Thomson StreetEvents℠

Conference Call Transcript

ERTS - Q1 2011 Electronic Arts Earnings Conference Call

Event Date/Time: Aug 03, 2010 / 09:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

John Riccitiello
Electronic Arts - CEO

Peter Ausnit
Electronic Arts - VP of IR

Eric Brown
Electronic Arts - CFO

John Schappert
Electronic Arts - COO

CONFERENCE CALL PARTICIPANTS

Brian Pitz
UBS - Analyst

Edward Williams
BMO Capital Markets - Analyst

Justin Post
BofA Merrill Lynch - Analyst

Arvind Bhatia
Sterne, Agee & Leach, Inc. - Analyst

Colin Sebastian
Lazard Capital Markets - Analyst

Mike Hickey
Janco Partners - Analyst

Eric Handler
MKM Partners - Analyst

Doug Creutz
Cowen and Company. - Analyst

Jess Lubert
Wells Fargo Securities - Analyst

Daniel Ernst
Hudson Square Research - Analyst

Sean McGowan
Needham & Company - Analyst

Atul Bagga
ThinkEquity LLC - Analyst

Unidentified Speaker
Arcadia - Analyst

PRESENTATION

Operator

Good afternoon my name is Ashley and I will be your conference operator today. At this time, I would like to welcome everyone to the first quarter fiscal year 2011 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. (Operator Instructions) I would now like to turn today's conference over to Peter Ausnit, Vice President of Investor Relations. Sir, you may begin your conference.

Peter Ausnit - ***Electronic Arts - VP of IR***

Thank you, Ashley. And welcome to EA's fiscal 2011 first quarter earnings call. Today on the call, we have John Riccitiello, our Chief Executive Officer, Eric Brown, our Chief Financial Officer, and John Schappert, our Chief Operating Officer. Please note that our SEC filings and our earnings release are available at Investor.EA.com. In addition, EA is now providing earnings slides to accompany our prepared remarks. These slides are also posted to our website at Investor.EA.com. Lastly, after the call, we will post our prepared remarks, an audio replay of this call and a transcript.

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 make these statements as of August 3, 2010, and disclaims any duty to update them. Throughout this call we will discuss both GAAP and non-GAAP financial measures.

Our earnings release and the earnings slides provide a reconciliation of our GAAP to non-GAAP measures. These non-GAAP measures are not intended to be considered in isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. 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 John Riccitiello. John?

John Riccitiello - ***Electronic Arts - CEO***

Thanks, Peter. Q1 was a solid start to FY 2011, with results ahead of expectations, both top and bottom line. Our bottom line reflected solid performance on the digital side and successful cost management. EA is focused on three strategic objectives to drive shareholder value -- producing fewer, bigger, better packaged goods games, driving growth in our digital revenue streams, and controlling cost and finding operational efficiencies. In Q1, we delivered against all three objectives. Two great examples of fewer, better games are hits like 2010 FIFA World Cup South Africa and Battlefield Bad Company 2.

These titles owe their success to the marketplace to our ability to deliver top-quality games on time with effective marketing support. We grew digital revenues through a combination of paid downloadable content, social games and our success on the iPad and iPhone. In addition, we successfully launched EA Sports Online Pass to build loyalty and online participation. We also remain on track to reduce operating expenses by $100 million this year, thanks to lower headcount, global sourcing, and shared technologies. Based on this performance and our expectation for the remainder of the year, we reaffirm our non-GAAP FY 2011 financial guidance. Now I'll turn the call over to Eric.

Eric Brown - ***Electronic Arts - CFO***

Thank you, John. Q1 results exceeded our expectations for both non-GAAP revenue and non-GAAP EPS. Non-GAAP revenue of $539 million reflects our efforts to build digital revenue and drive packaged goods hits. Combined with cost controls, Q1 revenue upside translated to a non-GAAP EPS loss of $0.24, which was better than our expectations of a loss of $0.40 to $0.35 per share for the quarter. Q1 non-GAAP net revenue was $539 million, down 34% year-over-year. On a GAAP basis, net revenue was $815 million, up 27% year-over-year. Non-GAAP revenue was down as compared to Q1 last year, which had ten titles including The Sims 3 in its launch window as well as an additional week of reported business.

The impact of foreign exchange rates on non-GAAP revenue year-over-year was essentially zero this quarter. Q1 non-GAAP gross profit margin was 59.6% compared to 61.2% a year ago as a greater mix of EA digital revenue offset the prior year's high margin, The Sims 3 release. On a GAAP basis, gross profit margin was 72.8% versus 50.2% a year ago. Q1 non-GAAP operating income was a loss of $109 million versus a non-GAAP operating loss of $11 million a year ago. On a GAAP basis, operating income was positive $98 million versus an operating loss of $245 million a year ago. Non-GAAP earnings per share was a loss of $0.24 versus a loss per share of $0.02 a year ago. GAAP diluted earnings per share was $0.29 versus a diluted loss per share of $0.72 a year ago.

