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EA.OQ - Q1 2025 Electronic Arts Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon. My name is Rob, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Electronic Arts first-quarter fiscal year 2025 earnings conference call.

I would now like to turn the conference over to Mr. Andrew Uerkwitz, Vice President Investor Relations. Please go ahead.

Andrew Uerkwitz - *Electronic Arts Inc - Vice President, Investor Relations*

Thank you. Welcome to EA's first-quarter fiscal 2025 earnings call. With me today are Andrew Wilson, our CEO; and Stuart Canfield, our CFO. Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted detailed earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, and a transcript.

With regards to our calendar, our Investor Day is scheduled for Tuesday, September 17, and our second-quarter fiscal year 2025 earnings call is scheduled for Tuesday, October 29. 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, July 30, 2024, and disclaims any duty to update them.

During this call, the financial metrics with the exception of free cash flow and non-GAAP operating margin will be presented on a GAAP basis. For more information on our non-GAAP operating margin, please see our earnings slides and the FAQ document available on our Investor Relations website. 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 Wilson.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Andrew. Hello, everyone, and good afternoon. We started our FY25 strong. We beat our net bookings guidance, and we executed across our business as we entertained and connected hundreds of millions of people around the world.

Throughout Q1, we drove progress along our three strategic priorities of entertaining and engaging massive online communities, telling blockbuster stories, and harnessing the power of community in and around our games. This progress paves the way for growth in Q2 and beyond.

I'm thankful and inspired by the continued incredible work of our fantastic teams to deliver the entertainment that our global community of players wants today and tomorrow. Our focus continues to center around entertaining more players for more time across more geographies. And we believe there are secular tailwinds in social media and sports that favor our enviable position as a company that will drive sustainable, long-term growth built across the engagement modalities of play, create, watch, and connect.

A fundamental truth of the human experience is that people have always come together through sports to compete, collaborate, and celebrate community. Today, EA SPORTS experiences are advancing this truth through incredible authenticity, innovation, and immersion. We are becoming increasingly ingrained in the fabric of sports culture and fandom as our audiences look to us for cutting-edge ways to connect with the sport they love and to share that passion with their friends and families all year long. Sport leagues the world over trust us as a powerful, longstanding partner, as we work together to engage, entertain, and inspire fans across generations and geographies. This is a huge opportunity for our players, our partners and our stockholders.

We believe the lines between traditional sports consumption and interactive sports entertainment will continue to blur as hundreds of millions of fans increasingly connect with their favorite athletes, clubs, and competitions through EA SPORTS. This quarter, in EA SPORTS FC 24, our exceptional teams celebrated real-life football events on console, PC, and mobile, with UEFA EURO 2024 and CONMEBOL Copa America 2024 driving even better than expected monetization. We also released a high-quality, heart-racing title in F1 '24 as the sport's current season delivers high levels of drama and competition.

We blurred the lines in Madden NFL 24, connecting real-life cultural events to in-game experiences with live content that fuels deeper engagement. We were onsite for the NFL draft to support the immediate inclusion of rookie players into Madden NFL 24, resulting in an expanded social experience as they played live in front of millions of fans before even stepping on the field.

Our teams are also engineering moments that ignite the football fan community with unique and valuable content that extends the in-game experience, like our collaboration to bring leading sports personality Pat McAfee into the game, the special Michael Vick edition, or our in-game Ring of Honor event.

These intentional experiences and live content, combined with deep and innovative gameplay, drove more time spent and increased engagement in our community and drove momentum and growth in the quarter. This speaks not just to how central the franchise is to the very fabric of American professional football but also how our games are such a unique and valuable expression of fandom that combines the authenticity of the real-world sport, deep innovation and gameplay, and creative content that energizes and engages communities, leading to further growth in our business.

As we continue to build massive online communities across our entire sports business, we are equally focused on prioritizing our owned IP across our broad entertainment portfolio, which contains some of the deepest and most relevant properties in the world. Apex Legends is an important part of our story. Q1 was largely in line with our expectations, and our commitment to evolving and learning is a foundational part of our strategy to return Apex Legends to growth.

During the quarter, our teams continued to introduce changes to this multibillion-dollar franchise as they test and iterate in the lead-up to Seasons 22, 23, and beyond, where they will deliver even more content and bigger advancements, spread across geographies and new modes of play. We continue to engage and inspire fans across the massive Sims 4 community as we roll out more content updates to this beloved franchise.

Q1 saw healthy engagement throughout the community with excitement building for the launch of the Lovestruck Pack as a throwback to original Sims games with classic items. We are committed to entertaining our loyal Sims 4 fans with 15-plus updates over the coming year while working

on introducing multiple new experiences into the Sims universe over the coming years. We expect all of this to grow our community and deepen engagement with user-generated content serving as a growth multiplier to the franchise overall.

