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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon. My name is Bovis, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Electronic Arts Fourth Quarter and Fiscal Year-End 2024 Earnings Conference Call. I would like to turn the conference over to Mr. Andrew Uerkwitz, Vice President, Investor Relations. Please go ahead.

Andrew Uerkwitz - Electronic Arts Inc. - VP of IR

Thank you. Welcome to EA's Fourth Quarter and Fiscal 2024 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 and audio replay of this call and a transcript.

With regards to our calendar, our first quarter fiscal year 2025 earnings call is scheduled for Tuesday, July 30. As a reminder, we post a 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-Q for a discussion of risks that could cause actual results to differ materially from those discussed today. Electronic Arts makes these statements as of today, May 7, 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 & CEO*

Thanks, Andrew. In FY '24, we entertained and connected hundreds of millions of people around the world. I'm inspired by how our teams continue to create and deliver more innovative content and deeper experiences than ever.

Before I dive into our results, I want to talk about the accelerating transformations across the entertainment landscape and how we have been navigating and leading through change. Firstly, consumer retention and spend are increasingly consolidated in top franchises. As live services deliver fresh content, players are going deeper and spending more time with their friends in blockbuster experiences. For example, in North America, engagement for the top 10 franchises have increased their market share since fiscal 2022.

For a company that has some of the biggest IP in the world, this trend presents an incredible opportunity to evolve as an industry leader. It is against this backdrop that we have built our 3 strategic pillars around entertaining and engaging massive online communities, telling blockbuster stories and harnessing the power of community in and around our games.

Secondly, players and fans are increasingly looking to us to deliver the entertainment they want today and tomorrow, bigger, bolder, more connected experiences where they can play, watch, create and connect like never before. As players' needs and motivations expand, we continue to sharpen our focus. Across this past fiscal year, we took proactive steps to further empower our creative leaders by realigning our investments, organization and portfolio in support of our largest growth opportunities. As we have demonstrated several times in the past by building some of the world's largest franchises, when we rally behind a shared goal, EA delivers more creativity, more connection and more cutting-edge experiences for players and fans.

The most recent example of this is the incredible launch of our multi-platform experience, EA SPORTS FC, which was a truly profound moment for our players, our teams and our partners. This milestone as well as our execution across this fiscal year demonstrates how EA is leading the future of entertainment. I'm excited to share more details about our development pipeline, innovative experiences and new revenue streams at our Investor Day this September in New York.

Our teams at EA SPORTS are the best in the business, delivering awesome game play, innovation and unmatched authenticity to fire the passion and imagination of hundreds of millions of players and fans. FY '24 was the biggest EA SPORTS year in our history, a year in which we launched 8 titles across the year, including the highly successful launch of our own brand, EA SPORTS FC. Players are connecting, competing and celebrating global football with their friends, driving strong engagement across FC's multi-platform experiences. In FY '24, our global football franchise grew net bookings by high teens, a remarkable year, considering the prior year benefited from significant tailwinds related to the World Cup.

During calendar 2023, there were billions of matches played across FC experiences, and the franchise's astounding success goes far beyond game play. Our massive global football community watched more than 1 billion hours of content in and around our game, game play videos, pitch notes and e-sports in addition to content produced by our community.

These many interactions on and off platform meaningfully increase in-game engagement, which drives stronger retention and ultimately, greater levels of monetization. What we know when we look at play behavior in our games, as players spend more time with their friends, they play more, they play for longer, and this engagement leads to more in-game spend. With the successful launch of EA SPORTS FC, our focus was twofold: delivering innovation in game play with HyperMotionV, new features and improvements across all modes of play for our core players while continuing to expand the game's reach through the acquisition of new players and reengagement of lapsed players.

Our go-forward strategy is anchored in building a platform that enables us to deepen our connection with players, lead the future of immersion by bringing the real world of sport and our experiences closer together and expanding the tools, modalities and partnerships to drive enhanced socialization, self-expression and creation for sports fans. We've engaged with partners like Nike, Pepsi, Uber Eats and Beats over the last year and will continue to do so, integrating them into match day experiences and providing them with a platform to deeply connect with our global audience. We are also building to unlock new multifaceted sponsorship and advertising opportunities.