Headcount. We ended the quarter with 7,758 employees versus 8,948 a year ago and 7,842 in Q4 fiscal 2010. 21% of our employees are now in low-cost locations. Cash flow from operations this quarter totaled a loss of $148 million versus a loss of $328 million a year ago. Our trailing 12-month operating cash flow has increased significantly, growing from a deficit of $25 million in the 12 months ended Q1 last year to positive $332 million in the 12 months ended Q1 fiscal 2011. At the same time, capital expenditures have fallen, excluding the purchase of our headquarters facilities. This has led to an increase in free cash flow from a deficit of $117 million to positive $257 million in the 12 months just ended. EA remains on track to generate $250 million to $300 million in operating cash flow this year.

EA has approximately $5.25 per share in cash, short-term investments and marketable securities. Compared with year ago levels, cash short-term investments and marketable securities balances are down due to cash payments for the acquisition of Playfish, the purchase of our headquarters facilities, and lower strategic investment values. Inventory levels were well managed in the quarter and fell to $82 million from $215 million in the prior year. We are carrying significantly last distribution-related inventory compared to last year. Reserves for sales returns and allowances, as a percentage of trailing six-month non-GAAP net revenue, are flat at 13% and up slightly on a nine-month basis from 6% to 7% compared to last year. Subsequent to the end of Q1, in July we sold our minority stake in Ubisoft for a gain of approximately $28 million.

For the industry overall, we estimate that the western world packaged goods software market is down 7% year-over-year for the June quarter and down 5% on a calendar year-to-date basis. Year-over-year, we see Europe performing better than North America with Europe packaged goods software flat calendar year-to-date compared to a decrease of 9% for North America. For the June quarter, Europe was also flat year-over-year while North America was down 15%. Much of the weakness in the market is related to the Nintendo Wii and the music category where EA has less exposure.

On the positive side, we are starting to see signs of strength in the high-definition console software market, which we estimate is up 14% or $1.1 billion year-over-year and 21% calendar year-to-date. This is driven by the Sony PlayStation 3, which is up sharply on its attractive price point. Microsoft is also starting to gain traction with its new enhanced Xbox 360 form factor. This trend plays into our strength, given our share position on high-definition consoles. The digital portion of the market continues to perform well. We estimate that the digital sector was up 25% to 35% year-over-year for the June quarter and calendar year-to-date. The total sector, inclusive of packaged goods and digital is flat to up on a calendar year-to-date basis.

EA had a lighter release schedule for packaged goods in Q1 fiscal 2011 with six frontline titles compared to ten frontline titles last year including the very high margin, The Sims 3 title. Our share in Q1 was 13% in North America, 15% in Europe and 14% overall. Our calendar year-to-date share through June was 17% in North America, 16% in Europe, and 16% overall. EA's western world packaged goods share is stable on a trailing 12-month basis at 18%, with 16% share coming from EA published titles excluding distribution. In Q1, our key frontline packaged goods title was 2010 FIFA World Cup South Africa, which sold in 3 million units in the quarter, offsetting performance of Skate 3 and Tiger Woods PGA Tour 11.

Battlefield Bad Company 2 continues to be a strong catalogue title with 1 million units sold in during Q1. Madden 10 continued to generate sales, meeting our expectations, selling an accumulative total of more than 6 million units through the end of Q1. FIFA 10 benefited from the success of the World Cup with Life to date selling of approximately 11 million units, up 10% on the prior year's FIFA title. Net, we see slightly favorable trends in catalogue sales. Our mix of catalog revenue was 22% for Q1 fiscal 2011, compared to 21% for Q4 fiscal 2010 and 17% for Q1 fiscal 2010.

Q1 non-GAAP digital revenue increased by 52% from $124 million to $188 million year-over-year comprising 35% of total revenue this quarter. This is the result of significant increases in PC digital distribution, console downloadable content and favorable phasing on approximately $20 million in digital revenue which we do not anticipate for future quarters. Mobile revenue was up slightly year-over-year to $52 million with smart phone-related revenue compensating for a drop-off on feature phones. We also met internal expectations for social games-related revenue.

We now have 60 million unique core registered units in our nucleus database, up from 33 million a year ago. Titles like Battlefield Bad Company 2, FIFA 10, and 2010 FIFA World Cup South Africa drove registrations in Q1. EA has 52 million monthly active social game users, or MAUs. Playfish usage has remained stable while other Facebook games have seen their MAU count fall by 25%. For the 12 months ended Q1 fiscal 2011, non-GAAP gross profit margins improved by 3.5 points from 51.1% to 54.7% on higher digital revenue and an improved mix of EA published titles. Showing 12-month non-GAAP operating margins improved from 0.5% to 2.5%.

In terms of guidance, we are reaffirming our non-GAAP guidance for both revenue and EPS for the fiscal year. I would like to start with foreign exchange rate assumptions. Currency exchange rates remained volatile and rate changes impact our reported revenue more than non-GAAP EPS, thanks to natural hedges in our business. On a full-year basis, our earnings are mostly hedged versus the euro. Our R&D costs will increase if the Canadian dollar strengthens and we have both revenue and earnings exposure to a weakening British pound. Our guidance assumes the following foreign exchange rates for the fiscal year. $1.29 US to the euro, $0.96 US to the Canadian dollar and $1.54 US to the British pound. If spot rates as of July 30, 2010, persist during the fiscal year we anticipate a $0.01 benefit to non-GAAP EPS and a $15 million to $20 million benefit to non-GAAP revenue for the year. On a non-GAAP basis, we expect a total of $3.65 to $3.90 billion in fiscal 2011 revenue. Our packaged goods expectations call for publishing revenue ranging from $2.725 billion to $2.975 billion.

