ELECTRONIC ARTS

Q4 FY13 PREPARED COMMENTS

May 7, 2013

ROB:

Thank you.

Welcome to EA's fiscal 2013 fourth quarter earnings call. With me on the call today are Larry Probst, our Executive Chairman, Blake Jorgensen, our CFO, and Frank Gibeau, our President of Labels. Peter Moore, our COO, will be joining us for the Q&A portion of the call.

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

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 May 7, 2013 and disclaims any duty to update them.

Throughout this call, we will discuss both GAAP and non-GAAP financial measures. The comparable GAAP measures for certain non-GAAP measures to be discussed are:

For Q4: net revenue of $1.209 billion, digital revenue of $453 million, gross margin of 74.4%, operating expenses of $591 million and resulting EPS of $1.05 per diluted share.

For the full fiscal year 2013: net revenue of $3.797 billion, digital revenue of $1.440 billion, gross margin of 63.4%, operating expenses of $2.288 billion and resulting EPS of $0.31 per diluted share.

During this call unless otherwise stated, the financial metrics will be presented on a non-GAAP basis. Our earnings release and the earnings slides provide a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. 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 Larry.

LARRY:

Thanks Rob.

As most of you know, I have agreed to serve as EA's Executive Chairman while the Board of Directors searches for a new CEO.

In this role, I am focused on three key priorities:

First: completing a FY14 operating plan with a disciplined approach to cost control, along with growth on both the top and bottom line. Blake and Frank will take you through the details shortly, but I'm pleased to say we have locked a plan that delivers higher revenue while keeping our operating costs essentially flat. Doing that in the middle of a hardware transition will be a challenge – something we've never done in the 31-year history of this company. But we are committed to making it work.

Priority number two is to help drive the process in the Board of Director's search for a new CEO. We don't have any specific news to share today on the timeline or candidates. However, I can tell you that both internal and external candidates are being considered.

Third and most important is to ensure EA is well positioned to deliver the best games and services on the next generation consoles. Over the years we've learned how great games, delivered early in the cycle of a new platform, can build strong and enduring relationships with our audience. This transition will determine market leadership for the rest of the decade and we intend to win over consumers with world class entertainment experiences.

We have a saying at EA: *Transition is our friend*. This is a time when we tighten our belts and position the company for future growth and success. We cut operating costs, sharpened our product focus and made strategic investments in next generation consoles, mobile and PCs. The world is changing and technology is about to take another big leap forward. Our goal is to capitalize on this opportunity by delivering high-quality games and services to our consumers on their platform of choice.

With that, I'll hand it off to our CFO, Blake Jorgensen.

BLAKE:
Thanks, Larry.

First, I would like to begin with Q4 results.

During the March quarter, the packaged goods market in the West continued to be soft – characteristic of what happens during a console transition.

EA's total Q4 non-GAAP net revenue was $1.04 billion which was within our guidance. In the quarter, we saw solid sales for *SimCity* -- most notably from direct downloads. However, *Crysis 3* and *Dead Space 3* came in below our forecast. Compared to the same period last year, net revenue was up 6% driven mainly by our digital revenue.

EA's Q4 non-GAAP digital net revenue increased 45% year-over-year to $618 million. Trailing twelve month digital net revenue was $1.66 billion, representing growth of 36%.

Our digital business continues to be a diversified mix of high growth, profitable segments. Breaking the digital revenue down by type shows the following:

- First, full game downloads contributed nearly $100 million, up 65% compared to the same period last year. Full game downloads have typically been driven by PC products, and this quarter *SimCity* was a key driver of that growth.
- Second, extra content and free-to-play contributed $224 million, up 45%, led by sustained growth in *FIFA Ultimate Team,* and solid results from *Star Wars: The Old Republic* and *Bejeweled Blitz.* This revenue relates to businesses on PC or consoles, where consumers can enhance or extend their gaming experience by buying additional digital content -- including virtual characters, virtual goods and map packs associated with console, browser-based games or MMO's. Our *Star Wars: The Old Republic* game is a combination of free-to-play and subscription business models. Both models are performing well. The game has attracted new free-to-play members and total active users are up. We continue to deliver new game updates for the community every six weeks, helping drive subscribers and free-to-play consumers to the game.
- Third, our mobile business generated $104 million for the quarter and was up 21% over the prior year. Smartphones and tablets were a major portion of the revenue, accounting for $79 million of the $104 million total, growing 27% year-over-year. *Real Racing 3*

successfully launched simultaneously on iOS and Android, while *The Simpsons: Tapped Out* continued to be a key contributor. We remain focused on this segment due to the significant global growth in the smartphone and tablet markets.

