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# EDITED TRANSCRIPT

EA - Q1 2019 Electronic Arts Inc Earnings Call

EVENT DATE/TIME: JULY 26, 2018 / 9:00PM GMT

## OVERVIEW:

Co. reported 1Q19 net revenues of \$1.14b and diluted EPS of \$0.95. Expects 2Q19 net revenues to be \$1.27b and EPS to be \$0.48.



JULY 26, 2018 / 9:00PM, EA - Q1 2019 Electronic Arts Inc Earnings Call

## CORPORATE PARTICIPANTS

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**Chris Evenden** *Electronic Arts Inc. - VP of IR*

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## PRESENTATION

### Operator

Good afternoon. My name is Erica, and I will be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Q1 2019 Earnings Call. (Operator Instructions)

Mr. Chris Evenden, Vice President of Investor Relations, you may begin your conference.

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**Chris Evenden** - *Electronic Arts Inc. - VP of IR*

Thanks, Erica.

Welcome to EA's First Quarter Fiscal 2019 Earnings Call. With me on the call today are Andrew Wilson, our CEO; and Blake Jorgensen, our CFO and COO.

Please note that our SEC filings and our earnings release are available at [ir.ea.com](http://ir.ea.com). In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks, an audio replay of this call, our financial model, a transcript and an updated FAQ.



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With regards to our calendar, our annual shareholder meeting will be on Thursday, August 2, here in Redwood Shores, and our Q2 fiscal 2019 earnings call is scheduled for Tuesday, October 30.

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 26, 2018, and disclaims any duty to update them.

During this call, the financial metrics, with the exception of free cash flow, will be presented on a GAAP basis. All comparisons made in the course of this call are against the same period in the prior year, unless otherwise stated.

Note that our Q1 results reflect our adoption of ASC 606. This does not materially impact our net bookings metrics, but does change our GAAP reporting in several ways. Prior periods have not been restated. For more information on this change, please see the accounting FAQ we have posted on our IR website.

Now I'll turn the call over to Andrew.

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

Thank you, Chris.

We've had a strong start to FY '19. We continued to expand our network with creative new games, launched a new mobile game on the WeChat platform and had deeply engaged communities in our live services. Revenue and earnings at Q1 were above our guidance, and we are looking forward to bringing more new experiences to our players throughout the fiscal year.

Our strategy continues to center on delivering a collection of amazing games and content, wrapped in services, with more ways to play, watch, share, create and connect that enable us to grow our global audience. Among our top titles, EA SPORTS FIFA continues to demonstrate the unique ability to engage more than 100 million players across geographies, platforms and generations. During the quarter, we launched our World Cup content update for FIFA 18, and engagement was very strong with more than 15 million unique players on PC and console alone joining in to play. In addition, we launched FIFA Mobile in China this quarter, including real-time PDP, culturalized live service design and enhanced social features. It's still early days, but this has quickly become our strongest-ever launch in the Chinese market, reaching #1 on the top downloads chart for iOS in China and showing best-in-class engagement on the WeChat platform. We have momentum across all platforms for our FIFA franchise as we have just launched our latest season update in FIFA Mobile, and FIFA 19, including the UEFA Champions League, arrives later this quarter.

From existing titles to unique new experiences, we introduced amazing content to our network throughout Q1. Our Sims 4 community grew 35% in unique players year-over-year as we continue to deliver new content packs and updates as part of our ongoing live service. With the breadth, depth and size of The Sims audience on mobile, we're now fulfilling different motivations across 2 distinct games, giving fans and newcomers alike more of what they love about the franchise.

In another dimension of our portfolio, our EA Originals and EA Partners programs are helping indie developers reach a global audience. More than 2.6 million players experienced the co-op hit A Way Out from Hazelight through Q1, and we also launched Unravel 2, another beautiful game from Coldwood. As we strive to deliver experiences that amaze and inspire players around the world, we are continually expanding EA's portfolio.

EA PLAY, our 3-day event in early June, was a great success. Fans that joined us in Hollywood were able to go hands-on with demos and other experiences for a dozen different games, including Anthem, Battlefield V, the EA SPORTS portfolio, Command & Conquer: Rivals and more. Across the globe, fans viewed the trailers and player-generated content of our games released at EA PLAY more than 165 million times. Media and critics were also excited by what they played, with our games receiving more than 60 awards, including "Best of" awards from games critics for Anthem, Battlefield V and FIFA 19.



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Beginning in late June and early July, we conducted our first public alpha test for Battlefield V. The results exceeded our expectations, with high demand leading to 3x our planned number of participants joining the test. Feedback was highly positive, with players able to truly feel the advancements that DICE has been focused on in the gameplay. This type of early play opportunity is now foundational to our development process as a great way to engage the community and enable them to provide input we can build on as we move through development. We are planning more hands-on opportunities with Battlefield V prior to launch.

We're also pleased with the excitement that is going for Anthem, our new IP set to launch in February. Our EA Play demo sessions for Anthem were packed from beginning to end, and we're continuing to see great interest and anticipation from fans wanting to learn more. BioWare is building incredible depth and gameplay innovation in this new shared-world experience, and we look forward to sharing much more with our players in the months ahead, including prelaunch opportunities to jump into the game.

As we move further into FY '19, we're continuing to push the boundaries and pioneer for our players. Origin Access Premier launches next week, a "first of its kind" subscription service, that will include unlimited access to our newest PC titles. We believe strongly in the transformative nature of subscriptions. In a network where subscriptions can reduce friction and help give players ready access to more great content, we are enabling developments from EA and beyond to bring truly amazing and immersive new experiences to a global audience. We're developing more new IP and bringing new teams to EA that can deliver more new and unique experiences. And we're continuing to work with more of the best creators across the industry to add more third-party games to our subscription services.

In Q2, we will also launch new EA SPORTS titles on console and PC, major content and gameplay updates to our EA SPORTS mobile games and continued updates to FIFA Online 4.