Our distribution revenue expectations are for approximately $175 million and we expect approximately $750 million in digital revenue. The year-over-year dollar growth of $180 million in digital is divided roughly as follows -- approximately 25% from console full games and DLC, approximately 50% from PC and browser full games in DLC, approximately 25% from mobile, game services, subscriptions, and advertising. We expect full year GAAP gross profit margins of approximately 56% and non-GAAP gross profit margin of approximately 60%. We expect the worldwide market, inclusive of packaged goods and digital, to grow 7% year-over-year in calendar 2010 based on the assumption that total worldwide packaged goods, consistent with the recent industry reports, will be down 3% offset by digital growth of approximately 24%.

We expect non-GAAP revenue for the full year to be phased roughly as follows versus our midpoint revenue guidance--Q2, 21%, Q3, 38%, and Q4, 26% to 27%. Our title schedule still assumes 36 titles in the fiscal year but the quarterly phasing has been changed slightly with Crysis 2, moving from Q3 to Q4. EA now plans to release seven titles in Q2, 15 titles in Q3, and eight titles in Q4. The shift of Crysis 2, along with other updates to our forecast, changes the phasing of Q3 non-GAAP revenue which is now expected to be approximately 38% of full-year revenue. In addition, Q4 phasing increases to a range of 26% to 27%. Our top 20 titles for fiscal 2011 are expected to generate approximately 80% of total non-distribution packaged goods revenue. This compares to 76% in fiscal 2010.

Non-GAAP operating expenses for the full year are expected to be approximately $2.0 billion and are phased as follows--approximately $500 million in Q2 with 55% of the remaining operating expense spending falling into Q3 and 45% falling into Q4. We expect 27% to 28% R&D, 18% to 19% marketing sales, and 7% G&A for the full year as a percent of total revenue. EA is incurring significant development costs for a major new massively multiplayer online game. However, this game is not expected to ship in fiscal 2011. We expect to end fiscal 2011 with total headcount of approximately 8,200 and are managing headcount consistent with the restructuring plan that called for a shift from high cost to low-cost locations.

Total low-cost location headcount is expected to increase to 25% by the end of fiscal 2011. In terms of non-GAAP EPS, we are maintaining guidance for the full year at $0.50 to $0.70 per share on 334 million diluted shares. This corresponds to a non-GAAP operating income margin of approximately 6% to 8%. Net, we maintained the EPS range as we offset stronger-than-expected Q1 performance with currency fluctuations, evolving market conditions, title level forecast risks and phasing changes in our title plan. With only 14% of the years' revenue behind us and some timing-related upside in Q1, we encourage modeling in-line with our full-year guidance.

On a GAAP basis we are reaffirming our GAAP net revenue guidance of $3.35 billion to $3.60 billion while we are slightly increasing GAAP EPS guidance to a range of a loss of $1 to $0.70 per share due to a gain on sale of strategic investments and reduced stock compensation expense. For Q2 fiscal 2011, we are providing non-GAAP revenue and EPS guidance in-line with our comments from last quarter. We expect Q2 non-GAAP revenue between $775 million and $825 million and a non-GAAP EPS loss of $0.15 to $0.10. Non-GAAP gross profit margin is expected to be approximately 55%. Operating expense is expected to be approximately $500 million and share count is an estimated 329 million. This concludes our outlook and guidance. Now I'll turn the call over to John Schappert.

John Schappert - ***Electronic Arts - COO***

Thanks Eric. I'm going to start with the video game industry, then I'll review our packaged goods titles and their achievements at E3. I'll end with our key digital initiatives. The western world video game industry is solid and well ahead of where we were at this point in the last cycle. All in, it's a $30 billion segment, counting digital, second-sale and traditional packaged goods. This industry has doubled in the last five years. Packaged goods alone in North America and Europe were $19.9 billion in 2009 versus $14 billion at the same point in the PS2 cycle back in 2004. That's about $6 billion of growth in packaged goods. Second, reports that packaged goods is down 9% year-to-date in North America can be misunderstood without recognizing the disproportionate impact of the music category where EA has limited exposure and were plastic skews the software sales numbers. In North America, adjusting for music, packaged goods are actually down 4% year-over-year versus down 9% as reported.

EA is the leading third-party publisher in Europe, which is performing better than North America year-over-year. Europe is not represented in North American industry reports. Third, let's not forget second-sale is one way consumers are satisfying their growing appetite for gaming. We estimate that packaged goods revenue would be as much as 15% bigger, including second-sales, which is absent from industry data reports. Finally, the list of digital revenue streams not captured by data services includes digital game downloads, MMO subscriptions, mobile iPad revenues, payments for virtual goods and free-to-play browser games, console downloadable content and social network gaming and advertising. By some estimates, as much as 25% of the western games segment is not counted in industry data reports.