- And fourth, subscriptions, advertising, and other digital revenue contributed $191 million, growing 54% over the same period last year. The significant increase is primarily due to the recognition of $121 million of the full year's *Battlefield 3 Premium* subscriptions. We recognized this revenue in Q4 when we delivered the fifth and final expansion pack entitled *End Game.* And as a reminder, the majority of the development and delivery costs were recognized in the previous quarters.

Moving on to gross margin: our non-GAAP gross margin was 74%, in line with our guidance and up almost 10 percentage points over the prior year. *Battlefield 3 Premium* subscription revenue accounted for approximately 30% of the improvement, while the remaining gross margin expansion was due to a focused effort to reduce online support costs and solid results from the rest of our digital revenue offerings.

Operating Expenses for the quarter were $540 million, $15 million higher than our guidance. We were above guidance due to charges associated with operating expense reduction actions and costs associated with the resignation of our CEO. Our cost reduction plans will reduce our overall headcount by approximately 10%. In total, $16 million of expenses were recognized in the quarter related to these actions.

The resulting non-GAAP diluted EPS was $0.55 for the quarter, slightly below our guidance driven in part by the $16 million in severance costs.

Our cash, short-term investments and marketable securities at the end of the quarter were $1.68 billion, or roughly $5.60 per share. Approximately 60% of this cash and short-term investment balance is held outside of the U.S.

Net cash provided by operating activities for the quarter was $233 million. For our full 2013 fiscal year, operating cash flow was $324 million. Fiscal year 13 capital expenditures were $106 million, resulting in free cash flow of $218 million, more than doubling last year's total.

During Q4, we repurchased nearly 1 million shares at a cost of approximately $13 million, bringing the total shares repurchased under the current program to 22 million shares at a total cost of $278 million. As a reminder, the current $500 million share repurchase program was initiated in August 2012.

Before we discuss guidance, we want to address a few housekeeping items:

As we finalize our financial plan for FY14, we reevaluated the classification of certain operating expenses based on our current management operating structure. As a result, the Company reclassified certain operating expenses, primarily headcount and facilities costs, during the fourth quarter of fiscal 2013. These reclassifications are reflected in our financial disclosures and did not impact the Company's consolidated operating results or cash flows.

Second, as we have stated in previous calls, we are developing our games-as-a-service models to create a deeper relationship with our consumers. We have clearly seen success in this initiative as consumers are playing our games online over longer periods of time. However, this longer period affects the length of time over which we are required to recognize GAAP revenue. In fiscal 14, we will be lengthening this period, resulting in approximately $500 million of net revenue being deferred into fiscal 2015. This longer service period has no impact on our non-GAAP revenue or cash flows.

And third, the continued growth in our digital business is having a long-term benefit to our corporate tax rate such that we now view our long term non-GAAP tax rate to be 25% instead of 28%. This change in our long-term non-GAAP tax rate favorably impacts our fiscal 2014 guidance by five cents per share.

Turning to Guidance.

I will start with a brief overview of the gaming sector for this current calendar year. We estimate that the worldwide video game market will grow in the mid-to-high single-digit percentage for calendar year 2013. This is driven by continued digital market growth, offset by packaged goods declines as we reach the end of this current console cycle. In Western markets, the growth will be flat because the console transition has a more significant impact than it does in the rest of the world.

For fiscal year 2014, we plan to release 11 major titles, including the highly-anticipated *Battlefield 4* and *The Sims 4*, compared to 13 in fiscal year 2013. Along with these major titles, we will release approximately 15 mobile titles on the iOS and Android platforms. Frank will provide you with more details on our title plan for the coming year.

Starting in fiscal year 2014, we are changing our guidance approach, providing a single point estimate for each of our key financial metrics.

GAAP revenue for the fiscal year is expected to be $3.50 billion, and we expect **GAAP loss per share** of ($0.97) as a result of recognizing GAAP revenue over a longer period of time. As a reminder, we do not defer any costs of sales.