As Season 7 of Battlefield 2042 wraps up, one thing is clear; each season of the game has shown our team's unique ability to listen, learn, and draw inspiration from the community to deepen connection with the franchise. Players continue to be passionate about the Battlefield franchise, which has surpassed over 25 million players over the last 12 months. The community is energized by what our teams are doing and excited for what comes next.

This is not just one of our top priorities, it is also one of the most ambitious projects in our history. We have brought together the very best team, coupled with the resources and technology they need to deliver an epic Battlefield experience.

I am excited about what is to come next as we continue to make progress across our strategic priorities. As I look to Q2, our sports-packed quarter began with a bang, the successful debut of EA SPORTS College Football 25. This is a monumental moment for EA SPORTS. We are returning to a sport we love, reimagined for a new generation of platforms, breaking new ground with athletes through the world's largest single-sport NIL program, and delivering an experience that has absolutely ignited college football fans both long-time and new, around the US and across the world.

Our multi-year journey to College Football 25 reflects the vision, leadership, and deep determination of our teams, and it is also a testament to the amazing support that we have received from universities, partners, athletes, and fans. Thank you all for helping us make this possible.

This new College Football experience is an impressive creative and technological achievement. Creating 150 unique stadiums and over 11,000 player likenesses couldn't be done without EA's deep history of being a technology leader and by our incredibly passionate and talented teams harnessing the power of AI and machine learning to deliver truly amazing entertainment.

We are also giving players the tools to shape their own experience through Team Builder, an extensive creation and customization UGX suite that enables players to create their own teams, jersey combinations, logos, field designs, and more, and then publish and share their creations within the game. To date, we've already seen nearly 1 million teams created by our players, many of which can now be enjoyed by others in the game, deepening social connections and increasing engagement in our community.

College Football continues to elevate EA SPORTS leadership in American football by creating valuable new opportunities for sports fans. The community has embraced our groundbreaking EA SPORTS MVP Bundle of the deluxe editions of EA SPORTS College Football 25 and Madden NFL 25, demonstrating the appetite amongst core fans of the sport for both high-quality NFL and college football experiences.

To further build momentum in our American football ecosystem, the 2025 edition of Madden NFL will significantly push the franchise forward. The title will deliver enhanced audio and visuals, an all-new version of FieldSENSE, and innovative physics technology, getting players even closer to the action with their favorite NFL superstars. With two unique yet complementary products in the market, this is a huge step forward in significantly growing our American football community. This is just the beginning of what we are going to be able to deliver for fans for the United States' biggest sport.

Following a historic brand relaunch embraced by players, fans, and partners the world over, EA SPORTS FC 25 is going to be a giant step forward. On top of the existing strength of this global franchise, we see many more opportunities to grow its reach, engagement, and impact. We are forecasting franchise growth in FY25. FC 25 will feature more innovation, as well as more realistic and authentic gameplay driven by enhanced tactical sophistication using AI and real-world footballing data.

It will also introduce an entirely new, deeply-social 5v5 experience called Rush available across all major modes in the game, and a new content capture and creation tool. In total, our entire FC platform will be a bigger, deeper set of experiences at the center of football fandom and culture of the world's game.

Looking beyond the second quarter, we continue to make progress across our pipeline to deliver on our strategy. We further engaged and connected with the massive online community of skate, as we introduced fans to the lore of San Vansterdam with new gameplay revealed at Summer Game Fest.

We also unveiled the blockbuster storytelling of Dragon Age: The Veilguard, an epic experience based in an expansive world, filled with arresting visuals, and introducing a cast of diverse, complex characters, and incredible combat, all tied together by a rich single-player narrative.

We are committed to delivering more excitement, exploration, creation, and connection for more players and fans across generations, platforms, and geographies. And we will achieve this through our passionate and talented teams, our world-class IP, and our ability to drive innovation through our deep expertise in technology, which will accelerate our innovation and our development velocity.

Now, I'd like to hand it off to Stuart for a deeper dive into our business.

Stuart Canfield - *Electronic Arts Inc - Chief Financial Officer, Executive Vice President*

Thanks, Andrew, and good afternoon, everyone. We've had a great start to FY25 with Q1 results beating our own expectations on both the top and bottom line as we continue to execute on our strategy and drive progress in delivering against our long-term financial framework of accelerating growth, delivering operating leverage, and increasing cash flow.

