



ELECTRONIC ARTS™

Earnings Conference Call

First Quarter Fiscal 2004 – Ended June 30, 2003

Today's Call

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EA Conference Call

Welcome and Safe Harbor

Good afternoon and welcome to our first quarter fiscal 2004 earnings conference call.

Today on the call we have:

Larry Probst – Chairman and Chief Executive Officer

John Riccitiello – President and Chief Operating Officer, and

Warren Jenson – Chief Financial and Administrative Officer

Before we begin, I'd like to remind you that:

1. You may find copies of our SEC filings, this earnings release and a replay of the webcast on our website at <http://investor.ea.com>. Shortly after the call, we will post a copy of Warren's remarks on our website. This will serve as the official record of the call.

EA Conference Call

Welcome and Safe Harbor

2. Throughout this conference call we will present both GAAP and non-GAAP financial results. Specifically, we will reference the following non-GAAP measures: non-GAAP operating income, non-GAAP net income and non-GAAP EPS. Non-GAAP results exclude charges associated with restructuring, asset impairment, other-than-temporary impairment of investments, acquired in-process technology and amortization of intangibles – and their related tax effects.

As a supplemental schedule to our earnings release, we have provided a tabular reconciliation of non-GAAP measures to the corresponding GAAP measures.

3. All non-GAAP measures are provided as a complement to our GAAP results and we encourage investors to consider all measures before making an investment decision.
4. All comparisons made in the course of this conference call are against the same period for the prior year – unless otherwise stated.

EA Conference Call

Welcome and Safe Harbor

5. During the course of this conference call, we may make forward-looking statements regarding future events and/or the future financial performance of the Company. These statements are judgments made as of July 23, 2003, and we caution you that actual events and results may differ materially. We refer you to our 10-K for the period ended March 31, 2003 and today's earnings release. Our 10-K and release provide a discussion of important factors that could cause our actual results to differ materially from those discussed today. We make these statements as of July 23, 2003 and disclaim any duty to update them.

And now, I'd like to turn the call over to Warren.

Highlights

Our Performance

Good afternoon and thanks for joining us.

We are pleased to report another solid quarter:

- **Net Revenue** was \$353 million – up 6 percent over the prior year. In the year-ago quarter, FIFA World Cup and Medal of Honor Frontline together sold more than four million units. Needless to say – against such a tough compare – we are very pleased with this performance.
- **Gross Margin** was up 50 basis points to a record first quarter margin of 57.6 percent.
- **Operating Income** was up 247 percent to \$22 million.
- **Diluted Earnings per Share** were up 141 percent to \$0.12 per share.
- **Trailing twelve month Operating Cash Flow** was \$673 million, or \$4.55 per share.
- **Our Balance Sheet continues to be strong. Our Reserves and Inventory** are at appropriate levels.
- On a trailing twelve month basis, our **Return on Invested Capital** was 44 percent.

Highlights

Strengths

Add it all up – we continue to demonstrate the strength and advantage of our business:

- Our trailing twelve month Gross Margin was 57 percent – up 300 basis points year-over-year.
- Trailing twelve month non-GAAP Operating Margin was 22 percent – up 900 basis points.
- Trailing twelve month Operating Cash Flow was \$673 million – up \$349 million. On a per share basis, that is a \$2.32 improvement. Our trailing twelve month OCF cash margin was 27 percent.

We continue to expand our list of recurring franchises.

- The NBA Street franchise is here to stay. In the quarter, NBA Street Volume 2 sold over 1.4 million units – and most importantly – this is a great game.
- We are very pleased with the performance of Def Jam Vendetta which has sold nearly 1 million units.
- And while not a new franchise – The Sims Superstar is another successful expansion pack – having sold close to 1.5 million units.

Highlights

Strengths

The renegotiation of our AOL agreement is a real positive. We have now gone from paying for access to being paid for our online content.