Non-GAAP revenue for the fiscal year is expected to be $4.00 billion, and we expect **non-GAAP diluted EPS** of $1.20 per share which reflects the change in our long term corporate tax rate. Without this change, non-GAAP diluted EPS is expected to be $1.15 per share.

This guidance forecasts over 5% growth of total non-GAAP revenue. We believe this reflects the current softness in the packaged goods market and the challenges associated with the anticipated console transition. Segmenting the sales provides further insight into key drivers of our full year revenue:

- Packaged goods and distribution revenue is estimated to be approximately $2.30 billion, up 7%, driven by *Battlefield 4* this year versus *Medal of Honor* in the prior year. The growth will be partially offset by the decrease in number of announced launches, and a tempered view of our current generation launches as we are in the late stages of the console cycle.

- Digital revenue is forecasted to generate over $1.70 billion, up 4%. Growth of our digital revenue is masked by the decline of our subscription business due to $121 million of *Battlefield 3 Premium* that was recognized in fiscal year 13. Our digital business would show a much higher growth if we had recognized *Battlefield 3 Premium* ratably. Breaking down our digital revenue into its four primary categories we see sustained growth in key areas:

- Our mobile revenue is expected to grow over 30% as the smartphone and tablet market continues to expand at a significant pace. In addition, we plan on launching more titles and content. Frank will provide more insight into our mobile offerings.

- Full game downloads are anticipated to grow over 25% due to the *Battlefield* and *Sims* launches – both historically strong PC franchises with a high level of direct download attach rates.

- Extra-content and free-to-play will be flat year-over-year due to the reduction in the number of social game titles, and given the console transition. We are now placing greater emphasis on mobile and less on social games.

- Lastly, subscription revenue is expected to decline approximately 20%, as we recognized a full year of *Battlefield 3 Premium* in fiscal year 13.

Based on this segmentation, digital revenue will be approximately 43% of our total revenue. The anticipated heavier mix of packaged goods revenue does impact the gross margin growth, and we are therefore forecasting gross margins to be approximately 66%.

GAAP operating expense for the fiscal year are expected to be around $2.32 billion, flat over the prior year.

Non-GAAP operating expense for the fiscal year is expected to be approximately $2.15 billion, essentially flat to the prior year. This includes our investment in next generation consoles, as well as the development costs for the newly announced Star Wars titles, and it is the first time during a console transition that our operating expenses are being held flat.

It should be noted that included in the guidance is approximately $25 million of severance payments. The majority of this expense will be recognized in the first quarter. These payments relate to our Q1 efforts to reduce operating expenses as part of our goal to expand our operating margins.

Focusing on Q1:

GAAP revenue is expected to be $875 million, as compared to $955 million in the prior year.

GAAP diluted EPS is expected to be $0.33, as compared to $0.63 per share in the prior year.

Non-GAAP revenue for the quarter is expected to be $450 million, an 8% decrease over last year's $491 million. In the first quarter of fiscal 13, we benefited from continued strong demand for *Mass Effect 3,* compared to this quarter's only new title, FUSE. Despite the decrease in revenue, **gross margin** is forecasted to be approximately 62%.

Operating expenses will be impacted by the severance payments and we expect our total non-GAAP operating expenses to be $530 million.

For the quarter, we expect a non-GAAP loss per share of ($0.62) per share, as compared to the loss of ($0.41) per share last year. Two cents of this quarter's loss is due to the change in tax rate.

Looking at the phasing for the year on a non-GAAP basis, we expect a heavier concentration of revenue in our fiscal third quarter compared to previous years. We will have fewer console launches, and with *Battlefield 4* launching in the holiday period, Q3 will be a larger revenue quarter than in previous years.

Finally, cash flow will continue to be a key metric for us going forward. In fiscal year 14, we are forecasting operating cash flows of approximately $400 million, and capital expenses of approximately $100 million. We expect free cash flow of $300 million, versus $218 million in fiscal 2013.

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

FRANK:

Thanks. As Blake noted, it was a challenging year with both hits and misses on the product front. However, we're proud of our overall product quality, our progress in digital, and our record for creating blockbusters across multiple genres and on multiple platforms. Additionally, the investments we made last year in next-gen technology will deliver great games this year.