FC is more than just a game. It's the world's leading digital football fan platform, and this is just the beginning.

Year after year, Madden NFL unites fans and athletes through interactive experiences that fuel passion, connection and creativity. No one can match Madden's unparalleled authenticity in American football. Our talented teams pushed more innovation in a Madden NFL 24, more modalities of play and amazing content throughout the season, leading to the highest selling installment for Madden since the early 2000s and record overall net bookings.

Further innovation in live service events has led to deep ongoing engagement well beyond the NFL season, especially with younger audiences as we've seen increases in weekly active users into and following the Super Bowl. Most recently, excitement has continued through the NFL Draft as top picks were dropped into Ultimate Team in real time. We see this excitement leading us right into an incredible Madden NFL 25.

To expand the American football experience, this summer, we are launching the highly anticipated EA SPORTS College Football 25, bringing new innovations, always-on social connection and unrivaled immersion. This awesome experience will feature all 134 football bowl subdivision schools, more than 11,000 college athletes, the iconic traditions and pageantry of the United States' biggest college sport and unparalleled game play to inspire the fandom of millions of fans. This is the next step in a multiyear plan to further evolve and grow our American football experiences into a connected ecosystem to more deeply engage and expand an already thriving community.

We see incredible opportunities ahead for us across our sports business. As we continue to build ecosystems around our biggest communities, we are also prioritizing our owned IP in the rest of our broad portfolio, which are among the most deeply engaging and culturally relevant entertainment properties in the world. Since its surprise smash hit release in 2019, the HD title of Apex Legends has surpassed \$3.4 billion in lifetime net bookings. In FY '24, we focused on building features and improving quality of the experience to drive long-term engagement positioning us for future revenue growth.

For example, we finished the year with significant changes to the mechanics of our popular ranked mode. We engage with the community, increased transparency and thoughtfully addressed their feedback and as a result, saw dramatic improvements in player sentiment across the world, improving 29 points. We have also prioritized expanding Apex' appeal, making it more approachable for new and more casual players with improved onboarding and simplified modes of play like 3 strikes and straight shot. Looking to the future, we'll continue to invest in broadening the audience by building upon the epic characters and storytelling of this world that go beyond the current Battle Royale.

The passion of The Sims community remains strong as the franchise powers towards its 25th anniversary. Since its launch in 2014, The Sims 4 has surpassed 85 million players with FY '24 up double digits year-over-year. The Sims online and The Sims mobile combined have been downloaded over 500 million times. This is already one of the largest communities in the world, and we believe this hugely successful franchise has the potential to become one of the largest creative platforms in entertainment.

An early proof point of the platform's evolution is the hundreds of moons of user-generated content items that were shared in this fiscal year. Looking ahead, we are committed to entertaining and inspiring our loyal and engaged Sims 4 fans through over 15 content updates over the coming year while working on multiple experiences in The Sims universe to leverage user-generated content to deepen our community and expand our audience.

With each immersive action pack season of Battlefield 2042, players have made it clear that they wanted an even deeper experience. Our teams have listened to the community, have learned valuable lessons and are driving to the future. Motive, armed with cutting-edge Frostbite technology and compelling storytelling, is joining DICE, Criterion and Ripple Effect to build a Battlefield universe across connected multiplayer and single-player experiences. This is the largest Battlefield team in franchise history. A few weeks ago, I was visiting with the teams, and I couldn't be more excited about what they showed and what we were able to play.

Turning to mobile. We are heads down on bringing together mobile and HD franchise leadership for EA SPORTS FC, Madden NFL and The Sims while also continuing to make strategic investments in stand-alone mobile titles. Mobile is the largest platform in our industry; and with our teams aligned and more empowered than ever, we see growth opportunities in this part of our business over time.

I will now turn it over to Stuart for more detail on FY '24 with additional color on the near-term industry outlook and incremental detail and metrics around our confidence in FY '26 and FY '27.