Foundational to this execution has been our focus investment in our talented teams to support our growth initiatives and deliver amazing experiences to our fans. Early indicators of this momentum include the outstanding reception for EA SPORTS College Football 25, the promising early signs across both EA SPORTS and Madden NFL 25 and EA SPORTS FC 25 plus the announcement of the Dragon Age: The Veilguard release in the fall. As momentum builds, we feel confident in achieving our fiscal-year guidance.

Now turning to our Q1 results. Our net bookings results were above our expectations as our teams delivered more content for larger audiences, resulting in greater-than-anticipated engagement and monetization in our core live services.

We also initiated our previously announced enhanced stock repurchase program plan, which is projected to return \$5 billion over the next three years, aligning with our progress towards achieving our long-term financial objectives. In the quarter, we saw total net bookings of \$1.26 billion. As a reminder, our prior-year period benefited from more releases and a World Cup tailwind to our global football business.

Full game net bookings was \$168 million as we compare to three full game title releases from a year ago: Star Wars Jedi: Survivor, EA SPORTS PGA Tour, and Super Mega Baseball 4. Our live services and other net bookings was \$1.09 billion, highlighted by EA SPORTS Madden NFL 24 outperformance in the quarter. The greater-than-expected results from the EA SPORTS Madden NFL 24 are a strong proof point in the power of thriving community in and around our games.

During the quarter, we saw sustained momentum late in the title cycle with both weekly averages [users] in Ultimate Team and total net bookings up double digits year over year. As Andrew spoke to earlier, our intentional focus on delivering fun gameplay, real-world connection, and compelling live content year-round is foundational to driving deeper engagement and expanding our communities as we build platforms in and around our games.

Apex Legends' year-over-year decline improved sequentially and came in line with our expectations. The team remains focused on investing behind and delivering against a year-long strategy of meaningfully updating the experiences in Seasons 22, 23, and beyond.

Turning to the EA SPORTS FC franchise. Results came in better than expected but down for the quarter against double-digit growth in the prior-year period, which benefited from tailwinds relating to the World Cup. It's worth noting that like today, our new EA SPORTS FC franchise is up mid-single digits versus the prior version.

EA SPORTS FC Mobile delivered a record Q1 net bookings result benefiting from double-digit growth in spender acquisition as a result of gameplay improvements and real-life events. FC Mobile is the blueprint for our mobile strategy grounded in leveraging the expanded access points offered by the mobile platform to continue to grow our largest franchises.

On a GAAP basis, we delivered Q1 net revenue of \$1.66 billion, down 14% year over year. As a reminder, year-over-year declines were driven primarily by slate timing of full game releases. GAAP operating expenses were \$1.03 billion, up 2% year over year, primarily driven by focused investments in teams supporting our largest growth opportunities. As a result, earnings per share was \$1.04.

We delivered operating cash flow of \$120 million in the quarter. On a trailing 12-month basis, free cash flow is \$1.86 billion, up 3% year over year. In the first quarter, we returned \$425 million to stockholders through stock buybacks and dividends, a 13% year-over-year increase as we implemented our new stock repurchase program.

Now, turning to guidance. Q2 is an action-packed EA SPORTS quarter, with one successful launch down and two of our biggest launches in Madden NFL 25 and FC 25 coming up. We are also releasing new experiences in some of our largest franchises, like Season 22 for our Apex Legends fans. These efforts underpin our expectation to deliver our largest Q2 net bookings quarter in our history.

Let me break down some of the assumptions that are incorporated into our guidance. First, we have seen an incredible start to EA SPORTS College Football 25 with record week-one engagement for our sports franchises in North America and positive Ultimate Team momentum. We are only 11 days post-launch, but we are very excited about the opportunity to significantly grow our American football community.

Second, we look forward to the launch of EA SPORTS Madden NFL 25, as we continue to deliver a differentiated and outstanding NFL experience following a record-setting EA SPORTS Madden NFL 24. Third, we expect a strong launch to EA SPORTS FC 25 at the end of the quarter, setting up the franchise to grow over EA SPORTS FC 24 for the full year, with new ways to play, tactical improvements, and a revamped social experience expected to drive healthy engagement in our largest community.

Fourth, we remain prudent in our approach to Apex Legends as the team introduces new innovations and game mechanics to the community with Season 22. And lastly, if rates remain unchanged, we expect minimal impact from FX.

As a result of these assumptions, we expect Q2 net bookings of \$1.95 billion to \$2.05 billion, up 7% to up 13% year-over-year, or up 8% to up 13% in constant currency. For the second quarter, we expect GAAP net revenue of \$1.9 billion to \$2 billion and cost of revenue to be \$420 million to \$450 million. We expect GAAP operating expenses in Q2 to be between \$1.19 billion and \$1.2 billion, up 10% to 11% year over year, driven primarily by restructuring-related charges and continued investment behind our long-term growth opportunities.

