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EA.OQ - Q1 2024 Electronic Arts Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

Katherine Eileen Burke *Electronic Arts Inc. - Director of IR*

Laura Miele *Electronic Arts Inc. - President of EA Entertainment, Technology & Central Development*

Stuart Canfield *Electronic Arts Inc. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Paul Uerkwitz *Jefferies LLC, Research Division - Equity Analyst*

Benjamin Soff *Deutsche Bank AG, Research Division - Research Associate*

Clayton Keever Griffin *MoffettNathanson LLC - Analyst*

Colin Alan Sebastian *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

David Karnovsky *JPMorgan Chase & Co, Research Division - Analyst*

Eric James Sheridan *Goldman Sachs Group, Inc., Research Division - Research Analyst*

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

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

PRESENTATION

Operator

Good afternoon. My name is Josh, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts First Quarter Fiscal Year 2024 Conference Call.

I would now like to turn the conference over to Ms. Katie Burke, Director Investor Relations. Please go ahead.

Katherine Eileen Burke - *Electronic Arts Inc. - Director of IR*

Thank you. Welcome to EA's First Quarter Fiscal Year 2024 Earnings Call. With me today are Andrew Wilson, our CEO; Stuart Canfield, our CFO; and Laura Miele, President of EA Entertainment, Technology and Central Development.

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

With regards to our calendar, our second quarter fiscal 2024 earnings call is scheduled for Wednesday, November 1. As a reminder, we post the 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-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 today, August 1, 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. Please see our earnings slides for further information. 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 Wilson - *Electronic Arts Inc. - Chairman & CEO*

Thanks, Katie. It's great to be here with all of you. To begin, I want to welcome Stuart Canfield, who most of you already know. I have worked with Stuart for nearly 2 decades. He has been a trusted partner and valuable leader through many of the biggest transformations at Electronic Arts. I'm excited to be working with Stuart as our new Chief Financial Officer, driving multiyear growth and unlocking long-term value.

It was a record Q1 for EA with net bookings of \$1.6 billion, up 21% year-over-year, driven by sustained momentum across the entire EA SPORTS FIFA ecosystem and the launch of Star Wars Jedi: Survivor. During the quarter, we executed across our business, launching 5 new high-quality titles, while providing over 145 content updates across 37 titles. Our teams continue to create the entertainment and experiences that inspire, engage and connect hundreds of millions of players. To every EA employee, for all that you do for our communities, thank you.

EA SPORTS FIFA had the biggest Q1 in our company's history. The franchise continues to deliver compelling content to our growing community, driving strong engagement and accelerating net bookings growth. FIFA Ultimate Team engaged tens of millions of fans, and daily average users grew 15%. FIFA Mobile attracted over 65 million new players in the quarter alone. FIFA Online produced double-digit growth across monthly, weekly and daily average users. These remarkable results are a testament to our incredible teams executing against our strategy sharpened by 30 years of passion, innovation and leadership in interactive football.

Star Wars Jedi: Survivor is pure blockbuster entertainment rooted in a timeless culture-defining IP. Our team at Respawn proudly launched this title to critical acclaim and commercial success. Millions of players have already engaged with the game, making this one of the biggest events in the Star Wars galaxy this year. Thanks to the strength of this legendary franchise and community demand, our development team has committed to bringing this Jedi experience to PlayStation 4 and Xbox One. Over the coming year, we will harness the community's passion and capitalize on key Star Wars franchise moment to drive continued engagement for this incredible game.

Since going free to enter, the Sims 4 continues to reach a broader global audience, welcoming over 4 million new players in the quarter. In addition to continuing to deliver new content and experiences to expand the Sims 4, the Maxis team is developing a new, innovative parallel experience that will ignite the imaginations of the next generation of players.

In Q1, our mobile business delivered ahead of our expectations, driven by outperformance across our broad portfolio, including FIFA Mobile, Star Wars: Galaxy of Heroes and The Sims FreePlay. Over the last year, we have focused and refined our approach to mobile. We're excited to see the results as we continue to drive the long-term profitable growth.

During the quarter, we launched Lord of The Rings: Heroes of Middle-Earth. Based on strong metrics, the team is tuning and balancing the game to scale user acquisition and promotion in the coming months.

Apex Legends is one of the strongest franchises and live services in the industry with 18 million active monthly players and an impressive retention rate of over 70%. After a highly successful 16th season, we launched Season 17 in May with new variations of gameplay and monetization. While this new season did not meet our financial expectations, the team has implied important learnings including new game mechanics to engage and retain players, which are already generating momentum. We will continue to reinforce the strength of this franchise by introducing new modes of play and investing in regional marketing as well as culturalization in key markets.

Looking forward, I've never been more excited for what's to come as we head into the biggest sports season in our company's history.

As the world's preeminent interactive American football experience, Madden NFL continues to deliver higher engagement year-over-year, an indicator of future success. This franchise is one of the most powerful IPs in all of sports and is at the center of football culture, bringing the community together in our game and beyond. We are building on a tidal wave of community excitement after the reveal of Josh Allen as Madden NFL 24's cover athlete. This completely new experience will offer more fun, more immersive gameplay and, for the first time ever, cross-play to amplify the power of community as we build a connected multi-platform ecosystem around American football.