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

Thanks, Andrew, and good afternoon, everyone. As Andrew spoke to earlier, we have been on a journey to transform our business to meet the needs of an evolving industry landscape, which has seen players develop new engagement behaviors and demands. To meet these changing plan needs, we've been deliberate over the last fiscal year to prioritize our investments, streamline our portfolio and align our teams and organization behind our biggest strategic opportunities. Overall, these changes set us up to deliver accelerated growth from the core business while building the foundational blocks to expand and deepen both engagement and monetization into the emerging interactive entertainment categories of create, watch and connect.

Turning first to fiscal year 2024, EA delivered strong earnings growth and record cash flow in a highly competitive market. Our results were highlighted by the hugely successful rebrand for EA SPORTS FC and growth across our largest sports franchises with both global football and Madden franchises delivering record net bookings results. For the fiscal year, we delivered total net bookings of \$7.43 billion, up 1% year-over-year or up 3% in constant currency. Full game net bookings of \$2.01 billion, up 11% year-over-year or 12% in constant currency was driven by the release of Star Wars Jedi: Survivor and our EA SPORTS portfolio. We launched 4 new non-annual sports titles in FY '24, strengthening our EA SPORTS brand as it further expands fandom across one of the largest platforms in the world.

Live services net bookings was \$5.43 billion, down 2% year-over-year or down 1% in constant currency. Excluding the impact of the sunset of Apex Mobile, live service net bookings was about flat year-over-year. Strength in live services was driven by high-teens growth year-over-year in our global football franchise, fueled by FC Ultimate Team and FC Mobile but was offset by declines in Apex Legends.

Moving to our GAAP results. We delivered net revenue of \$7.56 billion, up 2% year-over-year. Cost of revenue was \$1.71 billion, down 5% year-over-year, driven by lower royalties and lower acquisition-related expenses resulting in a gross margin of 77.4% for the year, an improvement of 150 basis points. As we continue to operate with focus and discipline, GAAP operating expenses were \$4.33 billion, up 1% year-over-year driven predominantly by incremental marketing spend to support our new releases and launch of EA SPORTS FC.

Our GAAP earnings per share was \$4.68, which included \$64 million of restructuring and related charges, significantly outpacing our original expectations, growing 63% year-over-year. Operating cash flow of \$2.32 billion, a record for our fiscal year, delivered considerable improvement and accelerated growth year-over-year. Capital expenditures for the year were \$199 million, below our original \$275 million guide as we further rationalized our real estate investment and footprint over the year. This resulted in a record year for free cash flow of \$2.12 billion, up 58% year-over-year. This includes a onetime cash tax savings of approximately \$150 million. Over the year, we returned \$1.51 billion to shareholders through buybacks and dividends.

Moving to fourth quarter results. Total net bookings for the fourth quarter was \$1.67 billion, down 14% year-over-year in both actual and constant currency. Full game net bookings for the quarter was \$259 million, driven by slate timing, and live services for the quarter was \$1.41 billion.

As a reminder, we expected Q4 net bookings to be impacted by 8 points related to slate timing. We also provided a wider guidance range to account for the dynamics of Apex Legends and EA SPORTS FC, which faced difficult comparable periods. In Apex Legends, we saw elevated engagement and monetization trends early in the quarter. As the quarter progressed, monetization returned to prior norms while player sentiment and engagement remains strong. FC Mobile and Online declined year-over-year as they faced record comparables in the prior year period fueled by World Cup tailwinds. However, FC Ultimate Team lapping a record 20% growth in Q4 FY '23, again grew year-over-year delivering low single-digit growth.

We delivered net revenue of \$1.78 billion down 5% year-over-year. Cost of revenue was \$357 million, which translated to a gross margin of 79.9%, up 380 basis points year-over-year, as we benefited from lower royalties and change in deferred net revenue related to product mix. GAAP operating expenses for the quarter was \$1.19 billion, down 5% year-over-year from lower restructuring-related charges. GAAP EPS for the quarter was \$0.67. We delivered operating cash flow of \$580 million in the quarter and free cash flow of \$529 million.

Now let me turn to our outlook. In FY '25, we expect to again drive results in a highly dynamic market, delivering fiscal year growth, strong cash flow and enhanced return on capital. We expect to do this despite a lighter slate through new releases of iconic and fan favorite IP, continued execution and growth in our core live services, and by staying focused and disciplined against our strategic growth initiatives.