We expect earnings per share to be approximately \$0.76 to \$0.93. As a reminder, we benefited from a \$92 million one-time tax benefit recognized in the year-ago period, and we expect to incur \$65 million in restructuring charges related to our February restructuring event.

Now, turning to the full year. To date, our execution has been strong, and we expect our momentum to continue as we have seen fantastic player response across EA SPORTS branded titles. We are excited about our upcoming FY25 slate, including EA SPORTS titles, Madden NFL 25, and FC 25, and Dragon Age: The Veilguard.

We remain focused on executing these title releases and delivering our core live services. As a result, we are reaffirming our fiscal year 2025 net bookings guidance range of \$7.3 billion to \$7.7 billion, [down 2% to up 4%] year over year. We are reaffirming our guidance for our other full-year metrics.

Our first-quarter results are a testament to our incredible brands and our talented teams, who are delivering experiences that continue to grow and engage our communities through innovative and interactive experiences. We saw this execution in our ability to sustain EA SPORTS Madden NFL 24 momentum through the quarter, deliver healthy engagement in our global football business, and continue to improve our mobile business, which remains an important entry point for our largest franchises.

Looking forward, we expect to continue to invest with sharpened focus behind our three strategic pillars as we position ourselves for accelerated growth in FY26 and beyond. Our teams look forward to sharing more on our long-term growth opportunities and initiatives at our Investor Day on September 17.

Now, I'll hand it back to Andrew.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Stuart. Our strong Q1 demonstrated the determination of our teams and the resiliency of our business. Traditional entertainment is being challenged as consumer preferences change and technology continues to disrupt business models.

We are in a fundamentally different position. We have already navigated our shift in distribution. Consumption is only growing and becoming more concentrated in our franchises, and we are unlocking new business models. We have an incredible competitive advantage with the excellence of our creative talent, our production strength, our broad portfolio of incredible IP including EA SPORTS, and a massive player network. With these enviable strengths, we are well positioned to grow the industry and increase our market share.

And now Stuart and I will take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions)

Eric Sheridan, Goldman Sachs.

Eric Sheridan - *Goldman Sachs & Company, Inc. - Analyst*

Thanks so much for taking the question. Maybe two bigger-picture ones, if I can. You've talked a lot in the last year about how Madden had become more global in scope. Can you talk a little bit about how you plan on building on that momentum with Madden as a franchise as we look out over the next 12 to 18 months to continue to build scale from a global perspective?

And the second question would be on EA FC. Obviously, last year was an interesting year, because you were moving the brand around and having to execute against that. What are some of the key learnings from the rebranding exercise you went through 12 months ago that are sort of informing how you also continue to build scale around EA FC and how the product might change in the years ahead? Thanks so much.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

Okay. There's a lot in there. Two great questions on. First, let me touch on Madden. I think as you reference global, you think about international geographies, and certainly, we're pushing hard there. And the NFL is doing an incredible job of building a fan base internationally. They're doing more and more games internationally every year. Our athletes are leaning into their fan bases internationally every year.

But as we think about Madden growth, it's not just about geographic growth. It is about demographic growth. It is about platform growth and ultimately will be growth driven by new and interesting business models.

And so as you look at our Madden experiences broadly, while we've continued to build out modalities for the core and to ensure that we continue to fulfill the needs and motivations of our core players who've been with us for many, many years, a lot of what you're also starting to see, including

new modes that we brought in in recent years are attracting new younger players. You also see what we're doing with Madden Mobile and the constant evolution of that franchise in its mobile incarnation.

As we look forward, we do think about this. We think that the combination of Madden plus College will overall grow our football community. We're already seeing that this year with the start of College Football in Q2. We think that brings in both younger players and new players that either have never played Madden or have not played Madden for a couple of years.

You'll see us invest meaningfully in new modalities of play that are really interesting, particularly in a social connection context for these new younger fans that are coming into our football experiences. You'll see us start to develop more and more modalities of play across devices, including mobile. And over the course of time, you should also expect us to branch into new and different business models that we expect will expand our audience.

This is the biggest game in this country by a wide margin, i.e., American football, both in the context of college and the NFL. We know the sport is growing internationally by virtue of access that fans have to the sport now through cable and streaming. And we know that our games, both EA SPORTS College Football 25 and the upcoming Madden 25 are a meaningful way that fans around the world get to come and experience their fandom, share their fandom with their friends, and grow their fandom over time. And so our expectation is that this is just the first step in how we grow our football community.

