. Good evening, guys. Thanks for taking my questions. Just two for me. First one, just how you're thinking about industry consolidation assuming the Activision deal gets blocked here or what you think the implications are for the broader industry on consolidation, Andrew?

And second question, not intended to be a softball question here, but curious on AI and development thinking about opportunities, challenges, winners, losers. It seems like you guys have been very proactive here already starting – beginning to see the success of AI on development. But just curious what you're doing today, the success you're finding, early learnings, and how you're thinking about a step-up growth opportunity over the long term. Thanks, guys.

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

A

Yeah. Great questions. Let me touch on the first part and I'll hand over to Laura to provide a little bit more detail on the AI part in terms of what we're doing. So, first, as it relates to consolidation, I'm sure you recognize this is a question I get asked a lot. I almost am never allowed to answer that question as it turns out. What I would say is I don't know what's going to happen with Activision and Microsoft. Again, we continue to be Microsoft's biggest partner. I think we're the number one publisher on their platform. So whether that deal goes through or not is not really material to us broadly. We think we have the scale.

Again, back to our network, our IP and our talent to continue to navigate the future and lead the future of entertainment and compete in a marketplace regardless of whether that deal goes through or not. Longer term, will there be industry consolidation, will there be broader entertainment consolidation? If I was predicting the future over the long-term, I would say that's an almost certainty at some level. I would love for us to have the scale to be a meaningful consolidator in that space. I think that we have tremendous assets with respect to the future of entertainment. But as it stands today, I think we're indifferent as to whether that goes through or not. We feel like we have an incredible strategy. We feel like we have an incredible opportunity. And whether it goes through or not, we'll continue to be the number one publisher on the Microsoft platform.

As it relates to AI, I think that, again, as an industry, we're probably going to be one of the greatest beneficiaries of AI broadly. I think that it will allow us to do what we currently do more efficiently. It will allow us to actually do more things as we think about being creators, our ability to use AI to augment our incredible teams and create even more entertainment for an audience that has an insatiable appetite for what we're doing. And then, ultimately to allow AI to help our players and our fans create content in our world, represents significant opportunity for us.

One of the things that we're also very cognizant of is there are also fears around AI. Of course, the fear of displacement of the workforce is something that we read a lot about and we talk a lot about. And as we think about every revolution over the course of time from the agricultural revolution through the industrial revolution and on, there has been displacement of the workforce in the near term and then meaningful increases in workforce opportunities over the longer term. And our hope is that AI represents the same opportunity, and we're working very closely inside of our company to ensure that our people benefit in that way and actually facilitate them to do more things.

Of course, then there is the notion of ownership of data and who owns the output of these AI models. And we have the benefit of being around for 40 years and having extraordinary amounts of data from which we can use, and Laura will talk a little bit more about that. And then, lastly, of course, it's this notion of what about people –

bad actors using AI. I think what our plan will be is to work with others in our industry, others in entertainment, others in technology, and others in governments and regulators over time to help the laws keep up with the pace of AI so that our consumers, our players, our fans aren't subjected to bad actors' unfortunate behavior as a result of AI in our industry.

Laura Miele*Chief Operating Officer & Executive Vice President, Electronic Arts, Inc.*

A

Yeah. Hi, Mike. Great questions. And Andrew framed the AI picture incredibly well. There's a few things I can add. Clearly, AI has been a cornerstone of innovation for years and we have a rich history at EA with AI. I mean, as we look at this next wave of innovation and technology, we see it to be a powerful accelerator for key areas in our business. And as Andrew mentioned, we are incredibly optimistic actually about our unique competitive advantage given our scale, given our data.

Inputs into AI models will create differentiation protecting our data for having protected IP that we can create generative content from. We have a rich library and history of assets. So, we really like how we're positioned. And also keep in mind that we have great partnerships. And we talked a lot about FC today, we are – we did a partnership with LaLiga and there's HawkEye data that we're able to use in our game that is not going to be available out open – in an open public marketplace. So, again, we really like our position and the advantage that we have given our history and who we are.

And we're thinking about the advantage of this next wave of technology as the accelerator in game development for players and player experience and as we also think about truly life services at scale. So, in game development, you would imagine the velocity of content, creative iteration is going to be advantaged greatly by having really smart content tools, Andrew mentioned the creator content, lifelike animation, real time text-to-speech for players and what that will mean for them and the experiences they have. As we think about live game support at scale, there's going to be some really great imagery detection, issue detection, economic modeling that we're going to be able to apply as we continue to grow these connected ecosystems. So, we are pretty optimistic and excited and inspired about this new wave of AI. Again, we have a rich history of it, and we're very optimistic about the years ahead and what it means to our business.

Mike Hickey*Analyst, The Benchmark Co. LLC*

Q

Awesome. Thanks, guys. Good luck.

Operator: Our final question will come from the line of Doug Creutz with TD Cowen. Please go ahead.

Douglas Creutz*Analyst, TD Cowen*

Q

Hey. Thanks. Just wondering if you could give an update on how the various projects that are associated with the Battlefield IP are progressing and maybe how that plays into some of the things you said earlier about giving your big franchises time to gestate so that they're great when they come out. Thanks.

Andrew P. Wilson*Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.*

A

Yeah. I mean, we don't have any date announcements or feature announcements if that's the question certainly at this time. What I'd say is I think we've put together an extraordinary creative leadership team. I know we've got the team gathering actually this week in Sweden. I had a call this morning with some of the leadership and they're

very bullish on how that's progressing. I think we've got extraordinary confidence in that team and extraordinary confidence in the progress they're making against the future of that franchise.

And I come back to we're not just building a game. We're building a platform, content as a platform to drive live services over the decades to come. And so, as we continue to move through this process and becomes appropriate, we'll share more about the future of Battlefield. But it is firmly implanted in that first pillar of our strategy building games and experiences that attract and entertain massive online communities across platforms, across business models, across geographies. And we think that Battlefield is going to be a meaningful part of our future, and we'll share more time – share more as time progresses.

Douglas Creutz

Analyst, TD Cowen

Okay. Thank you.

Q

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

That was our last – thanks, Doug.

A

Andrew P. Wilson

Chairman, Chief Executive Officer & Director, Electronic Arts, Inc.

Thank you. That was our last question. Thank you for being with us. Thank you again to all of our extraordinary teams who delivered an unbelievable Q4 in the face of some macro uncertainty and have set us up for a very, very strong FY 2024. And, of course, congratulations to the Jedi team having just launched an extraordinary blockbuster inside one of the biggest IPs on the planet. See you all next quarter.

Operator: That concludes today's meeting. Thank you all for joining. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.