On July 13, we unveiled our vision for a new era of global football with EA SPORTS FC 24. Alongside this amazing title, we announced advancements of FC Mobile and FC Online in Asia as well as new experiences, FC Tactical Mobile and FC Pro esports. This was the biggest reveal we've ever had, generating almost double the positive worldwide response to FIFA 23's debut. Over 2.5 million people have watched the event live and on demand so far, an amazing celebration for the global football community.

To secure a fan-first future for FC, we have announced new long-term, global partnerships with UEFA, The Premier League, LaLiga, Frauen-Bundesliga, Liga F and many more. With these recent announcements, alongside our existing and ongoing network of partnerships, the game will showcase 19,000 fully-licensed footballers, 700 squads, 30 leagues and the biggest competitions. As a result, FC 24 is the most authentic, interactive football experience ever created. It's also a massive leap forward in gameplay innovation with a trio of cutting-edge technologies, HyperMotionV, PlayStyles by Opta and a revolutionized Frostbite engine. The highly anticipated release of FC 24 in September is the first giant step forward towards realizing a multi-experienced global platform capable of connecting over 1 billion fans.

To do more extraordinary things for our people, players and communities, our teams are building the strongest pipeline in the history of EA to drive multiyear growth. Over the next few years, we will launch numerous experiences that grow and deepen the fandom of our legendary IP.

Our multi-year targeted investments toward our biggest opportunities include global titles like blockbuster storytelling from Dragon Age, incredible skateboarding gameplay and social connection from skate and a revival of EA SPORTS College Football that celebrates the action, culture and tradition of the sport like never before. We're also hard at work on a new experience from The Sims that will transform what players can do with creativity, a sprawling action adventure Iron Man game, a reimagination of Battlefield as a truly connected ecosystem and the expansion of the Apex Legends universe across platforms, geographies and modalities of play. The most recent reveal of our Black Panther project set in a massive, explorable universe marks the latest chapter of EA's collaboration with Disney and the Marvel Games team.

To drive player engagement and deliver return for our shareholders, we will build unrivaled IP-driven platforms that entertain massive online communities, tell blockbuster stories and amplify the power of community in and around our games. Being thoughtful and deliberate around feature sets, launch timing and quality will lead to long-term profitability as we invest in our vision and lead the future of entertainment.

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

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

Thanks, Andrew, and hello to everyone. I'm honored to be on my first earnings call in my new role as Chief Financial Officer. Throughout my 20-year career at EA, I have been and continue to be inspired by our talented teams and the entertainment experiences they create for our players. I'm excited by our future, and I have a great conviction that our strategy and teams will help us achieve our ambitions to lead the future of entertainment.

Turning to our business. We continue to see healthy engagement and new player acquisition across our portfolio and have started the year strong. Today, we are reaffirming our full year net bookings outlook.

I'll now speak to our Q1 results. Net bookings were \$1.6 billion, up 21% year-over-year or 25% in constant currency, primarily driven by continued strength in the EA SPORTS FIFA and the release of Star Wars Jedi: Survivor. This is the second record quarter in a row for EA SPORTS FIFA, with year-over-year growth accelerating from Q4, as this entire franchise continues to demonstrate the strategic potential of a connected massive online community.

Our full game net bookings were \$401 million, up 143% year-over-year or 152% in constant currency, primarily driven by the release of Star Wars Jedi: Survivor. As Andrew noted, the title was a critical success with performance in line with our expectations. Based on the strength of the IP, the engaging gameplay and new ways to bring the title to players, Star Wars Jedi: Survivor will continue to deliver long-term value.

Our live services were up 4% year-over-year or 7% in constant currency. Even in a quarter with such strength in full game, live services, which demonstrates a highly resilient reoccurring business model, was 75% of total net bookings. With ongoing innovation in EA SPORTS FIFA, Ultimate Team remains a material growth engine for our live service business with strength across acquisition, engagement and monetization.

In mobile, net bookings were up 3% year-over-year or 5% in constant currency, excluding the impact of lapping the sunset of Apex Mobile. We continue to make material progress across our portfolio as we manage our business for long-term profitability. FIFA Mobile delivered record Q1 net bookings, almost doubling from the prior year, driven by historic levels of player engagement and new player acquisition. And although early in our launch, initial metrics are promising for our new title, Lord of the Rings: Heroes of Middle-Earth.

Apex Legends is a highly successful original IP for EA with a strong community of loyal core players. This quarter, net bookings were below expectations largely driven by underperformance from Season 17. As an evergreen live service that is constantly evolving, our teams continue to innovate on content and introduce new modes of play to engage a broader base of players across different geographies. To echo Andrew, we will continue to invest behind the talented team at Respawn to drive long-term expansion and growth of the franchise.