In Competitive Gaming, our franchise are uniquely fulfilling the tremendous demand, widespread appeal and longevity of traditional sports in the context of esports. Next week is the FIFA eWorld Cup Grand Finals, the pinnacle of this year's competitive FIFA season, that has seen participation from more than 20 million players from 60 countries and 80% more average viewers so far over last season. Our next season of Madden NFL Competitive Gaming also kicks off this quarter, with the second year of the 32-team Madden NFL Club championship and broadcast set with the ESPN network.

We will continue to evolve and grow our competitive leagues and programs at an accelerated pace. With every game, every service and every experience, we are continuing to take steps towards our vision to connect 1 billion people in play. We look forward to sharing more updates in the quarters to come.

Now I'll hand the call over to Blake.

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**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Thanks, Andrew.

We started another years strongly with a first quarter beat on net bookings and on profitability. We continued to deliver our -- on our growth strategies with a focus on new genres, on China and on building new live services. This quarter at EA PLAY, we announced significant progress across all 3 vectors. We gave players a deep look at Anthem, our upcoming action game; we launched FIFA Mobile on the WeChat platform in China; and we announced Origin Access Premier, a new subscription service that will include access to EA games from the day of launch or earlier.

I'll report the specifics of our results on a GAAP basis, then use our operational measure of net bookings to discuss the dynamics of our business. To compare this quarter's results to historically reported non-GAAP measures, please refer to the relevant tabs in our downloadable financial model.

EA's net revenue was \$1.14 billion compared to \$1.45 billion a year ago and above our guidance by \$57 million. Operating expenses were \$622 million compared to \$552 million a year ago, primarily driven by new product development as we continue to invest in new IP. Operating income was \$300 million, and diluted earnings per share was \$0.95, \$0.31 above our guidance. Operating cash flow for the quarter was \$120 million, down \$56 million from last year, driven by investments in R&D, the timing of cash received and higher cash taxes. Capital expenditures for the quarter



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were \$32 million, resulting in a free cash flow of \$88 million. Operating cash flow for the last 12 months was \$1.6 billion. See our earnings slides for further cash flow information.

During the quarter, we also repurchased 2.3 million shares at a cost of \$300 million, leaving \$2.2 billion available on our buyback program. Our cash and short-term investments at the end of the quarter were \$5 billion, up 11% year-on-year.

Now I'd like to turn to the key drivers of our business this quarter. Net bookings for the quarter were \$749 million, down \$26 million from the prior year, but \$29 million above our guidance. The outperformance relative to guidance was driven by FIFA Online 3, A Way Out and Battlefield 1. The year-on-year delta was driven by the Mass Effect: Andromeda sales captured in the year-ago quarter, partially offset by FIFA Online 4, The Sims 4 and A Way Out.

Digital net bookings were \$693 million, up \$12 million on a year-ago period. The increase was driven by FIFA Online 4, The Sims 4 and A Way Out, partially offset by Mass Effect: Andromeda. On a trailing 12-month basis, digital net bookings now represents 69% of our business compared to 63% a year ago.

Looking at the components of this quarter's digital bookings in turn. Live service net bookings were up 7% year-on-year to \$450 million. This growth was driven by FIFA Online 4 and The Sims 4 as we looked to broaden the base of recurring revenue. Millions of people played FIFA 18 as a result of the World Cup mode in FIFA Ultimate Team. Engagements were up, players were up, but ARPU was lower than we'd expected due to the World Cup mode focus on acquiring new players. Sales of the base game rose above our expectations, and we had the highest daily active users in the game's history. We're pleased that it was so successful at both bringing back lapsed players and introducing new players to the FIFA game as the Ultimate Team, and this positions the franchise very well as we prepare to launch FIFA 19 and look to the European leagues kicking off.

Both EA Access and Origin Access continue to grow. We reach a significant milestone in our subscription strategy next week on July 30, when we launch Origin Access Premier. We look forward to discussing its performance as we add frontline titles to the subscription.

Mobile delivered net bookings of \$147 million, down 2% year-on-year due to slight declines in older titles, partially offset by the ramp of FIFA Mobile in Asia. Monetization in The Sims Mobile has started slowly, consistent with prior Sims launches, and the team continues to grow the game by adding exciting new careers, activities, events and other attractive new content based on feedback from our community of millions of Sims fans. We are encouraged by the performance of FIFA Mobile on the WeChat platform in China. It's still early days, but the game delivered one of the highest-grossing days ever for any of our mobile titles and hit #1 in the iOS download charts. We work very closely with Tencent to bring it to market, and we're taking our learnings from this into FIFA Mobile worldwide.

Full game PC and console downloads generated net bookings of \$96 million, 14% lower than last year, due to the Mass Effect: Andromeda sales captured in the year-ago quarter. 40% of our unit sales are now digital rather than physical, measured on Xbox One and PlayStation 4 over the last 12 months, up from 34% a year ago.

Now turning to guidance. We are reiterating our guidance for the full year despite the strengthening of the dollar since last quarter. At that time, exchange rates were \$100 million tailwind relative to the prior year. At today's exchange rates, that has returned to 0, suggesting \$100 million headwind to our net bookings guidance. However, our current guidance assumes this headwind will be offset by general weakening of the dollar through the remainder of the year or improved bookings from our business. It should also be noted that there is less risk to the bottom line because of our hedging strategy.

We are holding our operating cash flow guidance at approximately \$1.82 billion, with CapEx still expected to be \$125 million, and so free cash flow would be about \$1.7 billion.

For the second quarter, we expect net revenue of \$1.27 billion, cost of revenue to be \$436 million, and operating expenses of \$674 million. OpEx is up 10%, driven by the continued investments in our growth strategies. This results in earnings per share of \$0.48 for the second quarter.