- Historically, we have paid AOL a carriage fee and made other financial payments in exchange for access and exclusivity on AOL.
- In our new partnership, AOL will pay a programming fee for integrated content including access to our Club Pogo subscription games, additional web content and extended international and broadband service. AOL will provide their customers with free access to Club Pogo games. The agreement is for two years. All remaining EA carriage fee obligations have been eliminated.
- Again – this is a real positive and a great deal for both EA and AOL.

Highlights

Strengths

Technology and the console manufacturers continue to be great friends.

- We are excited by Sony's E3 announcement of the PSP given their track record for innovation.
- We are also cautiously optimistic about its market potential and the transition bridge it may provide.

In short, while we take nothing for granted – our performance this quarter has added to our momentum – the tide continues to build.

EA Conference Call

Agenda

For the next few minutes, I'll focus my remarks in three areas:

First – I'll talk about our Q1 results;

Second – Our market outlook for the calendar year; and

Third – Our financial guidance for the September Quarter and Fiscal 2004.

Following my comments, Larry, John and I will open it up to your questions.

First Quarter Results

New Releases / Net Revenue

First – Our Q1 Results:

During the quarter, we released 10 SKUS.

- **Two on Def Jam Vendetta** (PS2 and GameCube)
- **Three on NBA Street Vol. 2** (PS2, Xbox and GameCube)
- **Four on Formula 1** (PS2, Xbox, GameCube and PC), and
- **Sims Superstar** on the PC

In the year-ago quarter, we released 12 SKUS.

Net revenue for the quarter was \$353 million – driven principally by sales of NBA Street Volume 2, Def Jam Vendetta and Sims Superstar. Catalog sales of The Sims, Tiger Woods Golf and MVP Baseball also contributed to our results. Revenue was up 6 percent vs. the prior-year quarter.

Geographically – revenue in North America was up 15 percent year-over-year while Internationally our revenue was down two percent. This was a direct result of the impact of FIFA World Cup in the prior year.

Absent a \$21 million foreign exchange benefit – our revenue would have been flat year-over-year. The impact of foreign exchange was factored into our guidance.

First Quarter Results

Net Revenue by Platform

Next – Our Revenue by Platform:

Please keep in mind that our U.S. console segment shares are based on NPD TRSTS data while PC information is based on NPD Techworld estimates.

In Europe, segment share information is based on EA estimates as no services comparable to NPD TRSTS or NPD Techworld are in place.

First, on the PlayStation 2:

- **PS2 revenue was 33 percent of total revenue or \$118 million – down 12 percent year-over-year.** The decline was a result of strong prior year sales of FIFA World Cup and Medal of Honor Frontline – partially offset by strong sales of NBA Street and Def Jam Vendetta.
- **In the U.S., our segment share was 22 percent with 5 top 20 titles** – NBA Street, Def Jam Vendetta , MVP Baseball, Tiger Woods Golf and The Sims.
- **In Europe, our segment share was approximately 15 percent – driven by The Sims.**

First Quarter Results

Net Revenue by Platform

On the PC:

- **PC revenue was 23 percent of total revenue or \$80 million – and up 6 percent year-over-year.** Sales were driven by The Sims Superstar, Sims Deluxe and Command & Conquer Generals.
- **In the U.S., EA had 4 of the top 10 PC titles** and 22 percent segment share. Titles occupying these top spots included: Sims Superstar, Sims Deluxe, Command & Conquer Generals and Battlefield 1942.
- **In Europe, we estimate EA had 3 of the top 10 PC titles** and 22 percent segment share – Sims Superstar, Sims Unleashed and Sims Deluxe.

First Quarter Results

Net Revenue by Platform

On Xbox:

- **Sales represented 9 percent of total revenue or \$31 million – up 57 percent year-over-year.** In the quarter, we had 24 available titles vs. 12 a year ago.
- **Our U.S. segment share** was 16 percent with 4 of the top 20 titles. (NBA Street 2, The Sims, MVP Baseball, Tiger Woods Golf)
- **In Europe,** we estimate our segment share to be approximately 15 percent.