To get to your second part on EA SPORTS FC, again, I was just wanted to thank our teams again across development, marketing, our many license partners, the many athletes that form the recenter of that game. It was truly an extraordinary relaunch of that franchise and has put us in a position to grow.

And as we went through that transformation and we talk to you about that, we talked about our ability to expand game play into areas they were otherwise unable to do. We talked about expanding the commercial relationships with big global sports brands that we're unable to work with.

We talked about expanding beyond the bounds of traditional play, i.e., doing things with our fans that are outside the 11-on-11 game. And so we've got 5-on-5 that's coming into FC this year. And we talked about moving much, much faster in the context of how we develop and evolve the experience over time.

And so many of those lessons were learned through that process. Our objective was to do more in game. Our objective was to do more with commercial partners. Our objective was to do more beyond the bounds of the game, and our objective was to move really, really quickly at the speed of the cultural evolution that is happening in our world. And I would say our teams did an extraordinary job in doing that.

And much of the learning we got was that we're headed in exactly the right direction. So as you look at FC this year, we are expanding modalities of play. As you look at the many things we're doing with new commercial partners that are expanding what people can do inside the game and outside the game -- and later this year, you'll see us do more and more beyond the bounds of the game. We're going to talk more about that at our Investor Day in September.

But the biggest thing we've been able to do since the rebrand is just move much, much faster. And I know that is great for our teams, but more importantly, that's really, really good for our players globally.

Operator

Matthew Cost, Morgan Stanley.

Matthew Cost - *Morgan Stanley & Co. LLC - Analyst*

Hi, everybody, thanks for taking the questions. I guess sticking with American football for a little bit here, when we think about Ultimate Team for the College Football game, is there any potential for cannibalization of Madden Ultimate Team just as a function of how successful College Football has been with those 5 million players in the game?

Obviously, you can buy a copy of each game relatively easily, but in hours spent in College Football Ultimate Team is an hour that you can't spend in Madden Ultimate Team. So how should we expect those two to interact? Is there potential for cannibalization? That's question one.

And then question two is just you called out AI and ML efficiencies in the process of developing the College Football game. I'm wondering if there's anything that you'd call out in particular where you were able to speed up a process or do something faster, higher level of quality, because of some of those applications of AI? Thank you.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

Great questions. First, let me touch on the Madden plus College. Again, as we went into this, as we looked to reinvent and relaunch College Football after over a decade, a few things are true. One is there's more football fans broadly in this country than there has ever been.

Two, College Football in and of itself has grown dramatically since we were in the marketplace with the game over 10 years ago. And the combination of those two things led us to believe that these two products or these two services would be complementary in nature and that in fact, College would bring in new players to the overall community and actually bring players back who hadn't been with us for some time.

It's very early, but I would tell you our thesis has so far been proven correct. We have grown the community overall. There's been a meaningful percentage of players who have come in through the college experience, are new to us, or haven't been with us for over two years.

And the second thing is that the MVP Bundle, the combination of Madden and College as a pre-order, performed ahead of our expectations and is doing really, really well. And while pre-orders are an imperfect metric, they are typically directionally sound. And that would suggest to us that the broad complementary nature of College plus Madden is proving out.

As it relates to Ultimate Team specifically, one of the things that our teams have done really well is actually think through, what does it mean for a player who plays both College and plays Madden, and how do we give them value across both of those gameplay experiences? And ultimately, how do we make those experiences greater than the sum of their parts? Again, we're coming into the Madden season off the back of an incredibly strong Madden 24, incredibly strong engagement in the off-season -- in the traditional football off-season, which for us typically is demonstrative of good forward progress against the next iteration.

Madden 25 is going to be the best Madden we've ever made. I know I say that every year, but the teams continue to outdo themselves, including a whole bunch of new modes and new ways to play combined with a whole new set of players that have come into the community through College Football that will be providing a path -- if they haven't already bought the MVP Bundle -- a path from College into Madden and building gameplay experiences that are not only complementary from the ability to purchase both but are complementary from the ability to experience both.

And so again, it's early days in our Q2. College is off to an incredible start. Pre-orders in Madden are off to a really strong start. Our expectation of the two will be complementary over time.

Operator

Chris Schoell, UBS.

Chris Schoell - UBS Securities LLC - Analyst

Great. Thank you. So fiscal 1Q came in ahead of your expectations, and fiscal 2Q guidance also seem stronger than where the Street was prior to today. Can you just help us think through why we didn't see that flow through to the full-year outlook? And is it fair to say you were trending toward the higher end of your prior range?