Now, I want to offer some color on Q4 and look ahead to the games we're developing in the new fiscal year for consoles, mobile and PC.

I'll start with Q4 and *SimCity* – a great game that has recovered from a challenging launch. The short explanation for the launch is that the initial rush of consumers overwhelmed our game service, disrupting the consumer experience. As we stabilized the game and improved service in the first week, fans continued to pour in. So far we are ahead of forecast with more than 1.6 million units currently sold through to consumers. The digital story is particularly strong – nearly 50 percent of those sales were high-margin digital downloads.

The key takeaway here: *SimCity* is a highly resilient, global franchise with a long service life in front of it. But we learned our lesson and are now building better processes to anticipate and service demand. This won't happen again.

Also in Q4, we had some successes that affirm our belief in the ongoing growth of the mobile and PC platforms.

On mobile, *The Simpsons: Tapped Out,* developed by our Bight Studio, continues to perform at the top of the Apple App charts and the Google Play store, with more than 13 million installs. With the recent Android release of *The Simpsons*, it hit 5.4 million DAUs at its peak across both leading mobile platforms, and our latest content update, *Whacking Day*, has been well received, suggesting another great year ahead for *The Simpsons: Tapped Out.*

Another breakthrough mobile title is *Real Racing 3* -- a visually stunning game from our FireMonkeys Studio. This one has registered more than 30 million installs to date and was the #1 racing title on iOS last month. In April, we released an update to address fan requests for more cars and a cloud-save feature which allows players to transfer data between multiple devices.

Another title developed by our FireMonkeys Studio is *Sims Free Play.* An EA owned IP, and despite having launched nearly a year and a half ago, is stronger than ever. The game has more than 55 million installs and, after 18 months, the audience and revenue is still growing.

The trend line on mobile is hard to miss: with thousands of new titles added every month, consumers accept nothing short of top quality games. Our strategy is to give them exactly that.

We are also seeing traction in Asia with *FIFA Online 3* and a powerful new publishing partnership with Nexon. *FIFA Online 3* is the number one online sports game in Korea based on both traffic and revenue. This one went into open beta in December and is still ramping with more than 3.1 million registered players.

In the year ahead, we have focused our creative teams to deliver high-quality games on HD consoles, mobile and PC while further tightening our cost structure. This improved focus allows us to do this while keeping our operating expenses essentially flat. This will be the first time in the history of EA that we've executed against a console transition without a significant increase in R&D.

In Fiscal 14, we will release 11 major titles across consoles and on the PC. This includes our core sports titles – *Madden, FIFA, FIFA Manager, NBA LIVE, NHL,* and *NCAA Football*, as well as *Need for Speed, Battlefield, Command and Conquer*, and from our partners at Insomniac, *FUSE*. And as we announced yesterday on EA's blog, we will publish *The Sims 4* on PC in early 2014.

Regarding next generation consoles, we are under a non-disclosure agreement with our platform partners, however, we're planning a full reveal at E3 including more next generation titles in development for FY14. This will include breakthroughs in graphics and gameplay for some of our biggest franchises including *Battlefield, FIFA, Madden, NBA LIVE,* and *Need for Speed.* We plan to unveil new titles from EA SPORTS, Bioware, and DICE and a first look at some brand new games.

In March, our DICE Studio debuted *Battlefield 4* with a stunning 17-minute demo entitled *Fishing in Baku.* Critics were blown away by the advanced physics and graphics and fans demonstrated their support – preorders are going extremely well. Join us at E3 for a deeper look at the title that will define the next generation of gaming: *Battlefield 4.*

I also want to call out a big accomplishment by the teams that built the development engines for our next generation of games -- *Frostbite3* engineered at DICE, and a brand new engine from EA SPORTS. These world class tech stacks are powering all of our development on the new systems. They provide an enduring common technology that saves cost, fosters efficiency, and provides spectacular physics and graphics for our games.

<u>This isn't a vision – these engines are fully functional right now and powering the games you'll see at E3 in June</u>. You'll hear more about *Frostbite3* and our new sports engine at our E3 Investor Breakfast in June.

One more positive milestone is the recent licensing agreements we've reached with partners in our sports business, including FIFA, the PGA TOUR, the NHL and NHL Players Association. Together with our long-term agreements with the NFL, NFLPA, NBA, CLC and the UFC, this bodes well for fans who will continue to get games with all the teams and players they love.