On a GAAP basis, we delivered Q1 net revenue of \$1.9 billion, up 9% year-over-year. Operating expenses were roughly flat and below our expectations as we shifted marketing spend for new releases, primarily EA SPORTS FC to later in the year. As a result, earnings per share was \$1.47, up 32% year-over-year.

We delivered operating cash flow of \$359 million, one of our largest ever Q1 results, and returned \$377 million to shareholders through share buybacks and dividends. And on a trailing 12-month basis, free cash flow is up 2% year-over-year.

Now turning to guidance. Let me start by sharing our assumptions as we think about Q2. First, our guidance assumes continuing momentum in our existing global football business in addition to a strong launch for EA SPORTS FC late in the quarter. Second, we are taking a more measured approach for Apex Legends as the team applies learnings from Season 17 and introduces new modes of play across various markets. Third, we plan to heavily invest ahead of the launch of the fan platform for the global football community, EA SPORTS FC. And finally, as a reminder, net of hedges relative to last year, we continue to expect FX headwinds.

As a result of these assumptions, we expect Q2 net bookings of \$1.7 billion to \$1.8 billion, down 3% to up 3% or down 2% to up 4% in constant currency.

For the second quarter, we expect GAAP net revenue of \$1.825 billion to \$1.925 billion and cost of revenue to be \$430 million to \$450 million.

We expect GAAP operating expenses in Q2 to be between \$1.11 billion and \$1.12 billion, up 9% to 10%, driven by marketing investment noted earlier. And we expect earnings per share to be approximately \$0.72 to \$0.89.

Now turning to the full year. We are reaffirming our full year net bookings guidance range of \$7.3 billion to \$7.7 billion, roughly flat to up 5% or up 1% to up 6% in constant currency.

We are revising our GAAP operating expenses guidance to \$4.25 billion to \$4.37 billion, driven largely by reductions in stock-based compensation. As a result, our earnings per share guidance range is now \$3.42 to \$3.92.

We are reaffirming our guidance for our other full year metrics. 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.

To conclude, our strong first quarter is a testament to our incredible brands, our evergreen live services and our ability to deliver compelling entertainment to hundreds of millions of players around the world. As we make progress around aligning our teams behind our biggest long-term opportunities, we will continue to stay focused, disciplined and agile to deliver multiyear growth.

Now I'll hand the call back to Andrew.

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

Thanks, Stuart. EA is set to launch some of the world's most anticipated and celebrated games and experiences. At a time when our growing global community are choosing games as their first form of entertainment and primary way to stay connected with friends through shared fandom, the value and opportunity of creating interactive entertainment has never been greater.

With our exceptional teams and unrelenting commitment to execution, our world-class IP and technological advancements that will accelerate and expand our ability to deliver new levels of creativity and innovation, EA is building towards incredible growth in the years to come.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Eric Sheridan with Goldman Sachs.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

When we look at the mobile performance in the quarter, I wanted to get your perspective on where we are in the cycle of recovery in mobile more broadly. Obviously, mobile was an area that struggled as we moved out of the pandemic and dealt with some of the challenges from the IDFA headwinds from Apple's privacy changes. And as we get deeper into 2023 and we think about growth and investing behind mobile into 2024 calendar, just more interested in how your perspectives have changed about mobile as part of the broader mix of the portfolio.

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

Thanks, Eric. Let me take the first part of that, and then I'll hand off to Stuart. I think that we have always believed that mobile is an incredibly valuable platform for us, not just in the context of being the world's largest gaming platform and our ability to generate return from blockbuster IP that is mobile native, but also our ability to use mobile as a tool for acquiring new users to our broader ecosystems of play. And you're seeing that happen around what will be FC later this year, what is currently fit from what will be FC later in this year. And we're also starting to see that as we build out towards other blockbuster ecosystems around our biggest IP.

As I think about the business broadly, we spent a lot of time and a lot of energy over the last 12 months, really rightsizing the cost profile of our mobile business and really driving for great efficiency and higher levels of engagement and monetization across our very broad portfolio. And certainly through Q1, we're seeing results ahead of our expectations.

Our sense is that we will have growth from here, but it is a different mobile market that we're going into. Things do take longer from launch to scale in size. And certainly, we think the biggest opportunities are almost certainly around our big, broad IP-driven ecosystems.

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

Eric, just to add on a couple of points there on the financial side. Obviously, we talked to in Q1 outside of the Apex headwinds, which will be there for several quarters as we lap the sunset of the title. Obviously, we're up 3% and 5% at constant currency as we saw in the script.

I think how do we preface that Q-over-Q? We're seeing, to the point in the script, overperforming expectations on some of our key titles we called out Galaxy of Heroes. We talked to FIFA. We continue to roll out on Lord of The Rings and Heroes of Middle-Earth and expect that to continue to grow through subsequent quarters. We are expecting and have guided to a 1% growth in Q2 as well. So overall, we saw a stabilization in Q4. We

saw acceleration in terms of the GAAP Q-over-Q in terms of decline year-over-year, and we feel well positioned behind the strategy levers that Andrew just laid out.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

You front ran my follow-up on how mobile and traditional play might integrate on a title like EA FC.