And you also cited strong soccer performance contributing to the fiscal 1Q beat -- recognized it was towards the end of the quarter, but can you help us size the uplift you think Copa and EURO provided and might not repeat as we look forward. Thank you.

Stuart Canfield - Electronic Arts Inc - Chief Financial Officer, Executive Vice President

Hi, Chris. Thanks for the questions. Just stepping back, I think, yes, we're building great momentum when we think about the guidance coming out of Q1. We just talked a little bit at length around Q2 with Andrew's commentary a second ago on how we're thinking about framing up the quarter. We've also reflected the continued progress we're seeing and the momentum we're building and the return to growth by default of that guide range inside of Q2.

And also I think, it's reflective of the momentum that we're building as we deliver on the long-term financial framework we're laying out, which accelerated growth, increasing operating leverage and driving cash back to shareholders. We think inside of Q2 -- obviously, we reflected the combination of an aggregate growth in football. We do believe FC -- although only having one week inside the quarter -- does continue to grow on live services. And we'll assess where full game goes as we tackled the transition last year and brought players into the game upfront.

We are being prudent and pragmatic around how we see Apex over the first six weeks and the last six weeks of Season 21 as we head into Season 22. And that's the first time that we've seen two American football titles launch in the same quarter as you think about both the sales curve of College over the next sort of two to five weeks and secondly, how we see players engage in time, both between Madden and College as we weigh out the Q2 guide.

As we think about the full year, I'm reiterating -- obviously, we're literally four months into the year -- we have both Madden FC and Dragon Age still ahead of us. We do expect by phasing to continue to show growth in and build growth out through the full year. But obviously, we'll look to come back in our next earnings once we get through those major release at this point.

Operator

Cory Carpenter, JP Morgan.

Cory Carpenter - J.P. Morgan Securities LLC - Analyst

Great. Thanks for the question. Wanted to ask about the video game actor strike. How would you frame the potential risk of disruption to the business broadly in the near term? And then specifically at what point could this start to have an impact on your release schedule? Thank you.

Andrew Wilson - Electronic Arts Inc - Chairman of the Board, Chief Executive Officer

So let me first say we deeply value our talented actors, who are an important part of the work we do to deliver the incredible entertainment experiences that our players enjoy around the world. We're working very closely -- this is not an EA-specific situation; this is an industry-specific situation -- and we're working diligently to negotiate at the table.

The way it works now in terms of our product, specifically, is that the strike is limited to games commencing production after September 2023, including live service games. So we don't expect any near-term disruption to any of the games we have in development, any of the live services we're currently running on.

That being said, we're committed to continue to bargain in good faith and are hopeful that the parties can expediently resolve our issues at the bargaining table. But we're not anticipating any significant short-term impact at EA.

Operator

Andrew Marok, Raymond James.

Andrew Marok - *Raymond James & Associates, Inc. - Analyst*

Thanks for taking my questions. Two, if I could, please. First, can you remind us of some of the factors that go into the decision to release or not to release a game on both previous gen and current gen consoles and how those factors maybe are set up for your big five franchises? Maybe thinking of College Football on Gen 9 only and Madden on Gen 8 and Gen 9, but some features only on Gen 9. Thanks.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

It's not a perfect science, I would say. On balance, it comes down to where we expect the player base to show up at a scale that makes supporting the platform make financial sense for us. It is not a zero cost to support each generation of platform. And typically, as we think about where the player communities are showing up at the greatest level, that's where we're supporting those platforms.

Typically what has happened is our larger franchises have had more dispersed platform engagement by virtue of the fact that they are more geographically diverse, and different geographies evolve at different rates across those platform generations. Many of the smaller franchise or the franchises that don't represent our biggest, those plays typically are migrating much more quickly to new platforms.

And as you think about a property like College in particular, something that hasn't been on the platforms for the last 10 years, we really made the decision to be forward-looking on that and really developing -- the team worked incredibly hard on College. And if you've read any of the reviews on College, what they've been able to do on these new platforms is truly extraordinary, and the uptake that we've seen across the new platforms would suggest that the platform decisions we made were the right ones.

There was a question earlier around AI as it related to College, and the reality is we had an incredible team working on this, but we had to get 11,000 new star player heads into the game. For those that don't track our industry or track our sports games in particular, we typically, in any given year, will develop about 500 to 1,000 star heads inside of one of our games. And over the course of a platform generation, through the hand tooling of that, we ultimately fill out the full roster of star heads in our games. And of course, there were ebbs and flows in that.