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We anticipate net bookings for the quarter to be \$1.16 billion. This is down slightly year-on-year, driven by the strength of our Battlefield 1 sales in the prior year and the timing of the recognition of bookings in Asia as well as FX.

We're pleased now -- pleased with how we started the year, the progress we are making on our growth strategies and the continued growth of our recurring revenue, and there's a lot to look forward to in the coming months. We'll launch Madden NFL 19 in August and FIFA 19 at the end of September. Battlefield V is coming in October, and all 3 will be available on Origin Access Premier several days ahead of their launches. Incidentally, this is the first time in over a decade that we're making Madden available on PC. FIFA Online 4 continues to ramp in Asia as does FIFA mobile, and we are continuing to build excitement for Anthem ahead of its launch in February.

In esports, as Andrew mentioned, we will be concluding the EA SPORTS FIFA 18 Global Series with the final in London next week, and we have a full schedule of events coming up for FIFA, Madden and more.

Looking further into the future, we continue our pioneering work in cloud gaming and other advanced technologies.

Now I'll turn the call back to Andrew

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

Thanks, Blake.

This is an amazing time to be making games and entertainment. As we saw last month at EA PLAY and E3, the energy and creativity that defines this industry continues to reach new heights. Innovation is enabling us to break through barriers, to expand the accessibility of games and grow an audience in the billions. Through more ways to play, create, compete, watch and share, the thread of social connection that is unique to games is becoming even stronger and bringing players deeper into global communities, the digital transformation to take games from finite to infinite experiences, and each day, our opportunity at EA is to turn incredible ideas into entertainment that will inspire the world to play.

In this world, creativity moves quickly, and we constantly keep focus on our players. New IP and fresh new experiences are our lifeblood. In addition to amazing games coming this year like Battlefield V, Anthem, our latest EA SPORTS titles and Command & Conquer: Rivals, we have new IP development for all platforms. Across EA Worldwide Studios, Respawn is developing Star Wars Jedi: Fallen Order for FY '20 along with another new project in the pipeline. Motive is developing new IP, our mobile studios are working on several new titles, and we have more projects underway. At the foundation of every experience will be choice, fairness, value and fun that ensure we are delivering for our broad and diverse player audience.

We are also pushing the thing farther as the expansion and transformation of games continues. Subscriptions will bring more choice, reduce friction and add value in a world of ever-increasing content. And with Origin Access Premier, we are breaking new ground for the industry. esports is bringing massive audiences into the excitement of competitive gaming, and through our leading IP, we have global momentum that will continue to expand with new competitions, new broadcasts and more partners.

Technologies like cloud gaming, advanced AI and machine learning will change the way that games are made and played. We are continuing to invest in these areas at the core of our Player Network to connect players around the world to the best entertainment and to each other.

We're excited for the future as we seek to amaze our players and continue leading the growth and transformation of this great industry.

Now Blake and I are here for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Brian Nowak for Morgan Stanley.

### Matthew Andrew Cost - Morgan Stanley, Research Division - Research Associate

It's Matt Cost on for Brian. I have a few. The first is how large of a contributor was Ultimate Team to live services in the quarter? And connected to that, how are you thinking about the impact of Fortnite and trends with younger and female players? And then the second is what are you seeing as the biggest areas of dollar investment this year and into next year, obviously, between new IP, subscriptions, streaming, et cetera?

### Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

Yes, we -- thanks, Brian (sic) [Matt] -- or thanks -- yes, thank you. We typically don't break out Ultimate Team on a quarterly basis, but you should be able to -- you should assume that Ultimate Team is over 50% of the live services component in any one quarter and certainly in the quarter that we just closed out. And I'm going to let Andrew take a crack at the Fortnite question, if you'd like to do that.

### Andrew Wilson - Electronic Arts Inc. - CEO & Director

Sure. So what we have seen is that Fortnite continues to, what we believe, expand the audience. We saw incredible engagement in our games through the quarter. As we talked about, we had over 15 million people join our World Cup mode in FIFA. And so our expectation is that as they continue to expand the audience, that provides tremendous opportunity for us going into the holiday season, particularly as we think about launching Madden and FIFA and Battlefield into what is a growing player audience.

### Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

Yes. And the only thing that I would add to that is without a doubt, it's been a phenomenon in the industry, and I'm sure it's taken up people's time. We have a hard time pointing to exactly where that's impacted our business, but I am sure it is taking up people's time across the industry. But we also know that, that means more and more people are brought in to play games and will enjoy games in the future, in particular, first-person shooter games down the road. Can you repeat your second part of your question? I'm sorry, I didn't write it down.

### Matthew Andrew Cost - Morgan Stanley, Research Division - Research Associate

Yes, no problem. So how are you thinking about the biggest areas of dollar investment this year and the next year between new IP, subscriptions, streaming?

### Blake J. Jorgensen - Electronic Arts Inc. - COO & CFO

Yes. I mean, the bulk of it's driven around new IP. That's where the biggest dollar spend has been going, like building new studios and bringing in new people to help build new IP. That feeds ultimately the subscription business with more content. We are looking for extra content outside of our own IP, i.e. things like the Warner Bros. content that we bring in. And most of that content is based on -- the expenses are based on how much it's used inside of the subscription. So that's more variable in some respects. And then underlying that, it's all of our network infrastructure, including security, which continues to be an important part of our spend base. And while it's not as big as our new IP development, it is critical to how we operate as a networks company now and in the future.



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

The one piece I would add to that is that in terms of our digital platform, we've had a meaningfully sized team working on that over the last 5 years on IT, commerce, infrastructure, data security. And as they have continued to build on that platform, in addition to what is increased investment, we're also reprioritizing those resources against some things like subscription, like cloud gaming, like AI, like machine learning. And so while it doesn't show up as an incremental investment, by virtue of having completed a number of the broader foundational technical issues in the area of IT and commerce and data, we're able now to repurpose that talent, I guess, for some of these new strategic opportunities.