Our Q1 FY '25 outlook reflects many of the trends we saw in Q4 2024 related to slate timing and atypical seasonality as we lap difficult comps year-over-year. We expect the quarter to be impacted by a 15 point headwind related to release and content timing versus prior year due to 3 additional title launches. Live services, including EA SPORTS FC and Apex Legends, will continue to face difficult comparable periods. As a reminder, Q1 FY '24 was the largest Q1 in company history for our global football franchise.

We expect net bookings for Q1 to be \$1.15 billion to \$1.25 billion, down 27% to down 21% year-over-year. We expect net revenue of \$1.575 billion to \$1.675 billion, cost of revenue to be \$240 million to \$250 million, and operating expenses were approximately \$1.065 billion to \$1.085 billion resulting in earnings per share of \$0.73 to \$0.90.

Now moving to our outlook for FY '25. We expect fiscal year net bookings of \$7.3 billion to \$7.7 billion down 2% to up 4% year-over-year, with mid-single-digit growth in our core live services business, partially offset by fewer title launches, lighter catalog contributions and headwinds from our mobile business related to portfolio optimization decisions taken over the last 6 months. Excluding our sunset titles, we expect mobile to be up low single digit.

Turning to GAAP. We expect net revenue of \$7.1 billion to \$7.5 billion. We expect GAAP operating expenses to be \$4.35 billion to \$4.44 billion, flat to up 2% year-over-year as focused investment to drive growth is largely balanced by less marketing spend and acquisition-related expenses. We expect GAAP operating margin to be 18% to 20.6%. We expect non-GAAP operating margin to be 29.6% to 31.7%. The impact from change in deferred net revenue is expected to be approximately 200 to 170 basis points. We expect fiscal year GAAP EPS of \$3.34 to \$4. We expect our business to continue to be a strong generator of cash with operating cash flow of \$2.05 billion to \$2.25 billion and capital expenditures of around \$200 million, which would deliver free cash flow of about \$1.85 billion to \$2.05 billion, roughly flat year-over-year when excluding the onetime cash tax benefit noted earlier.

Expanding upon the long-term financial framework we introduced last quarter, we are introducing non-GAAP operating margin guidance through FY '27. We believe this best reflects our confidence in accelerating growth, ability to expand margins and grow cash flows. Moreover, it provides greater transparency around the impact of our strategy and future pipeline for our shareholders. By FY '27, we expect our GAAP operating margin to expand an additional 300 to 350 basis points, and we expect our non-GAAP operating margin to expand another 150 to 200 basis points. We do not expect any additional impact from change in deferred net revenue. Please refer to our slides and FAQs for further information.

Our conviction in expanding margins and accelerating growth leads us to increase our stock repurchase program and extend it by an additional year. Returning capital to shareholders is an important priority for us. Our Board has authorized a stock repurchase program of \$5 billion over the next 3 years. We expect \$1.5 billion to be returned in FY '25 with the remainder scaling with growth in our business across FY '26 and FY '27.

In closing, as we look ahead to our September Investor Day, I'm excited to share more on our ongoing value creation framework with insights into the growth drivers across our core business and upcoming releases from our development pipeline as well as our key strategic priorities to harness the power of our community.

Now I'll hand it back over to Andrew.

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

Thank you, Stuart. 25 years ago, there were dozens of major independent publishers in the video game space. Today, there are only a handful, and 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 our massive player network. With these enviable strengths, we are well positioned to grow the industry and increase our market share. As we leverage the capabilities of AI, we believe it will further supercharge these differentiators.

Through decades of experience and leadership, we have led through multiple transformations in our industry. Now we have an incredible opportunity in service of our players, communities and shareholders to lead through the one taking place right now.

Now Stuart and I are here for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Matthew Cost of Morgan Stanley.

Chidi Dave Nwokonko - *Morgan Stanley, Research Division - Research Associate*

This is Dave on for Matt. Just a quick housekeeping question. It looks like in the new non-GAAP guidance, you're providing us a better bridge to what we're already doing in our model. So if I'm following correctly, we can now take the new non-GAAP operating margin and add or subtract for the change in deferred. So if I'm doing the math correctly, does that bring us to an operating margin on net bookings of 31.6% to 33.4%? And then I guess just as a quick follow-up, if you could speak more to why the change in disclosure.