But as we were launching College on a new generation of platforms to a new generation of fans with the world's largest single sport NIL deal, where image was a really important part of the process, getting 11,000 star heads into the game was a top priority for us. The reality is our teams are incredible and built workflows to facilitate that, but they were amplified and accelerated through AI and machine learning.

And we were able to take in a whole plethora of photo imagery across 11,000 players and build workflows out where AI and machine learning would generate head and our very talented artists would be able to come in and touch up and enhance those heads versus having to go through the full head development programs. In the absence of AI we simply would not have been able to deliver College Football at the level we did, even though we've given the team many, many years in development.

And so to answer both of those questions, typically, when we think about past gen versus future gen, it comes down to geographic dispersion and it comes down to community dispersion, and it comes down to where we think the greatest game play will happen. And as it relates to College specifically, it was a decision that we made because we were really building the franchise for the future. It was the first time we had done it in 10 years and the level of gameplay and the level of visual fidelity that we did was a combination of many years of work of our incredible teams amplified and accelerated by AI, something that we just wouldn't have been able to do as little as two or three years ago.

Andrew Marok - *Raymond James & Associates, Inc. - Analyst*

Really helpful. Thank you for the detail. And if I could sneak one in, I got to ask my quarterly Apex question. Wanted to touch on that player reception to the Apex Battle Pass changes. I guess what does that reaction say about the Apex players' ability to bear further monetization? And how does it kind of inform your approach going forward? Thank you.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

Yeah. I mean, first, I would say we're really excited for the upcoming Season 22 and 23 of Apex. The Respawn team has been working diligently on all the things that are going in, profound improvements in game play and modalities of play, and geographic culturalization.

These seasons will be bigger and more content rich than usual. And we're giving our teams the time to create -- to develop those updates. And our expectation is that our players will receive them incredibly well.

As we think about Battle Pass specifically is that -- so we just take a step back. The team is always iterating and innovating to bring about the best experience for our players. Our intention this time around was really to improve the overall value and experience across our Battle Pass offerings for our players. And we wanted to kind of make sure that things were approachable, realistic and accessible for our global community.

That being said, even as we iterate through that, our Respawn team listened and learned and is meaningfully connected with that community. And as it became apparent that the community had real feedback around how we are dealing with some of those aspects of Battle Pass, the team was able to react and make those changes dramatically.

I don't think this speaks to a broader monetization overall for the franchise. I don't think this speaks to the community's propensity to want to spend in the context of their ongoing live service experience that is Apex. I just think it was one of those moments where we made a series of really positive changes. And in search of ongoing iteration around how we deliver those changes, we did some things that community weren't aligned with. And we've been able to realign with them, and our expectation as we move towards 22 and 23 is that the community will be incredibly receptive to what, we believe, are going to be two seasons of incredible content.

Stuart Canfield - *Electronic Arts Inc - Chief Financial Officer, Executive Vice President*

Andrew, just to add on quickly to that -- just to talk about the financial framework we're using, just to kind of reiterate -- although we saw those declines year over year, they were in line with our expectations for the foundation of Q1. We have put in place -- as you think about the Q2 guide, given the strength I talked to in the whole framework for EA, a more measured outlook, particularly as we introduce new innovations and game mechanics Andrew just alluded to, coming into Season 22 and 23.

We do think the comps obviously naturally get easier through the second half and back end of the year. Still a long way to go in the year, but know that we have been more moderate in Q2 as we come through that guidance.

Operator

Colin Sebastian, Baird.

Colin Sebastian - *Robert W. Baird & Co. Incorporated - Analyst*

Great. Thanks for taking my questions. And Andrew, maybe just to start off higher level, one question we get quite frequently from investors really is trying to understand at an industry level the relatively, I guess, sluggish growth trends the past few years. We talked a lot about competition over

time and money, but are there other dynamics at work that you would highlight that are external to EA that could then turn into catalyst or bring some oxygen into the demand side of the market?

And then my second question is on the Sims franchise and appreciate some of the updates there. And as one of the tentpole franchises and brands, hoping to hear a bit more about how you think about growth there, for example, reducing friction to bring in more players or expanding onto other platforms or other initiatives? That would be very helpful. Thank you.

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

Great questions. The macro -- as we think about the industry broadly, and I speak to this more about the industry than I do around Electronic Arts specifically, is that we did see some pretty meaningful peaks coming through COVID around both play and watch in the context of our interactive entertainment industry. As a company, we've continued to grow out of COVID; that hasn't been true for the whole industry. And so, certainly I think there's some impact there.