Operator

Our next question comes from the line of Clay Griffin with MoffettNathanson.

Clayton Keever Griffin - *MoffettNathanson LLC - Analyst*

I wondered if, Andrew, I appreciate the context in terms of the pipeline, I guess, wanted to get perhaps an update on college football. There's a lot of things going on in terms of licensing and just wondering if you could just give us a sense of where that title is, I suppose. And then on FIFA, I wanted to ask, the daily active number. Just wanted to get a sense of to drill down if you might be able to give us some sense of monetization impacts in the quarter at Ultimate Team.

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

Okay. Great. Let me take the college football piece, and I'll hand off to Stuart to think about FIFA in the quarter. The team is making incredible progress around college football. Again, we have a long history and an incredible legacy around building this great game in terms of the context of American football, in addition to our very, very famous and culturally relevant Madden franchise. College football has always played a meaningful part in gameplay in this country. The team is doing an incredible job building out what would be the future of college football. Game players are really coming together and really capturing all of the action and pageantry and the difference in college football versus the NFL. I feel very confident in what the team is doing.

We're certainly -- we're working through the license situation broadly. And as of now, we've got many, if not most, of the schools' license as part of our licensing platform. And we'll continue to work with the various governing bodies of the sport in the country and some key third-party partners that we have around how and when to include college athletes themselves into the game, and we'll work very closely with them. But I'm confident that this will be an incredible reemergence of our college football experience, that it will capture all the action and pageantry driven by the schools and all that goes on with the schools and the conduct of this game. And I do believe that we'll find a place where we can work in lockstep with the athletes for inclusion in the game as well.

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

And Clay, with regards to specifically a question on FIFA, I think I'll just frame it first. I think the second successive record quarter for us with the franchise, the growth was across all platforms. We alluded to mobile net bookings almost doubling Q-over-Q. We saw double-digit growth collectively across all forms, full game through Ultimate Team, mobile and FO4 for one of our most successful quarters in FIFA.

Clayton Keever Griffin - *MoffettNathanson LLC - Analyst*

That's great. And just to drill down, again, the daily active increases, is that a function of frequency or new player or growth? How should we think about that?

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

On the daily side, that's really referencing a couple of pieces. One on the mobile side, in particular, as the team have continued to drive reoccurring frequency in content drops. We used to have a much larger spaced out live service consideration. Now the teams are bringing much greater frequency and therefore greater engagement by virtue, and you're also seeing that evolve itself through the bookings and the overall performance of the mobile SKU.

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

One thing I would add there on mobile broadly and on live services broadly is that given that we have this broad portfolio of live services across console, across PC free-to-play, across mobile, we brought in some incredible mobile native talent with our Glu acquisition with Golf Clash. We're starting to really reconcile how to effectively drive these live services at scale. And that includes both how we build core game mechanics, how we build new modalities of play on top of those core game mechanics, how we drive user acquisition and how we really build modalities of play and live events on a more regular basis to drive extraordinary retention in our franchises.

And what you're seeing in our football franchise broadly across console, PC free-to-play and mobile and we're starting to see in the conduct of even the learnings that we've had with Apex coming out of Season 17 and what we're doing in and around mobile, really embedding this great learning that we've had as we brought new talent into the organization. And as we, as an organization, have learned to run these live services at scale, our expectation is this will continue to be a strong tailwind for us as the nature of the industry continues to change, and we operate in this new version of our industry at scale.

Operator

Our next question comes from the line of Andrew Uerkwitz with Jefferies.

Andrew Paul Uerkwitz - *Jefferies LLC, Research Division - Equity Analyst*

I just have one short-term, one long-term question. On the short-term side, you called out Apex' weakness here quite substantially in your prepared remarks, but you kept your full year guide. Is something else kind of making up for it? Or is the weakness just not that bad? But just any comment there on how to reconcile the comments around Apex and the yearly guide.

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

Yes. So first, let me talk about Apex a little bit, and Laura can probably even provide some more detail. Again, this is this extraordinary franchise, which has continued to grow and is one of the great franchise in our industry right now and has its ebbs and flows, and we've seen its ebbs and flows. And again, if I go back to my previous comment, as a company that has been running live services at scale now for nearly 2 decades, we launched our first live service with FIFA Online back in 2006, we've seen these ebbs and flows in and around our live services. And certainly, we've seen that in the context of Apex.

And so we come off a record level Season 16, the team made some really interesting and creative and innovative changes in 17. That didn't meet our expectations. It's also relevant to note that we went into a very competitive quarter. We -- a few things are happening now. One is the team has worked diligently to make very quick changes and respond to community feedback and community reaction and the performance of Season 17, and we're already starting to see momentum as we go through our current quarter.

But this is the nature of our business today, is that we will continue to innovate at the very cutting edge of entertainment. Many of those things will work. And by virtue of the collective learning of our organization, we will almost certainly learn faster than others in the industry. But that doesn't mean that there won't be some ebbs and flows. And as we think about the long-term day of the franchise, we factor that in.

