ELECTRONIC ARTS
Q1 FY14 PREPARED COMMENTS
July 23, 2013

ROB:

Thank you.

Welcome to EA's fiscal 2014 first quarter earnings call. With me on the call today are Larry Probst, our Executive Chairman, Blake Jorgensen, our CFO, and Peter Moore, our COO. Frank Gibeau, our President of Labels, 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-K for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of July 23, 2013 and disclaims any duty to update them.

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.

Our performance in the first quarter reflects an important trend we have identified in the past year. Digital revenue from strong brands projected across multiple platforms has become a major component of our business. In Q1, 76 percent of our non-GAAP revenue was digital -- driven by the online services of blockbuster franchises like Battlefield and FIFA, as well as our strong mobile portfolio.

Blake will provide more detail on our financials but EA has delivered revenue and EPS above our guidance. We did this through a combination of stronger than expected digital revenue and cost controls. Our results also reflect the phasing of expenses out of Q1 into future quarters. We realize this is just one quarter and there is a lot of work in front of us, but we think this is a solid step toward our ambitious goal of holding expenses flat in a console transition year.

As you know, I am serving an interim role as Executive Chairman while the Board of Directors searches for a new CEO. In this capacity, I have identified three priorities on which I can update you today:

First, we are managing the business with continued focus on our upcoming product launches and disciplined cost controls to generate growth on both the top and bottom line.

Second, I am assisting the Board of Directors in searching for a new CEO. While we have nothing specific to share today, the Board is fully engaged in this process and evaluating both internal and external candidates.

Third, and most important, we are working to ensure that EA delivers the very best games and services on the new consoles, current-generation systems, PC and mobile. Again, the early returns demonstrate we are making significant progress and consumers are excited about our products. Last month at E3, our teams took home 116 awards from more than 220 nominations – more than any other publisher.

Later in the call, Peter Moore will tell you about our publishing strategy and Frank Gibeau is here to answer your questions about product development. We are incredibly excited about the momentum our teams have generated but we aren't taking anything for granted. We have a lot of work ahead of us. EA is committed to creating and marketing the industry's best games and services – and equally committed to doing it without increasing our costs.

With that, I'll turn the call over to Blake Jorgensen.

BLAKE:

Thanks, Larry.

Starting with our Q1 results, EA's non-GAAP net revenue was $495 million, which was above our guidance and Q1 last year. This quarter was marked by continued strong sales of *Battlefield 3* and *FIFA 2013*, as well as solid performance from the rest of our catalog titles.

EA's Q1 non-GAAP digital net revenue also contributed significantly to the higher than expected results. Digital net revenue increased by 17% year-over-year to $378 million, and accounted for 76% of this quarter's revenue. Our digital business continues to be a diversified mix of high growth, profitable segments. The trailing twelve-month digital net revenue was up 28% to a record $1.72 billion. Breaking down our digital revenue into its key components highlights the performances of each business:

- First, extra content and free-to-play contributed $177 million, up 35% over the prior year, led by sustained growth in *FIFA Ultimate Team,* as well as *Star Wars: The Old Republic,* and *FIFA Online 3.* This revenue relates to businesses on PC or consoles, where consumers can enhance or extend their gaming experience by buying additional digital content.
- Second, our mobile business generated $103 million for the quarter, up 30% over the prior year. Smartphones and tablets continue to represent a majority portion of the revenue, accounting for $90 million of the $103 million total, and growing 73% year-over-year. *The Simpsons: Tapped Out* and *Real Racing 3* continue to be key contributors. Given the significant global growth in the smartphone and tablet markets, we are very focused on this business.
- Third, full game downloads represented $37 million, up 12% over the prior year. This revenue is driven by PC-centric products. Solid performances by *Battlefield 3* and *The Sims* 3 both popular PC titles, contributed to the increase in full game downloads.

- And fourth, subscriptions, advertising, and other digital revenue contributed $61 million, down 25% over the same period last year. In the previous year, *Star Wars: The Old Republic* was a subscription-only based MMO. This year, some of the revenue was recognized in the free-to-play category as we expanded this title to be both a subscription and free-to-play game. If you were to combine all of our extra content free-to-play with subscription, ads, and other, we still saw more than 10% growth over the same period last year.

Moving on to gross margin: our non-GAAP gross margin for the quarter was 63.8%, better than our guidance and an increase from 61.5% in Q1 last year. The increase was due to a focused effort to reduce online support costs and solid results from our digital revenue offerings.

Operating Expenses for the quarter were $477 million, $53 million lower than our guidance. Some of the lower operating expenses are due to our cost control program taking hold, but a majority of the positive variance is due to phasing of key expenses in both marketing and headcount.