**Operator**

Your next question comes from Chris Merwin from Goldman Sachs.

**Christopher David Merwin** - *Goldman Sachs Group Inc., Research Division - Research Analyst*

First, for the mobile business, I think net bookings were down only slightly year-on-year, but you had a very successful launch of FIFA Mobile in China during the quarter. Can you just help us understand the impact of that title in the quarter, how it performed relative to your expectations, and how you're thinking about it contributing for the rest of the year in the context of your guidance? And then just secondly, I know it's still very early days, but I was hoping you could talk a little bit about what you've noticed from the early adopters of the Origin front-line subscription. Are you finding that they're playing more of your games? Are they spending more in those games? Just curious how that's been progressing.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Yes. I'm going to hit that first because that one's easy. We don't know yet because it doesn't get turned on until next week. We do know, though, from our EA Access experience and our Origin Access experience for non-frontline titles that we find people play twice as many games for twice as long and spend twice as much money as they did outside or before they've joined the subscription. And that's what led us to believe that frontline titles would be also very advantageous to the subscription as well as help drive new users into the system. So we'll have more to say over that over the next couple of months. I think remember, we've got Madden going in, in August, FIFA in September, Battlefield in October, and then Anthem in February. Those are the 4 PC-based titles that will go into Origin Access Premier. And we really won't have a full sense of that until after all 4 of those titles are in, but we'll try to give people updates along the way to the extent that they're a meaningful and new information. In terms of FIFA Mobile, we're incredibly excited, but it's still early days. The impact to the quarter was certainly above what our guidance was, but not a large number, because it is still early in that rollout. But clearly, as we stated, both the size of some of the days we saw and the chart positions we saw and probably most importantly, the feedback we're getting from the consumer as well as our partner, Tencent, all implies that we've got a very exciting future for FIFA Mobile. But I would caution everyone to be careful. We built that into our guidance for the year. We believe that it's going to be a strong contributor longer term. But as you've seen with FIFA Mobile around the globe, it takes time to build these and tune these models to get them exact so they really outperform where we've -- what we've seen historically. So more to come on that, but early days are very exciting on it.

**Operator**

And your next question comes from Matthew Thornton from SunTrust.

**Matthew Corey Thornton** - *SunTrust Robinson Humphrey, Inc., Research Division - VP*

I guess first, when we think about the fiscal 2020 slate, you talked a little bit about the Respawn Jedi title releasing that year. Just curious, is there any room between Respawn and the sports portfolio? Is there any room for another major release? Or should we kind of block that out to fiscal '21? And then secondly, just coming back to Origin Access Premier, obviously, at EA PLAY and E3, a lot of conversations were around subscription,



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streaming and consolidation. I'm just curious what will the conversations have been like coming out of those events since you announced Origin Access premier, just in terms of conversations with the other publishers and just industry chatter. Any color there would be helpful.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Yes. So be careful that you don't take '20 to be literal as Andrew described it because we're not giving guidance on '20 yet. And I think Andrew did say there are -- implied there are other things coming. So more to come on that. We don't like to give everything up in the first quarter of this year. We got to deliver this year first. But trust that there's most likely other sizable titles, 1 or 2 other sizable titles coming. And you'll see as we give guidance. And we'll give some -- more color on that as we get into later this year before we ultimately give guidance at the start of next year. I don't know if you want to touch on subscription, Andrew?

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

Yes, sure. So again, coming out of EA PLAY, there was a lot of conversation on Origin Access Premier. And certainly from a gamer standpoint, the feedback was very, very positive in terms of the opportunity to access more great games at great value with reduced friction. And we expect that, that will be a big plus for gamers over time, and like all subscription businesses, will take time to build that we believe in the long-term potential of that as we have seen to be true with linear-based media like TV, movies and music. In terms of conversation we've had with other developers and publishers, I would say the feedback is mixed. I think we are in a unique position by virtue of the depth and breadth of our portfolio and the many, many, many hundreds of hours of gameplay that we can offer with our own portfolio to take this step forward for the industry. And we do believe we're leading and pioneering for the industry. Some developers and publishers that we have spoken to are very, very excited about the opportunity to access this highly engaged player base that will deliver tremendous lifetime engagement into this live service. And other developers and publishers, I would say, are in a wait-and-see approach. As I've said before, I think the greatest disruption to the consumption of entertainment media in the last 5 years is the combination of streaming plus subscription. We're starting with subscription, and we're leading from there. And we're investing with streaming -- in streaming over the long term. And my sense is that as we're able to grow the TAM as a result of this, engage players for longer with greater value at lower friction, that we'll see continued uptake and participation in services like this.

**Operator**

Your next question comes from Ryan Gee with Barclays.

**Ryan Gee** - *Barclays Bank PLC, Research Division - Research Analyst*

First one, I guess you guys significantly outperformed your earnings guidance for this quarter, but I believe the outlook for the full year remains unchanged. And I know that there's a lot still to come, so I appreciate the conservatism. But it would be great if you guys could just confirm, especially whether or not your outlook for any titles has come down since you guided back in May, specifically for Battlefield Anthem and for Ultimate Team. And then I have one follow-up.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Sure. So I think you've been around for a while, Ryan. I think once in the next 5 years, we've raised guidance coming out of first quarter. First quarter is 15% of our business, and so -- and you know our conservative approach, so we tend not to do that. We have not changed our outlook on titles. I would say the caution is what I mentioned on FX. We came into the quarter and gave guidance thinking we finally have a tailwind on FX. And due to, I believe, much of the trade war chatter and maybe further chatter on Brexit, we've seen a dramatic change in both the pound and the euro as well as other underlying currencies, and that's created a headwind for us versus a tailwind. Now I think -- we're not changing our guidance because we're not certain how long that will last, but it's the overall view on the market versus a fundamental view on any specific title or business.