Laura Miele - *Electronic Arts Inc. - President of EA Entertainment, Technology & Central Development*

Thank you, Andrew, for the question. Just to add on to what Andrew was saying, I think he covered it well as far as how we think about live services, experimentation, learning and responding to players. We also -- as we talked about in the opening statement, we have one of the most premier shooter developers in Respawn and in our ability and their strength in optimizing for the shooter audience. That huge strength we have has also provided a pretty significant opportunity for us as we think about new game modes and more accessibility for a broader player base.

So think about us being incredibly strong with core shooter players. Again, 18 million active monthly players, over 70% retention, and we have a runway with more players around the world as the team thinks about more accessible modes, bringing in things such as bots to help new player experience and first-time player experiences. So there's a big focus on that.

The second area, I would say, on Apex that the team is really focused on is just the geographic expansion. So we've had success in North America and Asia, and we are going to continue to evolve our strength there and look at culturalization, marketing areas of focus in other parts of the world to continue our growth. So again, good success and then more to come in that area.

And then -- and we have opportunity in the third part of monetization and converting within the gameplay still. So even though we're 17 seasons in and 4.5 years in, we still see opportunity on monetization in areas such as IP integration, brand partnerships, evolving some of these heirlooms we have for the legends are specific to individual legends and we are looking at creating opportunities for these heirlooms and artifacts to span across all legends to appeal to broader players. So we see still significant opportunity and growth in the franchise. And I think the team has a really good grasp and have their head around where we're prioritizing and what their focus is.

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

Andrew, just to cover for you the financial specific question upfront as well. If I back off everything Andrew and Laura just noted, I'm just thinking about, obviously, we entered the year with a more measured approach given the prior Q3 and Q4. We know Q3 is a natural competitive window for us. Inside of how we split the year on H1, obviously, we've got record FIFA performance across the franchise. And obviously, mobile is ahead of our expectations. And you should think about Q4 from a seasonality perspective, Apex being one of our stronger quarters as well. So that's how ultimately it balances back in terms of the range on the guide.

Andrew Paul Uerkwitz - *Jefferies LLC, Research Division - Equity Analyst*

Got it. That's super helpful. And then just kind of a long-term question maybe for Laura and Stuart. Is -- Andrew did a great job of kind of outlining the pipeline, and I think it's safe to say we're deep enough in a post-COVID world, where maybe development is getting back to normal. Where do we stand on that? And as you kind of think about -- the old, soft guidance, I think, was kind of -- the goal was every year, high single-digit growth, double-digit bottom line growth. Are we getting back to the point where that's going to be normal again? Or is there -- should we expect some still lingering impacts from game delays and COVID and work from home and whatnot?

Laura Miele - *Electronic Arts Inc. - President of EA Entertainment, Technology & Central Development*

Yes. Thanks, Andrew. We just recently reorganized our company into 2 divisions of entertainment and sports, and we think that there is significant growth potential still in both areas. And with a vertical focus in our entertainment business, which I am currently leading, we see significant growth potential in the development of these connected game ecosystems, as Andrew outlined, in action blockbuster titles as we talked about Marvel with our Black Panther and Iron Man and Star Wars games as well.

So we see a really strong combination in our strategy around these connected games and these blockbuster action games, and I would say that this is a new evolution of our strategy. So to say that we would go back to development as we once knew it, I think that we are looking forward

and continue to reinvent and evolve our development approach and practices based on the opportunity, based on our new strategy and based on the new structure of our organization.

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

And Andrew, just to kind of look back on the long-term financial thinking, I think, as you know, obviously, we expensed versus capitalized, and we've been in an investment cycle as we build out the multiyear pipeline that Andrew referenced in his script.

I think in terms of is it going to be sort of normalized, I think we'll continue to map through sort of timing and sequencing for both those releases. You should expect us to start to talk to that towards the back end of the calendar year early into the next calendar year. And we know we'll give more sort of credence to timing. We want to make sure that we are really clear with our development teams and get into the quarter levels we expect. But you should expect us to get to ultimately with that multiyear pipe sort of more step functional change in the future.

Operator

Our next question comes from the line of Matthew Cost with Morgan Stanley.

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

I guess starting maybe with Andrew and Laura. Can you talk a little -- in a little more detail about the decision to reorganize the studios into the entertainment and the sports segments and what you'll be able to do differently and better now that you couldn't do before? And then I have one follow-up.

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

Yes. Let me start there, and then Laura can come in and kind of share a little about how she's thinking about the entertainment part of the company. Again, we've had this -- we aren't as a company, first and foremost, around our plays. We have over 700 million in our network, and they're spending more and more time with us. And as we think about the future, serving those players in a world where they choose interactive entertainment as their first form of entertainment and they choose the games and experiences that they play as the #1 way to connect and stay connected with their friends.