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

Dave, many thanks for the question. It's Stuart. Let me just quickly step back and talk about why now and why the change. We know that video game companies take different approaches with regards to capitalizing software costs. As you know, we don't capitalize software cost, and we expense as we go into the P&L. Thus, we thought it was important that by bringing this measure, it helps you better understand our business as we move forward, in particular, as we think about the pipeline in '26 and '27 and as a way for us to clearly demonstrate the conviction in the strategy and the direction that we see the business going forward into the future.

Based on your assessment and using the adjustment for the change in deferred revenue, yes, you are correct. And what I would tell you is a couple of pieces. One is that, obviously, you see expansion in FY '25, which is suddenly driven by our licensing changes, revenue mix through the year and the ongoing focus and discipline around cost as you look at the '25 guide and the framework of OpEx around net bookings; and then secondly, as we outlined in the prepared remarks, you'll see FY '26 and '27 expansion, driven by the pipeline as we start to bring to market through those later years and continue to enable us to drive return in the core business and importantly, still investing in the future. I'd also add that around all of that conviction and for using that metric, that would obviously have also announced the increased stock repurchase program, which is, again, another really meaningful signal in conjunction with this metric of where we see the business moving in the later years.

Operator

Our next question comes from the line of Chris Schoell of UBS.

Christopher Joseph Schoell - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate*

I appreciate you've been facing very difficult comps. But can you give us some color on what you're assuming for some of your larger franchises, including Apex and FC in fiscal '25? And it appears the midpoint of the guidance is similar to your prior growth commentary. But anything you would flag that has changed relative to last earnings call in regard to your expectations for next year?

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

Thanks, Chris. Firstly, I'll take the last question first. No, no material expectation shift from the framework that we outlined back in January. To your second question around broader assumption, I think it would be important to think about the phasing of how we're thinking through the year. Obviously, we put out Q1 and you'll see the challenging sort of headwinds around the title comps and slate from last year, which is really driven around we had those extra titles from before. As you think through the rest of the year and how we build out the business, obviously, we look to Q2, and we see obviously the addition of college football and we expect an overall aggregated growth around our American football business.

You would expect that we continue to see growth in both our core live service business, and we talked to in the prepared remarks that we see that outpacing the market in sort of mid-single-digit growth. You'd expect the FC that has grown for us. And again, we grew FC again last year in '24. We expect that FC 25 bring both new innovations, and we continue to grow that franchise through next year.

In terms of Apex, we saw great engagement and retention from players in Q4. We continue to invest behind the franchise and expect to see some advancements and innovations in new seasons over the next couple of seasons in front of us that would start to continue to believe we drove growth back into the franchise through FY '25. That overall brings us to the profile we've put out, which is, again, low single-digit bookings growth for the year in a lighter release slate but offset by growth in our core life service business.

Christopher Joseph Schoell - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate*

And if I can just fit in one more quick one just regarding the stock repurchase program. How did you think about accelerating the buyback versus other capital allocation opportunities you had at your disposal?

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

Yes, great question. I think the first thing I would just say is our dividend remains unchanged. The second part is you want to kind of reinforce from the stock repurchase program sort of 3 validations through it. One is aligning the length of the program with the framework we're putting out in terms of the extended guidance we gave around the new disclosure metric. Secondly, I want to emphasize that the authorization obviously being bigger than our current one at \$2.6 billion rising to \$5 billion and basically sending a signal we want to continue to scale that through the approach of a stock repurchase plan, which obviously gives us continued value, in our mind, back to shareholders and obviously flexibility as we scale through the next 2 or 3 years.

Operator

(Operator Instructions) We will take our next question from Mr. Eric Handler of ROTH MKM.

Eric Owen Handler - *ROTH MKM Partners, LLC, Research Division - MD*

You have a big live services bucket; and yes, we can decipher how much is PC and console versus mobile. But I'm wondering, if you could break it up between, let's say, sports, action shooter and casual, how would -- like how would that break down in terms of percentages?