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**Ryan Gee** - Barclays Bank PLC, Research Division - Research Analyst

Okay, great. Makes sense. And then I guess live services was up 7% during the quarter, and I believe you guided to 10% to 15% for the full year. So it'd be great if you could help us kind of bridge those 2 growth rates together, maybe what are the puts and takes for fiscal 2Q. And then as you get out into the holidays, that's going to drive that reacceleration in the back half, whether it's going to come from live services like subscriptions in Origin? Maybe Ultimate Team or Battlefield, if you can rank order those, that would be great.

**Blake J. Jorgensen** - Electronic Arts Inc. - COO & CFO

Yes, I mean, it's probably all of those. It's hard for me to rank order because we tend to give not individual live service forecast. You should -- I think you all know, but the start of the sports season is the real peak of live services for sports, the first 2 quarters coming out for both FIFA and Madden and hockey as well and NBA for that matter. And so you tend to see that as the products are rolled out. The first quarter tends to be the slowest quarter. We actually had a lot of engagement, as Andrew mentioned and as I mentioned on the call, but less monetization just because the design of World Cup. And remember, only about half of World Cup was in the quarter versus half in the second quarter. So we're still sticking. We don't change our guidance by sectors, but I would say we're still comfortable with the guidance that we've provided on live services. And we're very excited about where it's going, particularly that's driven by esports as well as new live services that we'll start to roll out on new products as we bring them to market.

**Operator**

Your next question comes from Eric Sheridan with UBS.

**Eric James Sheridan** - UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst

Maybe following up on that and following up again on the commentary from your prepared remarks, on live services, it was interesting to hear that you could also use it as a mechanism for user acquisition, driving user engagement. Can you give us some color about how you think about either turning the knob on monetization versus turning the dial on engagement and user growth through live services as opposed to just going purely from monetization against time spent?

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

Thanks, Eric. I think that's a great question. And certainly, the nature of live services is transformative to our business and transformative to how we think about engagement -- acquisition and engagement of players over time. And certainly, we think a lot about the lifetime value of a player and the lifetime engagement of that player versus simply a point-to-point transaction or a point-to-point unit sale. And as we looked at World Cup and we went back and looked at many of the previous World Cups, and I've been working on that business since 2006, what we came to understand was that typically, it was an opportunity to bring in a lot of new players and introduce a lot of new players through the spectacle and pageantry of the World Cup to the world of soccer and the world of interactive soccer through FIFA. And as we designed the mode this time around, we certainly had that in mind, and have been highly successful, I would say, in acquiring and reacquiring lapsed players as part of that engagement. What that meant through the process was that we had lower monetization than we might do typically as part of FIFA Ultimate Team, but we knew it was an opportunity to bring in a whole new group of players into FIFA more broadly and work with them over many, many years to come as they continue to play the game. And what I can say is certainly coming out of the World Cup, we have seen our core players as well as millions of our newly acquired players move back into the core FIFA Ultimate Team experience, and we're excited about launching a new game later for them this year and introducing them to new aspects of Ultimate Team certainly as those include Champions League content.

**Operator**

Your next question comes from Mike Hickey with Benchmark Company.



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**Michael Joseph Hickey** - *The Benchmark Company, LLC, Research Division - Research Analyst*

Just 2 little ones here. Curious if you had any potential VR monies from Battlefield V in your guidance for fiscal '19. I have a quick follow-up.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Did you mean that are we planning a VR experience for Battlefield?

**Michael Joseph Hickey** - *The Benchmark Company, LLC, Research Division - Research Analyst*

No, I was referring to Battle Royale.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Oh, I'm sorry. I think we talked about -- yes, we talked at E3 about bringing out a Battle Royale mode for Battlefield. We haven't announced exactly when that will come out, but we did say that we would have one.

**Michael Joseph Hickey** - *The Benchmark Company, LLC, Research Division - Research Analyst*

Okay, fair enough. And then it seems like for Battlefield V, you've created a fairly full value proposition, single player, all the multiplayer aspects that a franchise player would want. And now, you're adding the Battle Royale mode, which obviously is a new addition. Just curious, when you think about just how strong Battle Royale games are in terms of creating player communities or basically expanding TAM, which you've talked about before -- you're often monetizing and, of course, you have a couple of really strong incumbents with Fortnite and PUBG. So how do you think about, I guess, tethered free-to-play Battle Royale, which appears to be what you're going to do with Battlefield 5, versus a stand-alone offering at a reduced price perhaps similar to PUBG, or free-to-play offering similar to Fortnite, we could sort of maximize the TAM and monetization.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Yes, I mean, right now, we're focused on -- for Battlefield, we're focused on creating it as a mode in the game, no different than the other modes that we have in the game. We may have lots of other things that come out over time for Battlefield. I think we're really focused on how do we continually build live services around all of our games, and you'll see some of that for Battlefield in the coming months and once the game is released. I would say we're interested in possibly experimenting with a essentially free-to-play, stand-alone game that might be in a shooter genre or another genre, but I don't think that's how we're looking at the Battlefield stuff right now. But you'll see more to come on that in the coming months and years.

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

And what I would say about our Battlefield community is it's a growingly and diverse community who are looking for many different ways to play the game. And that might be through single player, that might be through traditional multiplayer modes, or that might be through what we discussed in a newly developed Battle Royale mode. There are also other new modes that we're developing. Again, DICE is one of our most innovative studios, who are continuing to build and look to deliver innovative multiplayer components to that game. And as we come into October, we'll be talking a lot more about this. But you should expect that we'll be delivering a full-featured game that features all of the traditional components of a Battlefield game in addition to new modalities of play, including Battle Royale, and delivered in a way that we believe people want to play, which is not just what you get at launch, but in the context of a live service over time. And we're excited about what we're able to do then.



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**Operator**

Your next question comes from Ben Schachter from Macquarie.