And as we think about the future of entertainment, for us when we drive towards entertaining and engaging that audience of 700 million that we hope grows well beyond 1 billion to 2 billion over the course of time, we wanted to really think about how best to serve those players. And while we're almost absolutely -- almost certainly have crossover between players who play FC and Apex and Need for Speed and Madden, the nature of development and the nature of how those games are built and developed is very different and is getting more different as time passes.

And what we wanted to get to as we continue to scale the company, as we continue to scale our franchises and scale the live services that are born from those franchises, get to a place where we were able to empower our creative leaders even more than we have been. We've been on a move over the last 5 or 6 years to really give more power to our creative leaders to build and grow and drive their businesses with the direct connection that they have with our players. And we want -- this was the very next evolutionary step in that process and really about giving them more creative autonomy, business autonomy as they are most deeply connected and directly connected to these networks of players and these communities of players that they play with, and it was really about getting to an accelerated level of decision-making and an accelerated level of development.

I think we're already starting to see the benefits of that. We've outlined our strategy very clearly. We believe that the future of entertainment is interactive. We believe that any large-scale entertainment company will need to understand and appreciate and be able to develop in the conduct of interactive entertainment for these audiences that are choosing what we do as their first form.

And as we think about that building out these platforms that deliver experiences and entertain massive online communities, its ability to tell blockbuster interactive stories and its ability to harness the power of these communities, not just inside the game, but outside the game, and as we look at what's going on with FC right now, as we think about a reimagined Madden, as we think about the reemergence of college football and all that's happening across our EA SPORTS portfolio, we're seeing accelerated moves towards that.

As I think about what's happening in Laura's organization and the speed at which the Respawn team has been able to respond in the context of what's happening in Apex season 17 as we move towards Apex Season 18, as we think about what's happening for Battlefield and what's happening for The Sims, I'm really excited because I think we're already seeing the clock speed of our organization increase. And my sense is that will mean that we will build more things, better things, higher-quality things that entertain more people around the world over time.

Laura Miele - *Electronic Arts Inc. - President of EA Entertainment, Technology & Central Development*

Yes. Very well said. And to layer on to what Andrew has outlined is that we are -- think about we are such a talent-centric company. And when you have the incredible talent and development leadership that we do, that we're lucky to have at Electronic Arts, oftentimes, as leaders we evaluate and look at how can we remove barriers, help the speed at which they develop and how they show it for our players.

So we are incredibly focused on lifting up and removing friction for our talent so they can show up for our players every day. And we've talked about it a lot on this call about being a live service company and having content and updates in learning and turning and tweaking and using our levers to show up for our players and optimize that.

That requires a vertical -- more vertical organization. And it requires as little friction and as much connection to go-to-market ideas, go-to-market strategies, commercial thinking around how we show up for players as well as the game design, as well as technology. So the more we can integrate that, the faster we can accelerate the potential of our growth. And candidly, the more unleashed and untethered our talent feels, and it's a far more gratifying experience for them, we believe.

And I will just tell you, too. On the entertainment side, we were just focused incredibly like lasers on execution. And so we know we have great talent. We know we have these incredible brands in Skate, Sims, Apex, Battlefield, Marvel, Star Wars. We know we have the makings of incredible product experiences. Now we have to have heads down, execute, help the teams, move as quickly as they can, accelerate that through technology and support and let them run so we can get to this growth that we know we are capable of in the coming years.

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

Great. And then just quickly on M&A. There was a small mobile gaming M&A deal in the news today, which is the first time that something like that, I feel like has come across the radar in a while. Is there more opportunity? Are things -- are conversations maybe restarting in terms of potential acquisitions that have been paused over the past year or 2? And do you see opportunity to do more? Or with Glu and Playdemic and Codemasters, you feel like you've kind of brought in what you need to bring in for now?

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

I think right now, we feel very good about who we are as a company and the capabilities and talent and teams and IP we have across the organization, and we have a very clear strategy and an even clearer pipeline for growth across IP and across platforms. That being said, I think we're always looking for great opportunities to drive even more growth and entertain even more people through great games and experiences in IP, and we'll continue to work and look at that over the course of time. But it's not something right now that we're actively engaged in.

Operator

Our next question comes from the line of Colin Sebastian with Baird.

Colin Alan Sebastian - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great, and congrats again to Laura and Stuart. I guess, first, just following up on Apex. Maybe to put a finer point on some of the changes, Andrew, and Laura, you talked about with the game. Is the expectation that we'll see in Season 18, some of that improvement in an engagement given the game mechanics and the monetization there? And then secondly, just on Star Wars, just kind of curious to learn more about the plan and the expectations as we look to see that extend in terms of the lifetime of the franchise as well as live services. I think more detail there might be useful as well.

Laura Miele - *Electronic Arts Inc. - President of EA Entertainment, Technology & Central Development*

Thanks, Colin. I'll take the Apex question, and then we can talk about the broader Star Wars piece next. On Apex, the way to think about it is when you -- when we have these live services, and I laid out the areas of expansion of new addressable audiences and players, geographic expansion and then monetization conversion mechanics that will evolve over time, we think about and look at the Apex development cycle and, candidly, most live services cycles as short, mid and long term. So you will see some -- we will see some adjustments and changes in Season 18. And we expect to see even bigger, more impactful changes in 19 and 20 and into the future for the following year.