We also see -- and I've talked about this in past calls -- we are seeing kind of a secular shift happening in the context of our industry, and that is a movement towards the biggest franchises in the industry; franchises that facilitate an expanded definition of play, the ability for the community to come and create content that extends and enhances their experience, the ability to go and watch that content. What we see now is 25%, 30% of all engagement in our industry is actually watching content, not just playing content. Incidentally, that correlates to monetization at nearly the same levels as playing does over the course of time.

And connection is becoming a really, really important part. As I watch our community play inside of our games, the modality of play that involves deep connection with their friends is becoming more and more important.

And so I do think as we look at the industry broadly, not all of the industry has been making that transition at the same rate. I do believe Electronic Arts has been working diligently against that transition. If you look at our three strategic pillars, two of the three are about massive online communities and enhancing the power of communities beyond the bounds of games.

And we've been investing meaningfully in those. And you're starting to see that come about in the context of what you see inside of College Football, what you'll see inside of Madden, what you'll see inside of FC, certainly what we're building into the Sims -- we've talked a little bit about that being at the very center of what Battlefield is doing. And of course, with the many hundreds of people who play Apex, that sense of connection and community is important there as well.

And so I do believe as we continue to move through this transition and games fulfill motivations and needs of our players beyond play, we will see more hours spent in the context of our broader communities, both playing more, creating more, watching more, and connecting more. And our centers we look at the shifts now around broader entertainment with our industry in particular, and within our industry, our franchises in particular will benefit disproportionately as Gen Z and Gen Alpha continue to grow and age up, and fulfill their entertainment needs through interactive games as their first form of entertainment.

Sims 4 specifically, again, as we've talked about, we're committed to -- continually to evolve the Sims 4 experience with over 15 updates in the coming year. And we're already starting to see new social things come into that, new marketplace things come into that, and new user-generated content opportunities come into the Sims 4. And the Sims team is committed to continue to evolve that.

Beyond that -- and not a lot to talk about today, and we'll talk more about this at the earnings Investor Day in September -- is we are looking to add to that universe and really build out that community globally. And you should think about that in the context of more social interaction across the Sims community and more platform expansion, and modality-of-play expansion. And so while the teams will continue to advance and expand Sims 4, we will also be adding new experiences that bring deep social connection, and broader platform expansion in key geographies around the world.

Operator

Clay Griffin, Moffett Nathanson.

Clay Griffin - *MoffettNathanson LLC - Analyst*

Thanks for taking the question. This is a follow-up to the conversation on industry. Andrew, how has your thinking evolved on free-to-play as a monetization strategy in this HD world versus the multi-modal monetization you've -- success you've had with EA Sports. Just getting back to this topic of industry growth, do you feel like free-to-play has at least in some part been dilutive to industry pricing power or maybe gamers' perception of value?

Andrew Wilson - *Electronic Arts Inc - Chairman of the Board, Chief Executive Officer*

The short answer is no. I mean, free-to-play game started in Asia what is probably two decades ago now or a little more and certainly started to take -- form meaningfully in the West probably in the last decade. The industry has continued to grow broadly across both the traditional premium category and the free-to-play category. And certainly, as you think about mobile coming into that ecosystem, that is almost double the industry overall, and that's primarily a free-to-play mechanic.

So as we think about this, when -- in the context of building massive online community, certainly right now, there's about 3 billion people who consider themselves gamers or players around the world, many are looking to fulfill different needs and motivations as part of their play experience, depending on what platform and what geography they come from. Our orientation right now is to support all business models. And if you look at our biggest franchises, FC being the biggest, of course, we have modalities of play across premium, across free-to-play, across live service, across console, across PC, across mobile, and that franchise has grown every platform, every modality of play and across every business model since we brought that in.

So as we think about American football, as we think about Apex, as we think about Battlefield, as we think about the Sims, our belief is that if we're building out for a global player base of over 3 billion players and we're looking to build communities in and around our biggest IP of many hundreds of millions of players, our ability to utilize free-to-play as a mechanism to reach more people on console, PC, and mobile and then offer different monetization opportunities whether that's in small increments, whether that's in Battle Passes or whether that's in full premium purchases, that will likely drive meaningful growth, not just for the industry but for our company.

So thank you for all of the -- all being here and for all of your great questions. Again, I want to extend my deepest appreciation to our teams for their passion, their hard work, and their commitment in delivering an incredible quarter. And I must add from college campuses and NFL fields across the US to the hallowed soccer pitches around the world, football is back. This is going to be a big football quarter for us. In my humble opinion, this is the most exciting, energizing time of the year for sports fandom.

With that, I'll close by saying I'm extremely excited about what our future holds and look forward to sharing more about our pipeline and longer-term strategy to deliver growth to all of our shareholders at our Investor Day on September 17 in New York City. Thank you for being with us.

Operator

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

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