**Edward Donald Alter** - *Macquarie Research - Analyst*

This is Ed Alter on for Ben. Can you discuss how the commission rates paid to platform holders differ across mobile consoles, and particularly China? And then if there's any opportunities do see that you can leverage your scale to improve those rates over time?

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

We don't disclose that, but I think people all have a good sense of what the rates are for Apple and Google, Tencent. And it's a different model within Sony and Microsoft, but effectively, similar levels across all the Western ones. The Chinese, Eastern, Tencent and others are different, but I think most people have a perspective on that. So...

**Operator**

Your next question comes from Stephen Ju from Crédit Suisse.

**Stephen D. Ju** - *Crédit Suisse AG, Research Division - Director*

Blake, I know it's early, but can you talk about the differences between the FIFA Mobile game that's available in China versus what's available everywhere else in terms of how monetization in China might be better or worse, different? Presumably, ARPU might be lower versus the Western markets, so wondering if the conversion rate to paying users is materially different. Also, can you help us think about the impact for the Champions League to the guidance parameters? Is this purely going to be just more events around the midweek games? Or are there different modes that you're planning, et cetera?

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

So why don't I take the first part, and then I'll let Andrew do the Champions League first piece. So it's early days, and so I'm going to hold off on giving you any general statistics. But I would say in terms of how the game is different, it's much more localized than we've done in other markets. And part of that is just the uniqueness of the Chinese market and the uniqueness of the fact that many people in China don't yet know all those intricacies in players and rules of football. And so the -- part of what we did is try to make the game much more understandable and much more Chinese-centric around how games are sometimes played. It has local content as well, which FIFA Online 4 and FIFA Online 3 do in their respective markets. And so I would say the biggest driver has been localization. But it's too early to start sort of understanding what all of the metrics are going to be. We'll think about how we can describe that as we get a better sense of it without getting down a path of dealing with individual game metrics, which will probably drive you guys crazy. But I think all in all, the localization component that ourselves, our teams in Asia and Tencent helped on has been a huge benefit for that marketplace versus where we've been tuning internationally with the base game that we have from the West. It's -- this is a much more depth in localization that we've seen in other markets. And we did that biggest opportunity and the size of the potential there is so large.

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

And in terms of Champions League, for many who follow the sport, Champions League may be the most popular and powerful soccer league, if not sports league in the world, bringing together the best clubs in Europe and the best footballers in what is a magnificent tournament. And so you should expect that -- as I talked about in the prepared remarks, we have over 100 million players across platforms and games and generations in FIFA, and you should expect that we are thinking about how we can enhance and extend all of those experiences with Champions League



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content. That might be something as simple as what we've done in FIFA console this year and doing a completely new and progressive remix of the Champions League theme song, all the way through the manifestations in story mode and general single player and multiplayer modes, all the way through into Ultimate Team and live service events over time. We're really excited about the inclusion of the Champions League. It's the first time we've have it, I think, in over a decade. And we believe our fan base, given the popularity of that league, are going to also be very excited with how the team has delivered an interactive experience across various platforms and games.

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**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

And as you know, Ultimate Team is driven by the weekly events that we host. And obviously, the Champions League gives us a whole new opportunity for new events to be able to add to that roster. So it's very exciting for us. And we think this is not just a 1-year play. This is something that will continue to help evolve FIFA over time.

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**Operator**

Your next question comes from Gerrick Johnson with BMO Capital Markets.

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**Gerrick Luke Johnson** - *BMO Capital Markets Equity Research - Senior Toys and Leisure Analyst*

I just want to clarify, I thought I heard Andrew say that FIFA had 100 million players. Did -- is that accurate, or is that the total EA SPORTS franchise?

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

No, that's accurate. So when you think about -- a lot of times when we talk about FIFA, we talk about FIFA in the context of console in the West. And certainly being placed in the West, it's easy to think about FIFA in that context. But remember also we're on FIFA Mobile in the West and in Asia. We have a very, very successful PC free-to-play online game in Korea, Southeast Asia and China. And as we look across the entire platform, we thought it was important that we start to think about FIFA in its true capacity across the franchise and its over 100 million players.

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**Operator**

Your next question comes from Eric Handler with MKM Partners.

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**Eric Owen Handler** - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

Blake, I'll preface this by saying, I'm not complaining. You purchased \$300 million worth of stock in the quarter. You generated about \$90 million of free cash flow. So I mean, you didn't really dip -- have to dip into your existing cash at all. At this point, what are you thinking about what it would take to maybe accelerate the buyback a little bit?

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**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Jeez, we're only one quarter into our 2-year \$2.4 billion buyback and I'm already getting requests to move it up. No surprise, and I appreciate that you've prefaced it by saying you weren't complaining. We've always focused on trying to have a systematic program, not an opportunistic program, to consistently return capital to shareholders. We target that with our board every year. We've revised it every year and increased it every year. We just brought -- started this new program, which is a doubling of our old program. And our view is we'll take that through the year, see how that performs and revisit it at the end of the year and decide if we should continue to buy back more stock or not. We are always trying to balance the need for cash for potential M&A activities or investments versus returning that cash to shareholders. We think the balance that we've hit now is



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about right, but we're always adjusting and thinking about that to make sure we are, at a minimum, covering dilution from share-based compensation. And our hope is that we will clearly do more than that in the coming years based on the level that we're at today.

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**Eric Owen Handler** - *MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst*

So along those lines, I mean you guys have made 2 seemingly small acquisitions. One, can you give us a little bit of detail on those 2 companies that you've acquired? And secondly, are you starting to see a little bit more movement in the M&A environment?