So again, there's a lot the team can do and what they have levers on. And then there are some things, such as modes or changes in mechanics, that just take a longer runway to develop.

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

And then on Star Wars, just for my clarity, were you referring to the Star Wars: Jedi franchise or Star Wars broadly as we think about the future of the IP and our ability to tell these incredible blockbuster stories in the Galaxy of Star Wars?

Colin Alan Sebastian - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, Andrew, I guess, leveraging the strength of the recent Star Wars games, mobile as well as Jedi and how you foresee that over time, turning into a broader franchise with live services and ongoing engagement.

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

Yes. We don't have anything to announce today, but we have an incredible partnership with Disney and Lucas. We've had incredible success in that partnership across the Battlefront and the Star Wars: Jedi franchise and absolutely with Star Wars: Galaxy of Heroes. Our teams are always thinking about what are new experiences that we might be able to create. Certainly, I would love to see more in the Jedi franchise over time, it's just this extraordinary game that tells us extraordinary story -- and certainly, again, we may be a little biased.

But our sense based on the feedback that we're getting from our community and the quality of that product, it's one of the great beats in the Star Wars Galaxy this year and will likely continue to be a very meaningful part of that Galaxy for many years to come. And certainly, as we bring it to PlayStation 4 and Xbox One, we think there'll be another little bump there for the franchise.

And so nothing to announce there other than we have an incredible relationship with Disney. We've had incredible success so far in that partnership. And to the extent that we can find new opportunities to execute against new experiences, including live services as part of that partnership, we will explore them.

Operator

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

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

Maybe 2 if I could. I guess, first, anything you can say or talk about just in terms of what the early indicators are telling you around the FC launch? Obviously, I still know we have a lot of the marketing still in front of us. I think the title has a couple more early access days this quarter than it did last year. But just kind of anything that the early indicators are telling you?

And then just secondly, as we think about the back half of the year, just curious like any ebbs and flows that you would call out. I think you were really helpful in the prepared comments around FIFA strength and Apex needing some work throughout the year. So I think that's pretty well understood. But you've also called out a bunch of other things, Star Wars: Jedi coming to prior gen consoles. I'm not sure if that's this year or further out. You talked about a Sims parallel experience. I think we've got a FIFA Mobile major update coming later this year. So I guess just outside of the frontline release, like any other ebbs and flows that we should be cognizant of for the back half of the year?

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

Yes. Great question. I would think about this probably in 3 buckets. The first is the launch went incredibly well. And certainly, that was the first moment we talked about FC. We've been building towards this for some time and working incredibly closely with our partners in a very directly connected way with our global community across console, across PC, across mobile, across geographies.

So the launch went incredibly well and was nearly double the positive performance of the launch versus FIFA 23, which in and of itself had achieved some records in terms of its launch awareness and its launch access. So our expectation there is very, very strong that we've hit the right tone. We've built incredible relationships with partners so that we have all of the right license content. Everything we had before, plus more. We've got game teams across console, PC and mobile that are all innovating at the very front line to make sure that this is not just a change of symbol, but it is, in fact, a symbol of change. And so if I combine what's happening with -- what happened at the launch and the feedback and performance of that with what we're doing in the game, we feel very good about that element.

The second element I would point you towards is just the performance of the franchise broadly. We've highlighted this many times before. One of the greatest predictors of future success is both recency and depth of engagement. And on both of those fronts, the existing franchise continues to perform exceptionally well. Again, what we said in the script was it just had its second record quarter in a row. And even as typically you would see that starting to wane as there's not much going on in the world of football right now, at least cup football but for the Women's World Cup, which is doing great things in Australia, New Zealand, we would typically start to see the business wane at this point. And we're not -- we're seeing still really strong engagement and regular engagement from our community. And so that in and of itself is probably one of the greatest predictors of future success.

And then third, as we highlighted in the script, we've got a giant marketing budget against this. If you're on mobile or PC free-to-play, you will wake up and your existing experience will now be FC, and you will get all of the new benefits of that. And if you're on console, we're going to be spending a meaningful amount of money. Certainly, more than we ever have done before. We are taking no risk on that front to make sure everybody that loves football in the world understands what FC is, how it applies to them and that it's coming in September.

And so net of all of that, I think that if you take into account our launch, plus the quality of the games that we're making across platforms, you take into account the current engagement and recency and regularity of that engagement, and you take into account that we are literally rallying the entire company behind this launch more than we ever have in the 40 years of the company's history around any launch, we feel very good about it.

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

Matt, just to add on to Andrew. Just a couple of things to think about. I think are important as you think about the financial guidance. Not, obviously, we will have dynamics in timing between Q2, hence the guide, and later in the year, particularly to the investment around FC, obviously, heavily Q2 prelaunched focus.