Turning to the quarter just ended and the current year. The picture is very strong where EA participates most. We're seeing a bump in high-definition console sales which is good for EA and should translate into positive momentum for software revenue. While Wii software is down 13% year-to-date in the western world, high-definition console software revenue is up 21% year-to-date and was up 25% for the quarter. The redesigned slim PS3 from last fall and recently released slim Xbox 360 continued to sell well. In particular, PlayStation 3 software is up 40%, both year-to-date and in the quarter, which substantially benefits EA as the leading third party publisher on this platform. EA share remains healthy at 14% on a tighter slate, thanks to high-quality and blockbuster franchises such as FIFA and Battlefield, which are generating both packaged and digital revenues.

In summary, we believe games are healthy, particularly where EA leads, on high-definition consoles and in digital. Turning to specific game platforms, our trends remain strong with western world PC share north of 30%, thanks to The Sims and other titles. Our North American share on Xbox 360 and PS3 position EA to benefit from high-definition console momentum and our Wii share, while lower, continues to lead western third-party publishers.

Now to E3. Critics recognize EA's singular focus and commitment to quality. When it was over, EA won more nominations than any other publisher, 15, and we won more awards than any other publisher, four, NBA JAM from EA Canada won 'Best Sports Game', Rock Band 3 from Harmonics/MTV won 'Best Social Game'. Need for Speed Hot Pursuit from Criterion won 'Best Racing Game' and Star Wars The Old Republic from BioWare and LucasArts won 'Best Role Playing Game'. Q2 is shaping up well with NCAA Football 11 off to a good start. This year's game earned a Metacritic rating of 86, up 3 points from last year, which is contributing to the early buzz. Madden NFL 11, from our Tiburon studio, has solid pre-orders and is wowing demo users with the breakthrough innovation called GameFlow.

It gets players into the action much quicker without sacrificing the deep playbook hardcore fans demand. GameFlow makes Madden more much more accessible to new players. The World Cup has already been very good to EA and it sets up FIFA 11 from EA Canada for a strong release in Q2. World Cup years tend to pay special dividends to FIFA in the fall. And this year, we've got a game that's packed with innovations including Personality Plus for enhancing player authenticity, Pro Passing, and the Creation Center tool for deep customization of teams and players online.

Turning to the holiday quarter, we'll lead off Q3 with Medal of Honor, which explores the conflict in Afghanistan with a deeply engaging single player game built at EA Los Angeles along with an incredible multiplayer experience from the Battlefield team at our DICE Studio in Stockholm. The superior multiplayer is a big point of difference with other shooters in this market and we plan to promote it heavily. Medal of Honor blew away the critics at E3 in June. Now it's back and represents another step towards our goal of regaining leadership in the FPS segment. Next up, is Need For Speed Hot Pursuit, another winner at E3. We're especially excited by the return of police to Hot Pursuit. This action racing title is strongly anticipated at retail and with great online features like Autolog raises the bar for multiplayer racing.

EA Sports will also be launching EA Sports Active 2, the first cross-platform fitness game and the first fitness game that includes a heart rate monitor. EA Sports Active 2 is also the first fitness game with downloadable exercise routines and strong community features. EA Play will publish the first console and handheld versions of The Sims 3. For the first time, Sims fans can enjoy playing in high-definition on PS3 and Xbox 360. Our EA games label has a Q4 line-up anchored by Crysis 2 from Crytek, which has been moved from Q3 for a better window and polishing. Crysis 2 was a standout of E3 and is part of our ongoing campaign for FPS leadership. Dead Space 2 follows on one of the most popular horror games of 2008 and has a great fan base, selling through 2 million copies in its first iteration. This year, the game is even better and jam packed with action and horror.

We're thrilled to bring bigger, better hits from the best talent in the industry to the broadest base of platforms and channels and feel very good about the game segment and our packaged goods plan. Now we'll move to our digital initiative. We're seeing good growth for our full game downloads through PC download retailers, particularly Battlefield Bad Company 2 performed well. We're also seeing good results on popular full games sold through the console networks such as Battlefield 1943 and DeathSpank.

Consumers are embracing downloadable content. Additional content for FIFA Ultimate Team 2, Dragon Age, and Mass Effect 2 has been strong. Playfish is gaining share on Facebook. EA has over 50 million monthly active social game users. Playfish titles driving usage include Pet Society, Restaurant City, Hotel City, and FIFA Superstars. Playfish is gaining share on the platform as its usage has remained stable while other Facebook games have seen their monthly audience fall by 25% on average due to revisions to access and communications channels on the site. In Asia, FIFA Online 2 Korea had record results. in June, we surpassed 5 million registered players, and had our highest grossing revenue month ever. We remain a top three game in the world's most online-oriented market.

Turning to mobile, smartphone revenue continues to grow with the popularity of the Apple platform. By revenue, EA is the number one publisher on the App Store and had nine of the top ten grossing games when the iPhone 4 launched last month. On feature phones, EA is taking share and now it's 34% of the US feature phone game market according to Nielsen. And on Android, EA launched FIFA 10 with more titles coming soon.

Lastly, a word about EA Sports Online Pass. Based on early Tiger and NCAA Football results, we are pleased to see 60% to 70% of online connected users redeeming the code. The level of online play amongst our user base is up from last year and revenue from paid downloadable content is also up. Now I'll turn the call back to John Riccitiello.