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**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Unfortunately, we're not seeing a lot of movement because I think the industry is -- everyone's doing so well that no one's really forced to try to rethink their direction and staying, in most cases, in either a private position or as a stand-alone public company. That may change over time, and we're always watching that. We look at every major deal that comes through, and we have a team of people that are out in the marketplace all the time looking at players. The 2 acquisitions we did, you're correct, they're very small. The acquisition of the streaming assets from GameFly was a unique opportunity for us to buy technology that was essentially the middleware in streaming and we believe is critical to be able to stream to many different devices over time. And that's a team of people based in Tel Aviv, Israel, and they're fabulous at what they do. And it was an opportunity to buy that team and the technology that they've developed. But it was less than \$50 million. And then the second piece is a very small mobile business that we've actually been working with called Industrial Toys. I've talked to a few people that -- who thought we were getting into the toy business. So we're clearly not getting in the toy business, so don't panic. But it's a group of people, one of the original founders of the Halo series. And they've been working for us on a mobile product that -- as a work-for-hire studio. And we've been very impressed with that team, with the quality of the people and their ideas of the things they're working on. I won't yet tell you what they're working on, but you will see something in the next couple of years coming out of that studio we think is pretty innovative in the mobile space. So we're very excited. We look at a lot of mobile businesses like that for great talent and great opportunity versus buying a specific product per se. And we knew those people well because we've been partnering with them. And so those are the types of things that we'll be consistently doing, but unfortunately, most of those are fairly small and longer term in vision. But we want to make sure we keep enough dry powder in case to something change. And if we find that there aren't really any opportunities, once again, we'll go back and revisit the return to shareholders plan.

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**Operator**

And your next question comes from Drew Crum from Stifel, Nicolaus.

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**Andrew Edward Crum** - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

So wondering if you'd be willing to size the annual net bookings run rate for FIFA Online 4. I think in the past, you've provided some context around the size of FIFA Online. And then separately, one of the popular features in Fortnite has been cross-platform playability. Is that something you intend to include in Battlefield V or any other EA game?

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**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Sure. I think FIFA Online, we've talked about both the growth, particularly in China as well as the success in Korea. And it's still early -- too early to size what Online 4 looks like. Right now, it's tracking very similar to Online 3. And there's always a transition period because you need to tell the consumers there that their currency doesn't translate across the 2 programs. And in a few markets, we're actually running both simultaneously to allow people to move off slowly versus immediately shift them on. So trust that it's -- it's still small relative to our \$5.5 billion or \$5.55 billion guidance, but growing very fast, particularly in China.



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

In terms of cross-platform play, again, we are seeing the same thing. And remember, we have a vision on a 3- to 5-year time horizon where a great portion of game experiences will exist in the cloud and be pushed to every device you own. And the game experience you have won't be measured by local CPU or GPU, but will be measured by screen size and session time you have and will drive tremendous liquidity in a market -- in a player base. And I think we are to deliver very different types of experiences as a result of a cloud gaming offering. In the near term, you should also appreciate that we're looking at key franchises in terms of how we should deliver cross-platform way -- cross-platform players in a similar way that Fortnite has, especially -- some of our titles have a broad and diverse player base. Households typically have one console, so the ability to bring PC to console and console to mobile into that play experience can bring families together, can bring friends together. And we think it's an important part of our future development profile, both in terms of mobile games that we have today moving up per se to console and PC, and console and PC games being playable in mobile. And I expect more from us on that front in the future.

**Operator**

Your next question comes from Tim O'Shea from Jefferies.

**Timothy Larkin O'Shea** - *Jefferies LLC, Research Division - Equity Analyst*

So Andrew, you talked about connecting 1 billion people a day. So my question is, how does your cloud-based gaming, the streaming service, how does this contribute to expanding your addressable market and eventually connecting 1 billion people? And then, just a follow-up on FIFA mobile, you obviously had great success in China. Just wondering how that success might impact your thinking about the opportunity that you do see in China over time. And is it reasonable that we might expect to see more of this type of launches going forward?

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

Great question. And typically, my verbiage is 1 billion people in play versus 1 billion people a day, but I guess that's the very next step beyond getting them to play with us is getting them to do it every day. And you should expect that, that would be our objective upon reaching 1 billion people in play. Certainly, we believe that cloud gaming delivers a tremendous opportunity to do that. So right now, depending on which figures you look at, but it's probably somewhere between 2 billion and 3 billion people playing games on mobile devices, so discrete experiences. They're playing for a couple of minutes a day. And where the core part of that population are playing games like Star Wars: Galaxy of Heroes for 90 minutes a day. Our belief is that over time, that player base will continue to mature. We're seeing some of that with Fortnite right now, where we're seeing mobile players move up to a PC or a console in terms of the immersiveness and complexity of that experience. And you get core players on big-screen, HD games that come down and spend more time on mobile devices. So as we think about cloud more broadly, it's about capturing more of that TAM, so expanding the TAM across our portfolio, delivering that -- delivering greater access to games, a tremendous value to our players with far lower friction. And for us, that's going to be a meaningful growth opportunity for Electronic Arts in the future.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

And in terms of FIFA Mobile, clearly, both ourselves and Tencent have been very pleased with the progress of the title, particularly a sports titles because there are not many sports titles in the marketplace. Also, you can imagine that we're having discussions with them on what other titles we might be able to put into the market. We have worked with them for some time and worked with them, obviously, on FIFA Online on the free-to-play PC game. And so we're looking at other of our mobile franchises that might work in the marketplace if they were culturalized or localized in some fashion. We're very focused on continuing to try to grow that business and grow our partnerships with both Tencent and other players there to try to build that footprint. We think it's one of the biggest growth market opportunities for us around the world, and you'll see more products in the coming years, I think. I think right now, the focus is on FIFA because it's so early, but we do think there's opportunities beyond FIFA. For example, our Need for Speed franchise has always been very popular there. The Plants vs. Zombies franchise, The Sims franchise have all been popular in China. And if there's ways to leverage what we're doing across those franchises, we'll certainly look at that.



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

We also believe that as we think about subscription, subscription is a relatively nascent business model in Asia right now, more broadly. I guess more free-to-play model there. But what we are seeing is a rise of premium game engagement. And we also believe that as we think about Origin Access Premier and we think about the portfolio of games that we have that may traditionally not have had an audience by virtue of their business model in Asia, that there is opportunity there also.