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

Eric, this is Stuart. We're not going to break down directly the splits the cost of the live service business. As a reminder, the live service category encompasses not only sort of sports, also incorporates mobile, incorporates other parts of our business whether it's our subscription business from EA Play and other parts that comprise live services, a heavily aggregated category across multiple levers we have by virtue of the portfolio and the strategy we carry today.

Obviously, we think that through our massive online communities, they're our largest components as we come through that live service piece. When you think about FC, Sims and Apex, that's comprising the biggest 3 of those massive online communities. We look to add obviously college football this year; and obviously, Madden accompanies that inside of that envelope.

We also see naturally a mobile business that wraps inside of that live service number, and we've talked to that we see -- outside of the portfolio rationalization, we see low single-digit growth in that business through next year. They're kind of the big compositions that we see around that service business that makes up 73% today and ultimately gives us the flexibility and agility to be convicted in the future as we layer on both the pipeline and our strategic objectives.

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

Yes. I might just add, one of the great differentiators of our company is actually the breadth of our live services. So if you look at FY '24 as we come into FY '25, at the very center of our FY '24 was this incredible rebranding of FC and the launching and growth of that even as we lapped a World Cup year. We had Madden, again, a live service that grew and reached record levels of revenue. We had our biggest EA SPORTS year. I would argue that EA SPORTS may be one of the greatest global multisport media brands in the world and certainly has greater fandom than most other brands that it competes with.

We had double-digit growth in the community on The Sims, which, again, target a very, very different demographic of players. And when we look at the many hundreds of millions of shared user-generated content items, you are seeing the evolution of that live service into a broader community creation platform.

We continue to build resilience into Apex. And as a community sentiment, that grew 29 points over the last fiscal year; and as we're primed to continue to grow and expand that live service, we have great opportunity. And again, as I talked about in the prepared remarks, I've just spent a whole bunch of time with the collective Battlefield team playing what they're building, and it is going to be another tremendous live service.

And if you really use FC as the blueprint and you think about across platforms, across modalities, across business models, across geographies and also branching fans beyond the bounds of the traditional game to create truly a football fan platform that really extends the magnitude of the live service, this really is at the very center of our strategy when we talk about building content and experiences that entertain and engage massive online communities. And so as we think about this going forward, we believe this differentiates us from the marketplace in video games, certainly in the marketplace in entertainment and really positions us for real growth against what these emerging generations are looking for in the context of their entertainment consumption.

Operator

Our next question comes from the line of Andrew Marok from Raymond James.

Andrew Jordan Marok - *Raymond James & Associates, Inc., Research Division - VP*

Maybe one on Apex if I could. Since it was a limited time mode back in 2020, Respawn has kind of always been pretty adamant that the solo mode was never going to come back to Apex just by players clamoring for it because it didn't mesh with their view of player behavior. So with that mode coming back in season 21 for a long time for a limited time mode, I guess what changed? Is that part of the easier onboarding that you were referring to in the prepared remarks or something you're leaning into based on player signals?

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

Well, again, I think what the Respawn team has done and continue to do incredibly well is really work in a very transparent, open way with the community. Again, this is an incredible community of hundreds of millions of players. Retention is very high. They're a very vocal community and the Respawn team, may be better than many other teams in the industry, works very closely with that community.

And I think what we're starting to see is the evolution of both the player personality, the Apex player personality, Apex is a game and how Respawn serves that community broadly. And this will be one of those steps. But you shouldn't imagine that this is the sum total of those steps as we really think about both expansion and modalities at play for Apex, when we think about deculturalization on a geographic basis to attract new and more deeply engaged global communities. And as we think -- as we look to what the Respawn team is doing over time, we believe that this will be a cornerstone of our live service business for many, many years to come.

Operator

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

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

I guess, first on the mobile segment, kind of broadly understand the different puts and takes on that with the pipeline but also just trying to understand a little bit better the underlying growth expectations for the mobile segment of the industry, EA's market share expectations as you look out to fiscal '26 and '27 in that segment and what the key drivers are there. And then apologies if I missed this, Stuart, but just in terms of that fiscal '26, '27 outlook, how should we think about the step-up between those years into '26 and into '27 if that contemplates any changing dynamics around the competitive landscape next year?