Also you should start to think about, to your point on FC, how we nuance the timing and recognition of revenue between Q2 and Q3. Worth noting that the licensing structure will transition back half of the year versus front half of the year. And obviously, we had a heavier launch slate last year in the back half of the year. So we can work through that with you all in the call downs, but just note there's definitely ebbs and flows in timing. And particularly point that to Q2, in particular, as you look at the EPS we put out and how that resonates year-on-year.

Operator

Our next question comes from the line of Benjamin Soff with Deutsche Bank.

Benjamin Soff - *Deutsche Bank AG, Research Division - Research Associate*

You guys referenced that your margins today are reflective of some investments in long-term projects, and I'm just wondering if you guys could help us a little bit better understand the impact there and maybe what margins might look like in more of a steady state.

And then secondly, would you anticipate any changes in consumer spending if student debt payments were to resume at scale?

Stuart Canfield - *Electronic Arts Inc. - Executive VP & CFO*

Ben, I'll tackle the second maybe the first one. I think obviously, we're not going to create any guidance or direction on margin structure on a steady-state, go-forward. I think I'd just point you to the fact that, obviously, we've had depressed margins we've continued to invest and expensed as we go. We do expect to get back to levels prior to a couple of years ago as we step that margin through.

As you think about as we bring some of those titles to bear in the future, both from an owned IP perspective and some of the scale of Battlefield and we think about the business models that will come with other titles around Sims and Skate, you should expect that to flow down and be accretive from a margin level as we step through in the future years.

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

As I -- I don't know that I can comment specifically on student debt or what might happen there. What I would say is this, though. Entertainment is a fundamental human need, and it has been since the beginning of time. As we look at the emerging generations of consumers, including students, they're choosing interactive entertainment as their first form of entertainment.

There's a couple of reasons for that. One, it is way more engaging than maybe what traditional entertainment was. Two, it helps you connect with friends and stake in it with friends. So the nature of the relationships that you build through your consumption of these entertainment properties is significantly more rewarding on a personal basis than watching a movie ever was. And I love movies.

But three, the most important thing is it represents the best value entertainment. Even as you think about our incredible scale and the incredible financial performance and growth that we have ahead of us, at an individual consumer level, it still represents the best value entertainment on the planet on a per hour basis of entertainment.

And so I'm not sure what will happen with student debt. But my sense is as we continue to see our industry grow, as we continue to see our company grow, as we continue to scale the nature of experiences that we deliver to our consumers and the level of entertainment and connection that provides them, that regardless of what happens in that area, we will continue to be their first choice for entertainment.

Operator

Our last question comes from the line of David Karnovsky with JPMorgan.

David Karnovsky - *JPMorgan Chase & Co, Research Division - Analyst*

Last quarter, it was noted that players were concentrating their spend on major franchises. Just wanted to see first if there was any update to that. And then Andrew, in your commentary, you highlighted a goal for Apex has an experience across platforms. I'm assuming that includes mobile as well. So can you speak to how you envision, potentially relaunching that title on phones and how the approach could differ to the prior game.

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

Yes. So let me touch on the first part. I do think we continue to see big titles getting bigger and live services getting bigger. And certainly, as a company with a broad portfolio of large-scale IP and large-scale live services, we believe that we will be long-term beneficiaries of that trend.

We do -- that doesn't mean that we won't build smaller titles over the course of time. There are these incredible stories that we believe should be told in the context of entertainment. We are focusing our investments so that we can build a cost base around those that's appropriate, but we're also really getting behind our biggest opportunities. And as we've talked about our strategy and building these experiences that entertain massive online communities, our expectation is that will be a large scale growth driver for us.

But when thought about the right way, games like Dragon Age and Jedi can tell truly blockbuster stories and really break into that top category of games. I think what we see today is the mid-tier and lower games that maybe did pretty well through COVID because people had a lot of spare time. They're the parts of the industry that really aren't doing and performing as well. And as we think about our future, you should expect that we will continue to focus our investments and our energy and our resources against these big opportunities because we do believe that is where the industry is trending.

Laura Miele - *Electronic Arts Inc. - President of EA Entertainment, Technology & Central Development*

David, I'll take the Apex mobile question. As Vince and the team evaluate and look at, again, the runway and potential that we have on the franchise beyond the short midterm that I've outlined today, we see really strong potential in further storytelling, in additional modalities in genre play. Remember, Apex is set in the Titanfall world. There's a lot of demand and interest in this universe.

So as we -- as they evaluate and we look at where the opportunities are, we are looking at new genres, we're looking at potential new platforms. And we are looking at, as I mentioned earlier, the geographic expansion. So nothing to announce today, but all things are not only under consideration, but a meaningful part of our strategy for the future of the brand.

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

Okay. Thank you very much for being with us today, and thank you for all of your questions. Once again, I want to express my deepest appreciation to our incredible teams for delivering a record Q1. We look forward to updating you next quarter on November 1 after what I think is going to be a biggest EA SPORTS season ever, including Madden 24 and, of course, our highly anticipated launch of EA SPORTS FC 24. Thank you so much. Have a great day.

Operator

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

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