John Riccitiello *- Electronic Arts - CEO*

Thanks, John. EA is well-positioned for the rest of FY 2011 and has executed well in Q1. Stepping back we've long been focusing on three strategic objectives. First, build fewer, bigger, packaged goods titles with great quality to support those best with marketing that rebuilds long life franchises and pushes all of our titles higher on the charts. Second, drive multiple digital revenue streams and invest in an infrastructure to support seamless, cross-platform game experiences. And third, relentlessly focus on cost and efficiencies throughout our operations. EA is executing against these strategic objectives in driving shareholder value. We are gaining share on half the number of titles we had three years ago. We lead on the strongest platforms and have a broad rapidly growing base of digital businesses with powerful synergies with our packaged goods portfolio. Executing as well as we did in Q1 drove shareholder value and value for both our employees and gamers around the world. Now we would be happy to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Our first question comes from Brian Pitz with UBS.

Brian Pitz *- UBS - Analyst*

Thanks. Just a couple of questions on expenses, obviously you got a much better scale than the street was expecting this quarter. Can you talk about, on a go forward basis, is most of the development cost for the MMO that you've been working on behind us and to what extent this quarter did you get some scale in terms of the World Cup and save some money on marketing and sales, just given the worldwide push that went on and will sales and marketing start to creep back up going forward? Thanks.

Peter Ausnit *- Electronic Arts - VP of IR*

This is Eric. I'll take the first portion of the call. In terms of operating expense expectations, we've given some pretty good detail about phasings, so in Q1 we had a shorter title slate of six frontline titles versus ten frontline titles a year ago. And so clearly that's going to impact the year-over-year comparisons in terms of marketing sales spend. It was down sharply year-over-year Q1 versus Q1 last year. Obviously, we're going to ramp marketing sales expense for the year. We expect, obviously, peak marketing sales spending in the third quarter -- the holiday quarter, so that's something that you should build into your modeling.

We are starting to get more leverage on the franchises. The important point to note is that this is a good all-around quarter for FIFA. We talked about the success of the World Cup title with three million units. We also commented on the fact that Life to date, the core FIFA 10 franchise is up about 10% versus FIFA 2009. And so that's a positive indicator for leverage in sports and lastly, for the first time, we're extending key EA properties from the packaged goods space into the social game space with FIFA Superstars. So that, in and of itself, represents leverage on the IP portfolio.

John Riccitiello *- Electronic Arts - CEO*

Hi, this is John. I'm going to add a couple of quick points. One, you asked about the MMO we have in development and how -- whether most of what we spend in R&D is behind it. We've said previously that we're not planning to launch on this fiscal year and you can expect it next. Given it's a multiyear investment process, I guess technically the majority of R&D is certainly behind us by the end of this fiscal year. So, correct observation and we're looking forward to taking this into a net investment phase in F2011 to obviously what comes after that, we still see hopefully, build and harvest phase in F2012 and beyond. On marketing, I would add just a little color.

I would say that what we've been going through these last couple of years has been investing to take franchises, some of which were not performing as well or have been living with lesser quality titles that we've done in fiscal 2007, 2008, and 2009 on Need For Speed and Medal of

Honor, and reinvesting for growth. It's a process we've done before, we understand it well and we think we're good to make great progress this year. And it's our hope and my belief that we can drive marketing efficiencies in years to come as we drive chart position. Now frankly, I expect to sell more Need For Speed this year than last year. As we build that franchise, marketing will not have to scale with the overall scale of the franchise, meaning marketing leverage. We want to repeat that story across multitudes of our -- many of our frontline titles.

Brian Pitz *- UBS - Analyst*

Great. Thanks for the color.

Operator

Our next question comes from the line of Edward Williams with BMO Capital Markets.

Edward Williams *- BMO Capital Markets - Analyst*

Hi, can you guys hear me? Can you give me a little bit of color on digital distribution adoption rates relative to your expectations and what margins have -- or what we should look for digital distribution margins going forward? But specifically what I'm really curious about, what impact are they having on ARPU, if we were to look at certain titles, how much are they really driving the amount of money being spent by the consumer and individual games?

John Riccitiello *- Electronic Arts - CEO*

This is John. A quick topline, I think it's actually pretty early to give you an answer on ARPU given that most digital distribution that we've seen so far in the packaged goods side, particularly tests we've done on console are very substantially after the release in the title. So it's really competing with catalog on that side of the house, on the PC side and the smaller titles that we put out that are not a full PC game that are on Xbox live and other services, we're pretty pleased with the premium pricing. Margins structured is similar to or slightly better than our packaged goods business. And I think probably the thing that's most interesting is the margin structure is comparable to our package goods business, like on like, when it goes through a partner for distribution on the digital side. What's interesting is we're increasingly seeing the products going directly to our own distribution which is margin enhancing.

Edward Williams *- BMO Capital Markets - Analyst*

Great. Thank you.

Operator

Our next question comes from the line of Justin Post with Bank of America.

Justin Post *- BofA Merrill Lynch - Analyst*

My question is just on the competitive outlook. You've got Medal of Honor which I'm sure you're excited about. Just how you feel that fits into a pretty heaver shooter competition and you look at the back half of the year? And then if you could just comment on Star Wars to the extent that you can, how much of that affecting fiscal 2011? And we got to see it at E3, how are you feeling about the progress of that game? Thank you.