As a reminder, on the last call, we prioritized a fiscal operating plan with a disciplined approach to cost control. Consequently, we anticipated incurring severance payments with the majority of costs to be recognized in the first quarter. We executed on the majority of our planned actions this quarter and believe we are well positioned to hold our operating costs essentially flat to last year.

The resulting non-GAAP loss was ($0.40) per share, exceeding our guidance due to strong revenues, higher gross margin, and lower operating expenses primarily attributed to delayed spending.

Our cash and short-term investments at the end of the quarter were $1.41 billion, or $4.60 per share. Roughly 60% of this cash and short-term investment balance is held outside of the U.S.

Net cash used in operating activities for the quarter was $248 million. On a trailing twelve month basis, operating cash flow was $320 million, which is relatively flat compared to Q4 fiscal 2013.

During the quarter, we did not repurchase any shares. However, we are still committed to our program, which as a reminder, is a $500 million share repurchase program initiated a year ago. At this point, the total shares repurchased under this program remains at 22 million at a total cost of $278 million.

Before providing guidance, we want to remind you of one specific GAAP related item. We have developed a deeper relationship with our gamers, resulting from our growing games-as-a-service model. Our consumers are playing our games online over longer periods of time, and this longer period affects the length of time over which we are required to recognize GAAP revenue. This fiscal year, we are lengthening this recognition period, resulting in an estimated $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.

Turning to guidance, and focusing on Q2:

GAAP revenue is expected to be $625 million, as compared to $711 million in the prior year. **GAAP loss per share** is expected to be ($1.22), as compared to ($1.21) per share in the prior year.

Non-GAAP revenue for the quarter is expected to be $975 million, a 10% decrease over last year's $1.08 billion. As we mentioned on our last earnings call, we tempered our expectations on current generation titles as we are in the late stages of the console cycle, and all of this quarter's packaged goods revenue will be driven by current generation offerings. This quarter, we expect to launch 5 major titles, including one free-to-play game. We also expect to release 5 mobile titles. Peter will provide more insight regarding these launches.

Non–GAAP gross margin is forecasted to be approximately 61%, slightly better than prior year, due to the positive impact we have seen from our digital product mix.

Operating expenses will be impacted by the phasing of some operating expenses from Q1. We expect our total non-GAAP operating expenses to be $550 million.

This results in a non-GAAP diluted EPS of $0.12 per share, as compared to $0.15 last year.

For fiscal year 2014, we are reiterating our non-GAAP guidance announced at the beginning of the year – net revenue of $4.00 billion and $1.20 of fully diluted EPS. The GAAP guidance is estimated to be $3.50 billion in revenue, and a loss per share of ($0.98).

We recognize that our Q1 results were ahead of our guidance, but let me point out: Q1's revenue represents only 12% of our forecasted non-GAAP annual revenue, and was primarily driven by catalog titles. As I said earlier, some of the favorable operating expense results were due to phasing, and we expect that spending to occur in future quarters. Our most significant quarters, which still present sizeable risks and opportunities, are still ahead of us.

Using a sports analogy, we just got through the pre-season, and we may have won all of our games, but the regular season is just getting started with Q2.

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

PETER:

Thanks Blake.

Today, I'm going to provide some perspective on three topics:

- First, an update on our performance on consoles and mobile in the first half of the year;
- Second, a report on our progress in Asia;
- And third, an outline of our strategy for marketing games for both Gen 4 and current generation systems, when the new hardware launches this holiday.

I'll start with our performance to date. As both Larry and Blake mentioned, our first quarter was defined by the powerful ongoing performance of two flagship franchises: Battlefield and FIFA.

FIFA 13 has been in the market for 10 months now and *Battlefield 3*, for 20 months. Yet during this calendar year, both continue to chart among the Western World top 20 performing games, with FIFA still in the top 5. These blockbusters keep delivering with a service model that provides more content for the consumer and a revenue stream that extends months – even years – after launch.

On mobile, EA continues to chart breakout hits based on big brands. I'll start with *The Simpsons: Tapped Out*, which debuted on iOS in 2012. In June, we released the Waterfront update, which drove Daily Active Users to 5.9 million in the quarter and established the game as the #5 top-grossing App on both iPhone and iPad in the US. The Krustyland update is scheduled for release at the end of this month and we're developing more updates to keep Simpsons fans engaged.

Next is *The Sims* Freeplay for iOS and Android. This is a great example of how a big brand can be extended across multiple platforms. In Q1, *The Sims* was among the top 10 grossing games on iPad in both the US and UK.

Real Racing 3 has earned a huge fan base for bringing console-quality graphics to iOS and Android. This month, *Real Racing 3* released an update, which adds new courses and features such as time trials and cars from Mercedes-Benz and Bentley.