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

Yes, great question. Let me start with kind of the mobile macro. As you've heard from us before, mobile is a very important platform to us. We've spent the last number of years really focusing on our mobile business and driving meaningful profitability in that area of the business, which hasn't always been the traditional shape of the mobile business in the industry.

As we look forward, our expectation is over the next 12 months or so, we probably have low to mid-single-digit growth in the mobile market overall, but it's still -- the mobile market remains a fairly high risk opportunity that requires significant user acquisition cost to kind of ramp a new mobile game. And so when we kind of couple what are increasingly longer development cycles in mobile, sometimes 2 to 3 years, and we hear stories of 5, 6, 7 years in the marketplace, meaningful user acquisition spend and a long ramp time once you get to market, mobile isn't an easy market to capitalize on.

With that being said, we feel like our mobile business is in a very good position given its profitability. We'll be leaning into our massive online communities around FC, around Madden, around The Sims [gate] will be mobile native. And we'll also be looking at opportunities to invest in a very limited number of mobile native titles that we believe have breakout potential.

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

Colin, with regard to your second question, we basically -- in my prepared remarks, we framed up the range of growth we expect to see through '26 and '27, so a range through that entire period. We referenced it through the new non-GAAP operating margin disclosure we made, and we are referencing expanding 150 to 200 basis points on the '25 platform that we just put out. So intent there is to demonstrate the growth acceleration in both '26 to '27 as we think about growth driven by sort of growth in the core business from -- to expand player acquisition, engagement, retention.

We know the live services, to Andrew's answer on the call [a second], how we continue to expand both growth through the releases and our ongoing business. The new IP we've talked to in the pipeline, that continues to give us lever and growth on top in the later years. And as we see leverage from the cost structure, our investment all relates down to that non-GAAP operating margin expansion through '26 and '27.

Operator

Our next question comes from the line of Mike Hickey from Benchmark Company.

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

Andrew, you had some pretty interesting comments recently at a conference talking about sort of efficiency and expansion with AI. I think you gave one example where you're talking about building out game environments like stadiums. You said that process went from 6 months to 6 weeks so pretty incredible efficiency step-up. Just curious how you're thinking about further deploying AI on other development processes, other games, other platforms like mobile. You talked about the duration of development on mobile. Maybe there are some efficiencies there. And then as a follow-up, just curious on the generative AI and PC in key franchises like SPORTS, Battlefield, Sims, the opportunity you see there over time.

Andrew Wilson - Electronic Arts Inc. - Chairman & CEO

Yes. Great question. First is we're still very early in the AI evolution or at least the generative AI evolution. As a company, we've been deeply tied to AI since our inception. It has been the very center of all of the games that we create, replicating human intelligence in the context of a game play experience. But certainly, as we think about the wave of generative AI today and as it merges into artificial general intelligence, broadly, we're still very early. But the things I talked about in the conference was really both twofold: one, how do we get more efficient and the stat I used was we've moved from being able to create stadiums from 6 months to 6 weeks. And my expectation is that will continue to shrink over time. Maybe even more profound than that was we went from -- when we build a game and we have animation and run cycles. So in FIFA 23, we had 36 run cycles, which gave you kind of believability of human performance inside of that game.

When we launched FC 24, we had 1,200 run cycles and so again, starting to add to the individuality and uniqueness of each player and delivering our players more immersion in the game, a more engaging experience that is more true to what they watch on television on a Sunday afternoon. And so as we think about the first pillar of generative AI for us, we're really looking at how can it make us more efficient, how can it give our developers more power, how can it give them back more time and allow them to get to the fun more quickly.

When we think about that, our expectation is that there is meaningful opportunity for us. We've done analysis across all of our development processes. And right now, based on our early assessment, we believe that more than 50% of our development processes will be positively impacted by the advances in generative AI. And we've got teams across the company really looking to execute against that.