John Schappert *- Electronic Arts - COO*

So one more time. Yes, I can kick it off with Medal of Honor. We Feel Very good about Medal of Honor, again, it received a lot of nominations and awards from E3. People are very excited about it. We also just announced the Battlefield 3 beta will be included in the limited edition version of Medal of Honor so more people are talking and excited about that. So while there will be certainly stiff competition this holiday as there always is in a FPS category, we think the investment we've made with our EALA team making single player and DICE making multiplayer should pay off handsomely. We're excited about launching that title this fall.

John Riccitiello - ***Electronic Arts - CEO***

Hey Justin, just to add a little color on that one point. Between Battlefield and Medal of Honor, we're going to see a substantial increase in our share against the FPS sector in calendar year 2010 versus 2009, 2008, 2007, 2006 -- pick the year. I think we've got a shot at getting back in a leadership position over the next couple of years and just watch this space where we bring news, we'll bring you on future titles in calendar 2011 and beyond. But make no mistake, we think we've got the people in the brands who take the leadership back in the FPS space and we're intending to make a good positive share gain this year. I think that's almost a foregone conclusion that we'll get the share gain. I don't expect to top either Halo or CoD this year. On Star Wars, I'll make a couple of points. One, is MMO RPGs are often late in coming together relative to be able to see how great of a product it is. RPGs in general are that way, and MMO's are even more so that way.

It's actually been in the last quarter literally from what you can see at E3 on, that you can actually see just how great the title is going to be. So we've gone from the last, say, couple of years of saying BioWare is a great studio. The game design is a great game design, the technology underlying architecture is well conceived and the creative team is really talented so they should make a good game to still believing all those things and seeing a great game. That feels a lot better to us. It's a process that you go through with most game titles and one that we passed through in May or June of this calendar year. In terms of how much cost we're carrying. We're never specifically identified the number, although Eric and I, in prior communications have indicated that the investment in the calendar year exceeds that grade typical high-scale packaged goods title. MMOs are an expensive business and we're investing to realize great success.

Operator

Our next question comes from the line of Arvind Bhatia with Sterne, Agee & Leach, Inc.

Arvind Bhatia - ***Sterne, Agee & Leach, Inc. - Analyst***

Thank you. Eric, you had mentioned that there was some timing-related benefits to the revenue in the first quarter. Wondering if you could quantify that and just wondering, given the upside of the first quarter, you guys chose not to raise at least the lower end of the EPS guidance, if you could comment on it a little bit? And then, second question is on the SKU count from this point on, or title count, I think 36 this year. Is 35 to 40 the number -- a fair number for the coming years with growth coming from higher installed base and more sell through?

Eric Brown - ***Electronic Arts - CFO***

I'll take that in parts. First of all, in regards to digital revenue we reported $188 million, so it's about 52% growth year-over-year with strong performance across the entire portfolio. We identify about $20 million of this is being phasing-related, meaning it could have fallen into any other quarter of, say, fiscal 2011 or Q4 last year. And so we don't want people to extrapolate necessarily off the $20 million. If you would take $188 million and multiply by four, it would actually tie out to our $750 million full-year target. The more accurate way to look at digital is we had strong performance here but we're expecting a bit of a ramp up through the balance of the year to hit the $750. Second question was guidance, we're reaffirming full year non-GAAP EPS guidance. I think it's important to keep in mind that, if you look at the midpoint of our revenue guidance range for the full year, we have about 14% of the year behind us and 86% to go. There's a lot of uncertainty out there with currency rates, demand in the key holiday quarter, et cetera.

And so, we're not rolling forward upside from Q1 here into the balance of the year, so as I stated in the prepared remarks, we strongly encourage people to stay within the $0.50 to $0.70 non-GAAP EPS guidance range for the year. Your third question was title count. We have 36 titles today. We've announced a slight change in phasing for one title but it's the same number of titles that we had talked about 90 days ago. We're not in a position to talk about title count for fiscal 2012. It's still a bit early but as we said before we felt that we had structured to a number of core titles so it felt about right. It still allows us to get the focus and leverage on key existing packaged goods franchises while still allowing each of the labels to introduce one, two or possibly three new ideas per year. So we feel that we're about in the right spot with the title count but it's still early -- way too early to comment about what that number might be for fiscal 2012.

Arvind Bhatia - ***Sterne, Agee & Leach, Inc. - Analyst***

Okay thank you.

Operator

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

Colin Sebastian *- Lazard Capital Markets - Analyst*

Thanks and good afternoon and just a couple of quick questions here. First and I'm sorry if I missed this. What would be the organic growth rate in digital if you backed out the acquisition and also the $20 million of phasing, if that's a fair way to look at it? And then, I guess, also as you shift more to direct-to-consumer services, is -- are you going to be operating most of that server capacity in customer service internally? And if that's the case is there going to be a need to expand on the capacity side there? If you could maybe talk about the timing of any investments that could be on the horizon, thanks.