**Operator**

And your next question comes from Justin Post with Bank of America Merrill Lynch.

**Ryan Chusid Goodman** - *BofA Merrill Lynch, Research Division - Research Analyst*

This is Ryan Goodman for Justin. I had a couple on Battlefield and then one on mobile. For Battlefield, in the commentary, it sounds like the early play tests are going pretty well. So just curious if you had any color on preorder activity to date, how that's tracking versus your expectations? And then second question on Battlefield, it's more on the content release strategy. Last year with Battlefront 2, there was a little pushback with the initial player and game progression system out of the gate. So just curious, is there anything you can share with us on how you're thinking about the content release strategy or cadence with Battlefield? And then separately on mobile, just -- we're a couple of months into the pre-alpha on Command & Conquer, and you've had the rights to power pre-alpha. Just would like any feedback you're seeing there, player reception, just anything to share there.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Yes, we don't tend to directly comment on our unit forecast. What I'd tell you is we look at lots of different components including preorders. But preorders continue to be less and less important in a digital world, but we do observe that. We look at everything that people are saying about the game, their intent to purchase the game and communication around the game with measures of where it's going. We're happy with those. We're also excited about the number of people that played Command & Conquer coming out of E3 when we allowed people to play it. It's early days there, but what we're hearing is it is an amazingly fun game that really gets people excited, particularly in groups. And so it may have opportunities beyond just an individual game and maybe more of a group game or even these sports opportunities. So we're excited about that. And it's in full test now and being finalized, and you'll see it later this year.

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

In terms of content delivery for Battlefield V, and you referenced Battlefront 2, our objective in Battlefront 2 is to deliver a large, full-featured experience at launch that has the opportunity for players to continue to engage in new and fresh content over time. And we've continued to deliver that. As we've talked about before, we had some issues with the progression system and the monetization system, which we've since learned from and fixed, and launched a completely new progression system in that game. And the teams continue to work. And we announced new content, including Clone Wars content, at EA PLAY. And we're encouraged by the reception that we've had as a result of that. So you should imagine that we have learned from that experience. And as we think about the launch of Battlefield V, again, our objective is to launch a spectacularly built game that is full featured with single player, with traditional multiplayer modes, and new and innovative multiplayer modes, including Battle Royale, over time. And while the base game that we launched will be large, deep and full-featured, that we also understand that players expect to play these games for many months and sometimes years later, and that we have a long-term service plan in place for the delivery of ongoing content and ongoing modes of play.



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**Operator**

Your last question comes from Evan Wingren from KeyBanc Capital Markets.

**Evan Todd Wingren** - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Blake, you mentioned in the prepared remarks that ARPU in live services was a bit lower than you had expected on Ultimate Team. I wonder if you could just give a bit more color there in terms of what you saw in the components and how you're thinking about that going forward? And then I have a follow-up.

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Yes. So to be careful, I was just in FIFA. Actually, we had a very strong Madden Ultimate Team quarter, which is rare for the first quarter. So we enjoyed that. It's not a huge business in the last quarter of the year before the football season starts. But in FIFA we've -- as Andrew mentioned, we brought a very large number of new or lapsed users into the game and into Ultimate Team. But we remind people -- and I think we've tried to temper people's enthusiasm around this when we first gave guidance, is that people oftentimes play Ultimate Team for months or years before they spend money, partially because they're learning how to play and are having a lot of fun, and they don't really understand how much more fun they'll have if they spend a little bit of money. And so what we saw was more people in the game than we expected, but those people did not spend as much money or any money at all. And our view is that, that's still a positive because we now see, post Ultimate -- or post the World Cup, the Ultimate Team business continuing to grow and engage, and we think that's a real positive coming out of the World Cup.

**Evan Todd Wingren** - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

And just to clarify, so you're not implying that people that do see value and pay for things in the game, that didn't actually trend worse than you thought or decline?

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

No. No, I think the only thing you could probably assume is that someone in Germany who really enjoyed playing Ultimate Team probably didn't play after the Germans lost. And I can't quantify that for you, but -- or U.S. people who weren't even in the market may not have played as much, but -- and that's the fun and excitement of World Cup. You have these unknown outcomes that keep people excited. But no, the core continues to engage in Ultimate Team. And now, we believe we're growing the core with some new players that came in through World Cup.

**Evan Todd Wingren** - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Got it. And the follow-up was you mentioned free-to-play and experimenting with that. Unless I have missed that, that's kind of the first I've heard you speak about that. Can you contrast that with the subscription effort that you're doing? Is the thought there that, that could be potentially moving towards a premium-like offering? Or is it really a separate endeavor, I guess, that you're looking at? And perhaps what type of resources are you willing to put against an effort like that?

**Blake J. Jorgensen** - *Electronic Arts Inc. - COO & CFO*

Yes, I think -- remember, we've been building free-to-play games in Asia for 10 or 15 years. We have long experience there. And FIFA Online is a great example of that, so the other opportunities that we've had over the years in free-to-play there. We have a free-to-play mode inside Star Wars flow to our business that we've run for years as well. You can either subscribe to it or have a free-to-play version. We're always looking at new models. And my implication was, don't assume that we're going to do something immediately and something like Battlefield, but you should also assume we're looking at a lot of the franchises that we have or older franchises and asking the question, "Is there an opportunity to have a free-to-play



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version of that?" So more to come. Nothing to announce in the next few quarters. But you'll will see things we'll start testing sometime over the next year or so.

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**Chris Evenden** - *Electronic Arts Inc. - VP of IR*

Well, great. Thank you, everyone, for your time, and we look forward to seeing everyone over the next few quarters and talking to everyone at the end of October.

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**Operator**

This does conclude today's conference call. You may now disconnect.

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