On GameCube:

- **Sales represented 6 percent of total revenue or \$21 million – up 41 percent.** In the quarter, we had 22 available titles vs. 7 a year ago.
- **Our U.S. segment share** was 16 percent with 2 of the top 10 titles. (NBA Street 2, Def Jam Vendetta)
- **In Europe,** we estimate our segment share to be approximately 12 percent.

First Quarter Results

Net Revenue by Platform

Co-Publishing and Distribution:

Revenue was 20 percent of total revenues or \$72 million – up 52 percent year-over-year, driven by Devil May Cry 2 in Europe, Battlefield 1942 and Final Fantasy Origins.

Subscription Service Revenue – which includes sub fees and packaged goods sales for online products – were \$14 million – up 60 percent year-over-year. The increase was a result of the addition of The Sims Online and Earth & Beyond during the year.

We ended the quarter with a total of 333 thousand active players vs. 250 thousand a year ago.

First Quarter Results

Gross Profit / Margin

Moving on to the rest of the income statement:

Gross Profit in the quarter was \$203 million – up 7 percent.

Gross Margin was 57.6 percent – up 50 basis points year-over-year.

Margin improvement was driven by lower product costs and slightly lower licensing rates – offset by a shift in mix favoring co-publishing and distribution.

First Quarter Results

Operating Income / Net Income / Earnings per Share

On to the bottom-line:

Operating Income was \$22 million vs. \$6 million in the year-ago quarter – up 247 percent – driven by increased revenue and a higher gross margin.

Our Operating Margin was 6 percent in the quarter compared to 2 percent a year ago.

Net Income was \$18 million vs. \$7 million a year ago – up 148 percent.

Diluted Earnings per Share were \$0.12 per share vs. \$0.05.

Non-GAAP Diluted Earnings per Share were \$0.13 per share vs. \$0.06 in the year-ago quarter.

Our diluted share count ended at 150 million vs. 145 million a year ago.

First Quarter Results

Balance Sheet

Now – the Balance Sheet:

Cash, short-term investments and marketable securities ended at \$1.6 billion – up \$34 million from the March quarter.

Gross accounts receivables were \$166 million vs. \$247 million in the prior year – a decrease of \$81 million year-over-year. This was due to the timing of product releases – as titles shipped earlier this quarter as compared with the prior year.

Ending net inventory was \$17 million vs. \$25 million at March 31 and \$24 million a year ago. No one title represents more than \$2 million exposure.

Reserves against outstanding receivables totaled \$129 million – essentially flat year-over-year. Reserve levels were 16 percent as a percentage of trailing six month net revenue vs. 16 percent a year ago. As a percentage of trailing nine month net revenue, reserves were 6 percent vs. 8 percent a year ago.

In short, our balance sheet is solid.

Industry Update

Software / Hardware

I'll conclude my portion of today's call with our **Market Outlook and Financial Guidance**.

Our estimates for Calendar 2003 hardware and industry software sales **remain unchanged** since our last call.

- **Software Prices.** We expect that premium titles will continue to hold the \$49 price point – but that lesser titles will move toward \$39.
- **In North America** – we expect growth in software sales as follows:
 - For the PS2 – up 25 to 30 percent
 - For the Xbox – up 20 to 25 percent
 - For the GameCube – up 15 to 20 percent, and the
 - PC – up 0 to 5 percent

Industry Update

Hardware

- **In North America, we expect the following hardware unit sales:**
 - PS2 unit sales of between 9 and 10 million units
 - Xbox unit sales of between 2.5 and 3 million units
 - GameCube sales of between 2 and 2.5 million units
- **In Europe, we expect the following hardware unit sales:**
 - PS2 – between 8 and 9 million units
 - Xbox – between 2 and 2.5 million units
 - GameCube – between 1.5 and 2 million units

Financial Guidance

Second Quarter Ending September 30, 2003

Our Financial Guidance:

Our guidance reflects our best thinking as of today. There are plenty of unknowns and several things that could happen which could cause our actual results to be materially different. We ask you to carefully consider our risk factors when evaluating these estimates.