Eric Brown *- Electronic Arts - CFO*

Hey Colin, this is Eric. I won't specifically comment on growth rates ex social games, ex one time but I would say that even absent those items and put that double normalization, we still show very strong double-digit growth rates year-over-year due to the breadth of the digital portfolio. In regards to social games in general, we're expecting a ramp throughout the year in each of the quarter as we bring more titles to bear, particularly EA titles like FIFA Superstars, which was recently launched. Your question about server capacity, we feel that we're doing a very good job in terms of our back office in terms of server optimization, et cetera. We do note that we actually been bringing CapEx down on a trailing basis so we're becoming more capital efficient. We will, of course, at some point be adding server capacity for the Star Wars MMO but that will, of course, be matched to demand that we intend to maintain flexibility in that regards so we have the appropriate amount of server capital for that particular franchise.

Colin Sebastian *- Lazard Capital Markets - Analyst*

And if you may indulge in one quick follow-up on FIFA games on Facebook, it seems to have been fairly successful and I wonder if we can conclude that your bands and maybe other entertainment brands will resonate on that platform with that user base or is it maybe too early or premature to make that conclusion?

John Schappert *- Electronic Arts - COO*

Hi Colin, this is John Schappert. So we're very excited about the FIFA Superstars because it's really the first sports game in the social networking space and what I think that we proven is a couple things. One, that there's a category for sports. And two, our hypothesis that proven brands and franchises matter there and just as we've seen happen in mobile, I think, that's the first example of that happening in the social networking space with branded IP. So you can expect to see more of that to follow in the not too far distant future.

John Riccitiello *- Electronic Arts - CEO*

I just want to add. I would point out that, I think what this proves is proven game IP works. It's unclear as to more broadly whether a blend of entertainment or music brand or something else might perform well in this channel.

Colin Sebastian *- Lazard Capital Markets - Analyst*

Okay, thanks guys.

Operator

Our next question comes from the line of Mike Hickey with Janco.

Mike Hickey - ***Janco Partners - Analyst***

John, Eric, John, and Peter, congrats on your quarter. Just a quick question on the MMO market. Domestically, it's my impression that we're seeing a transition from a time or subscription-based sales model to free-to-play or item-based and I was curious if you felt that medium term new MMOs, under the time or subscription-based model, might be challenged.

John Riccitiello - ***Electronic Arts - CEO***

You're asking one of those questions that all of us could give a different answer to. I'll give you some shaping though. Asia has clearly moved more to time and item-based and if you look at the principal players in that marketplace, China, in particular, the publicly traded companies, actually saw, the best I can tell, an increase in their EBIT margins, or their operating margins as they moved to time and item-based, in part because they grow peak simultaneous users. In the Western markets, we actually haven't seen big, heavy client/server type set-ups like Eve Online or Warhammer or even World of Warcraft offer, anything other than subscription with additional bolt-on charges for various moves from server to server and a variety of other specialties and charges. A variety have tried, we're working on it now, we've seen some success with it. But I think the market is bifurcating in a way -- trifurcating, if you want to do it that way, around a couple of different ideas.

Lighter experiences that are working on sites like a POGO or sites like some of the other game sites and/or social networks are working very well for a combination of micro-transaction and advertising. We're seeing Asia move to that same model but they came out of the game room to only a short bout with subscription. They quickly moved in to micro-transaction-type models and time-based models. And at least the bigger products in the West seem to support a subscription model better. Having said that, and without getting anything in particular, we've anticipated that particular idea. It's something we thought a lot about and we think that there is actually more potential in the upside than there is risk on the downside from model evolution for that type of product.

Mike Hickey - ***Janco Partners - Analyst***

Okay fair enough and then just another follow-up on ARPU within your Facebook portfolio? I'm just curious if you've -- any trends you can share on the monetization of your MAUs, maybe ARPU trends are encouraging?

John Schappert - ***Electronic Arts - COO***

This is John Schappert, Mike. So what we can share is as we continued to release games and refine the monetization model, we continue to make -- and specifically, we've been very happy with the monetization levels of both FIFA Superstars and My Empires. So I think that we continue to make improvements there and are happy with how our ARPU is trending.

Mike Hickey - ***Janco Partners - Analyst***

Okay. Thanks guys.

Operator

Our next question comes from the line of every with Eric Handler with MKM Partners.

Eric Handler - ***MKM Partners - Analyst***

Thanks for taking my questions. Just to follow up on earlier question on DLC content, what type of attach rates are you seeing in general with games for content that is paid for? And are you seeing -- is there any type of discrepancy between, let's say, sports or shooters or RPG, what are you seeing along those lines?

John Riccitiello - ***Electronic Arts - CEO***

Honestly, when we look at that we tend to look at it on a title by title basis and models are so different. So using one example, The Sims, has always had a very high attach rate to post-release downloadable content and/or basic expansion packs, which is a business we've been building since 2002 on -- fairly typically in the 20% to 40% range depending on how successful the individual pack is. Shooters have a very high attach rate to map packs when you've got strong franchises and/or post-release downloadable content delivered similarly. RPGs do as well. Sports have not traditionally provided a great, good basis for that but we've got great traction when we introduced FIFA Ultimate Team and Madden Ultimate Team. And we're building on that across a range of sports titles.

I guess what I probably say right now is there appears to be a strong formula for almost all of these things when the content is great and it's not uncommon for us to experiment once or twice before we get it right. When we put FIFA Ultimate Team out, we had a similar idea but not exactly the same for Madden. Madden didn't work. FIFA did. Now Ultimate Team is the formula across the board, so I would tell you this is our fastest growing digital revenue stream. It's doing really well for us. We've seen more success than failure. But as we build this business we're still learning as we go along.