Next, this is a big year for our PopCap Studio in Seattle, beginning with the highly anticipated *Plants v. Zombies 2* and an all new title from the *Bejeweled* team.

We'll also see new mobile titles from *EA SPORTS* and the continued release of new content and features for our two existing blockbusters: *Real Racing 3* and *The Simpsons: Tapped Out*.

On PC, we are developing an incredible new version of our classic, *Command and Conquer Generals* powered by the *Frostbite3* engine, featuring an amazing array of units, armies, generals, deep PVP modes, and maps with physics based destructible environments.

Moving on to *The Sims 4*, *The Sims* is one of EA's most enduring franchises with more than 150 million games sold since it debuted in 2001. We listened closely and designed a game that incorporates the incredible feedback from our players. First and foremost, *The Sims 4*, will be designed as a single-player offline experience with integrated community features that allows players to connect and share their creativity in compelling new ways. However, it will NOT require that players always be online to play the game.

Finally, big news yesterday from Disney and EA. We have an agreement to develop and publish several new games on the epic Star Wars franchise. Millions of Star Wars fans all over the world are waiting to hear more about these games. We are not releasing details about the games today but some of our most renowned and innovative creative teams are working on ideas in the Star Wars universe. DICE and Visceral will produce new games, joining BioWare which is already developing for the Star Wars franchise. The new games may borrow from films, but will be entirely new stories and gameplay. Powering it all will be our *Frostbite3* game engine.

With that, I'll hand it back to Larry.

LARRY:

Thanks Frank.

To summarize, EA is in very good shape.

At the core is a great team delivering innovative games and services. We have invested in product quality, digital delivery, and sustainable leadership on console, PC, and mobile. In recent weeks, we underwent a reorganization to focus our product portfolio and reduce our operating costs. And we have constructed an ambitious but attainable business plan for our employees and shareholders. Best of all, we've got an incredible line up of games and services for our consumers.

With that, Blake, Frank, Peter and I will take your questions.

Non-GAAP Financial Measures

To supplement the Company's unaudited condensed consolidated financial statements presented in accordance with GAAP, Electronic Arts uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by Electronic Arts include: non-GAAP net revenue, non-GAAP gross profit, non-GAAP operating income (loss), non-GAAP net income (loss) and historical and estimated non-GAAP diluted earnings (loss) per share. These non-GAAP financial measures exclude the following items, as applicable in a given reporting period, from the Company's unaudited condensed consolidated statements of operations:

- Acquisition-related expenses
- Amortization of debt discount
- Certain non-recurring litigation expenses
- Change in deferred net revenue (packaged goods and digital content)
- Loss (gain) on strategic investments
- Restructuring charges
- Stock-based compensation
- Income tax adjustments

Electronic Arts may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

Electronic Arts believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of the Company's core business, operating results or future outlook. Electronic Arts' management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results both as a consolidated entity and at the business unit level, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods.

In its earnings press release dated May 7, 2013, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to non-GAAP measures.

Forward-Looking Statements

Some statements set forth in this document, including the information relating to EA's fiscal 2014 guidance information and title slate contain forward-looking statements that are subject to change. Statements including words such as "anticipate", "believe", "estimate" or "expect" and statements in the future tense are forward looking statements. These forward-looking statements are preliminary estimates and expectations based on current information and are subject to business and economic risks and uncertainties that could cause actual events or actual future results to differ materially from the expectations set forth 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: sales of the Company's titles; the Company's ability to manage expenses; the competition in the interactive entertainment industry; the effectiveness of the Company's sales and marketing programs; timely development and release of Electronic Arts' products; the Company's ability to realize the anticipated benefits of acquisitions; the consumer demand for, and the availability of an adequate supply of console hardware units; the Company's ability to predict consumer preferences among competing platforms; the Company's ability to service and support digital product offerings, including managing online security; general economic conditions; and other factors described in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2012.

These forward-looking statements are current as of May 7, 2013. Electronic Arts assumes no obligation and does not intend to update these forward-looking statements. 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2013. Electronic Arts assumes no obligation and does not intend to update these estimates prior to filing its Form 10-K for the fiscal year ended March 31, 2013.