This is a big year for EA's PopCap Studio and we're seeing a lot of consumer excitement over *Plants Versus Zombies 2*, which will debut on iOS at the end of this quarter. The game is now in soft launch on iOS in New Zealand and Australia and has reached the number one ranking for free-to-play games in both markets. All over the world there is anticipation building for this one – I think PopCap is about to deliver another big winner.

One final note on mobile: as both Larry and Blake mentioned, our quarter was notable for the high percentage of revenue attributable to digital games and services. To that end, Apple was EA's biggest retail partner measured by sales. That, is a first.

Next, I want to highlight some of the progress we're making in Asia. In December, we partnered with Nexon to launch the beta version of *FIFA Online 3* in Korea. Since then the game has become the number one online sports game based on traffic and revenue in Korea and the #2 game in Korean PC cafés.

Later today in Shanghai, EA and Chinese publisher TenCent will announce a similar agreement to bring *FIFA Online 3* to that country as well. It's hard to frame this one without superlatives: the world's biggest online publisher is bringing the world's biggest sports game, to the world's biggest market.

Together, these two partnerships represent a growth opportunity for EA in Asia. Teaming up with publishers of the caliber of Nexon and TenCent provides local expertise and deep insight into the largest market for games as a service.

In the months ahead we expect to forge additional agreements to bring EA's biggest brands to new consumers in Asia and other new markets.

Next, I want to share some insight into our strategy for supporting the launch of the next generation consoles while servicing the millions of consumers playing on current generation systems. This is particularly important this year when the new hardware launches shortly after the release of our biggest sports games.

Consumers are acutely aware that new hardware is coming. Neither company has shared their specific volume targets but there are outward signs of strong consumer demand. Microsoft reports that Xbox One presales are trending ahead of the 360 during the same time period and major US retailers have sold out of their pre-sell allotments. And PlayStation believes this will be their biggest hardware launch ever. So we believe the key indicators are pointing to a strong launch for both consoles in the holiday window.

The new systems are spectacular and we expect millions of players will quickly make the transition to better graphics, online features and motion control. Our job as a publisher is to provide an easy migration for the millions of players who choose to transition onto the new hardware.

EA SPORTS offers a snapshot of how we plan to do this. Madden NFL will launch on the current generation consoles on August 27th and FIFA will follow worldwide by September 27th. Next generation versions will debut with Xbox One and PlayStation 4 in the holiday quarter.

Today, we announced that *FIFA 14* will allow players to transfer their full roster of Ultimate Team players and in-game items from Xbox 360 to Xbox One…. and from PS3 to PS4.

Our *Madden* franchise will provide a similar service and EA SPORTS will have more news on easing the transition when we present at gamescom in August. Our goal is to make moving day painless – to welcome players onto the new consoles with a minimum of distraction and inconvenience.

Finally, an update on product quality. We couldn't be happier with the quality of the games our teams are producing or the early reception those games are getting from critics and consumers. As many of you who attended can attest, EA had a spectacular showing at E3. We received 220 nominations and brought home a record 116 awards, including Best of Show and a slew of top honors for *Titanfall* from Respawn. *Need for Speed Rivals* won Best Racing Game, and our NHL franchise – a perennial favorite with critics – won Best Sports Game. Two other games drew spectacular praise, *Battlefield 4* coming this year from our DICE Studio and from PopCap, *Plants Versus Zombies: Garden Warfare*.

As everyone knows, this is a hit driven industry, and this year, EA has engineered an incredible lineup of proven blockbusters and new IP. The quality, quantity and sheer magnitude of titles coming from our studios in the next 12 months will define our leadership on the next generation of hardware. We're making incredible games and we're planning to give them all the marketing and sales support they deserve.

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

LARRY:

Thanks Peter. I want to reiterate what Peter said about the line-up of proven franchises and new intellectual property we showed at E3. We couldn't be more proud of those games, and of the people who are building them.

In summary, EA is in very good shape.

We are executing on a clear set of goals for leadership on mobile, PC, current generation systems and next generation consoles. The big bets we've made with blockbusters like *FIFA, Madden, NBA Live, NHL, Battlefield 4*, *Sims 4, Need For Speed Rivals, and Plants Versus Zombies* are tracking well with critics and consumers.

We believe both Sony and Microsoft are offering a compelling value proposition for consumers – a big step up in technology at an attractive price.

Our mobile titles are extremely popular around the world and show great staying power with frequent content updates.

All of this is happening in parallel with a renewed commitment of cost discipline and margin improvement. Our plan is to hold year over year operating expenses flat – a formidable goal in a hardware transition year and a first in the history of this company.

I'll finish by thanking our employees and our investors for their ongoing commitment to Electronic Arts.

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 (online-enabled games)
- 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 July 23, 2013, Electronic Arts has provided a reconciliation of the most comparable GAAP financial measures to the 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

These forward-looking statements are current as of July 23, 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 Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013. 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 June 30, 2013.