The second phase for us, of course, is how do we further expand our games? How do we build bigger worlds with more characters and more interesting story lines? And if efficiency starts to really take place over the next 1 to 3 years, our expectation is that, over a 3- to 5-year time horizon, we will be able to, as part of our massive online communities and blockbuster storytelling, build bigger, more immersive worlds that engage more players uniquely around the world. And we think about that on a 3- to 5-year time horizon. And perhaps on a 5-year-plus time horizon, we think about how do we take all of those tools we create and offer those to the community at large so that we can actually get new and interesting and innovative and different types of game experiences, again, not to replace what we do but to augment, enhance, extend, expand the nature of what interactive entertainment can be in much the way YouTube did for traditional film and television.

One of the great advantages, of course, we have is we do have 40 years of data. And so as I think about efficiency over 1 to 3 years, expansion over 3 to 5 years, transformation on a 5-year time horizon, it's actually very plausible that with 40 years of owned data that we have to feed into these models, we actually might be able to accelerate that time frame. And I would tell you, there was a real hunger amongst our developers to get to this as quickly as possible because, again, the holy grail for us is to build bigger, more innovative, more creative, more fun games more quickly so that we can entertain more people around the world on a global basis at a faster rate.

Operator

Our final question comes from the line of Eric Sheridan of Goldman Sachs.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - MD & US Internet Analyst*

Maybe 2 part if I can to Andrew. From a big picture standpoint, if you take a step back, I'd love to get your take on 2 themes we continue to hear about across the gaming landscape: one, the market opportunity for more dynamic ad insertion across more traditional AAA games across different formats and how you think that might be revenue opportunity over the medium to long term; and the second, we've seen fairly successful examples recently of IP adaptation out of the gaming landscape into the broader media landscape. What's your current thinking about that IP adaptation landscape going forward and what that might sit as a market opportunity for EA?

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

Let me start with the second part of your question, then I'll move into the first part of your question. Second part, what you've heard from us for some time now is, as we work with our global communities of players and we really listen to what they're looking for, what they hope to do is really interact and engage with their favorite IP, which, as it turns out, is the biggest IP in the world, many of which sit within our portfolio, they want to both play, create, watch and connect. And so our expectation on a go-forward basis is that, even as we expand the definition of play and the types of things you can do in the context of these interactive worlds, that as we bring in more creation opportunity in these worlds, that in and of itself will also spawn more watch.

Watch traditionally, of course, is, well, do we make a movie, do we make a television show. And our expectation is that we will see more of that. But in addition to that, we expect that we'll see many, many billions of hours of content created by our communities both in the context of what goes on inside the game and in the context of what goes on outside the game. And of course, the most important part of that will be the ability for players to connect with each other in the context of play, create and watch.

And so while we look at what's going on in the industry right now, we see the fact that gaming IP is now manifesting inside of film and television and is topping those charts in addition to topping the interactive entertainment charts. Our expectation as we build out our portfolio is that we will get that benefit. That will be a tailwind for us. But in addition to that, we're really thinking about how we engage our players across the expansion of the play, inviting them to connect and expand and extend and enhance the worlds that we create.

The watch element, that constant, we talked about billions of hours watched in FC alone. You should imagine that is also across Madden and The Sims and Battlefield and Apex but really built on a deep sense of social connection. And that's something that a company like us has a unique ability to deliver for our players that maybe hasn't been the case with traditional entertainment companies.

To answer your question on advertising broadly, again, I think it's still early on that front. And we have looked over the course of our history to be very thoughtful about advertising in the context of our play experiences. But again, as we think about the many, many billions of hours spent, both playing, creating, watching and connecting and where much of that engagement happens to be on the bounds of a traditional game experience, our expectation is that advertising has an opportunity to be a meaningful driver of growth for us.

We'll be very thoughtful as we move into that, but we have teams internally in the company right now looking at how do we do very thoughtful implementations inside of our game experiences. But more importantly, as we start to build community and harness the power of community beyond the bounds of our games, how do we think about advertising as a growth driver in those types of experiences?

Okay. Well, thank you all for being here, and thank you for the great questions. I want to extend my deepest appreciation to our teams for their passion, their hard work and commitment in delivering an incredible year.

To close, I'm extremely excited about what our future holds. I look forward -- and look forward to sharing more about our pipeline and longer-term strategy to drive growth at our Investor Day in New York later in the year. Thank you so much.

Operator

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

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