I'll cover our Financial Guidance in two parts – first, I'll discuss the second quarter and then our outlook for the full year.

For the **quarter ending September 30** – we expect:

- **Revenue** to be between \$470 and \$510 million – up 4 to 12 percent, and
- **Earnings per share** to be between \$0.35 and \$0.42 – up 3 to 24 percent year-over-year.

Financial Guidance

Second Quarter Ending September 30, 2003

In Q2, we expect to ship about 26 SKUS:

- Madden – on PS2, Xbox, GameCube, PlayStation, PC and Game Boy Advance
- NCAA Football – on PS2, Xbox and GameCube
- NASCAR Thunder – on PS2, Xbox, PlayStation and PC
- Tiger Woods PGA Tour – on PS2, Xbox, GameCube and PC
- NHL – on PS2, Xbox, GameCube and PC
- SimCity 4 Rush Hour Expansion Pack – on PC
- Command & Conquer Generals Zero Hour Expansion Pack – on PC
- Battlefield 1942 Secret Weapons of War Expansion Pack – on PC

Financial Guidance

Second Quarter Ending September 30, 2003

A couple of things to note:

- **First – NCAA Football has already sold-through more than 400 thousand units** in its first week. Obviously, a strong performance. Also, from all indications, this game looks to be an online hit.
- **Second – we are the distributor for Soul Calibur II in Europe and Asia.** This is a title that will ship towards the end of the quarter.

Financial Guidance

Full Year – Fiscal 2004

For the Full Year

We expect:

- **Revenue** to be between \$2.8 and \$2.9 billion – up 13 to 17 percent. This guidance is unchanged.
- **Diluted Earnings per Share** – to be between \$3.25 and \$3.40 – up 50 to 57 percent. This is an increase from our previous full year guidance of \$3.10 to \$3.25 per share. What we saw as the high - we now see as the low.

EA Conference Call

Summary

Before opening it up to your questions – let me wrap up with a few thoughts:

This was another record quarter for EA. We demonstrated in spades the power of our diverse line-up. Medal of Honor and FIFA World Cup are great franchises but so too are NBA Street, Def Jam Vendetta and The Sims. We further strengthened our moat this quarter.

We are exactly where we want to be heading into the second quarter and the Fall – number one globally – with big franchises in place and the know-how to build even more. And by the way – we think our coming titles look great.

That said, we are 110 percent focused on execution and take nothing for granted.

Speaking for my EA colleagues globally – we are dedicated to combining the best in creative content with the power of technology at the highest rates of return in the entertainment industry. We are a digital entertainment pure play.

Our momentum continues to accelerate. We look forward to reporting our results in the quarters ahead.

EA Conference Call

Safe Harbor Statement

Some statements set forth in this release, including those under the heading "Business Outlook", contain forward-looking statements that involve risks and uncertainties. Statements including words such as "anticipate", "believe" or "expect" and statements in the future tense are forward-looking statements. These forward-looking statements are subject to business and economic risks and actual events or actual future results could differ materially from those set forth in the forward-looking statements due to such risks and uncertainties. Some of the factors which could cause our results to differ materially include the following: our ability to predict consumer preferences among competing hardware platforms; the seasonality and cyclical nature of the interactive game segment; timely development and release of our products; our ability to secure licenses to valuable entertainment properties; consumer spending trends; retention of key personnel; adoption of new accounting regulations and standards; potential regulation of our products in key territories; developments in the law regarding protection of our products; and other factors described in our Annual Report on Form 10K for the year ended March 31, 2003. If any of these risks or uncertainties materializes, our results could differ materially from our expectations described in these forward-looking statements. We do not intend to update these forward-looking statements, including those made under the "Business Outlook" heading.