Eric Handler - ***MKM Partners - Analyst***

Thank you.

Operator

Our next question comes from the line of Doug Creutz with Cowen and Company.

Doug Creutz - ***Cowen and Company. - Analyst***

Thanks. I was wondering if you could -- if you have any comments on how the Online Pass initiative has impacted what you're seeing in terms of velocity of used game sales on the titles you've faceted it on.

John Schappert - ***Electronic Arts - COO***

Hi Doug, this is John Schappert. The reality is I think it's too early to tell. I think what we are encouraged by – I mean, it launched on Tiger Woods – which is not as online centric, if you will, as NCAA Football, which has just recently launched on -- and NCAA Football, it's been on the market for a very short while. So, it's a little early to tell. What we are encouraged by is we are seeing more people play online on both of those titles so it's certainly is not holding them back and we think the extra gift when you activate your online pass is driving some of that adoption so the revenue is pretty immaterial. That said, we think it's a nice draw to get people into the game and play online.

Doug Creutz - ***Cowen and Company. - Analyst***

All right, thanks.

Operator

Our next question comes from the line of Jess Lubert with Wells Fargo Securities.

Jess Lubert - ***Wells Fargo Securities - Analyst***

Thank you for taking my question. I was hoping you could provide some additional details regarding the launch of NCAA Football. Are sales and units up or down versus last year's game at this point in time? And if you could help us understand how pre-orders are tracking for Madden and the expectations embedded in your guidance for this title to be flat, up or down year-over-year this quarter, I think that would be helpful. Thanks.

John Schappert - ***Electronic Arts - COO***

Hi Jess, it's John Schappert. From our retail checks and our intelligence looks like NCAA Football is doing well versus last year. We're very happy with the quality of the game, it's up versus last year and our checks are showing that it seems to be up at retail as well. And Madden continues to track well. Pre-orders are pretty much on par with last year and our marketing is just kicking in, so we're excited about our new offering there and the potential it has in the market.

John Riccitiello - ***Electronic Arts - CEO***

For those of you that aren't watching Madden as closely as you might. We just released full communication on “Game Flow” which is probably the most innovative change we've made to the franchise since fiscal ‘98 when we went 3D. It's literally that big of change and we're feeling really good about consumers' reaction to it. So that's one to watch carefully because we really do believe innovation drives sales.

Jess Lubert - ***Wells Fargo Securities - Analyst***

So is it fair to assume you're expecting growth this year?

John Riccitiello - ***Electronic Arts - CEO***

I think there's a different between expectations and hopes. We're pretty careful in how we plan.

Jess Lubert - ***Wells Fargo Securities - Analyst***

Thank you very much.

Operator

Our next question comes from the line of Daniel Ernst with Hudson Square Research.

Daniel Ernst - ***Hudson Square Research - Analyst***

Good evening. Thanks for taking the call. My question is on the social gaming space and what the contribution from Playfish in the quarter was? And then on your comments that the other games on Facebook or other platforms on Facebook have seen a 25% decline on average? Could you talk about why you thought that was or whether that was sign of the health of that space or that was just purely you guys taking share? And then what might be the impact going down the road -- impact or no impact of Facebook effectively attempting to institute, what I would call a platform fee? Thanks.

John Schappert - ***Electronic Arts - COO***

Hi Daniel, it's John Schappert. We're not to get into specifics on the dollars for Playfish but as Eric mentioned, it -- we were at our internal forecast and they did well last quarter. That said, the comment we made was about Facebook apps in general were down 25% in DAUs, and that's because Facebook is always refining their platforms. They are always making changes, they're changing notifications, they're clamping down on some of the overuse and spam, if you will, that some people were going through and changing their bookmarking system. So they're refining that so as they did that, we saw the other overall DAUs drop per app in general, certainly games, by about 25%.

Now happily, we were able to -- Playfish was able to gain share because they launched the new games and grew their share. So we stayed -- we went up in MAUs and stayed pretty flat to slightly up in DAUs as well. With respect to those changes, as you can see they netted out and it feels pretty good right now but I also will suspect that Facebook is looking at this space and seeing what they can do to try to drive even more usage there. So I don't think that the negative impacts are going to continue, in fact, I wouldn't doubt if we see some positive changes, too, as they continue to refine their canvas.

Daniel Ernst - ***Hudson Square Research - Analyst***

Then their plans to start effectively charging or running the payments through them and?

John Schappert - ***Electronic Arts - COO***

Well, I think you're asking about Facebook credits as Facebook rolls out Facebook credits. I actually think that's going to be a positive for the entire space because I think right now, there is a barrier when people want to go pay, there is not that standard currency that they have. So Facebook is instituting that, it's still very early but we're certainly supportive of Facebook credits and look forward to a broad rollout of that and hopefully turning more of the players into paying players as well so we're bullish on that and supportive.

Daniel Ernst - ***Hudson Square Research - Analyst***

Okay, thanks.

Operator

Our next question comes from the line of Sean McGowan with Needham & Company. Hi, Mr. McGowan, your line is open.

Sean McGowan - ***Needham & Company - Analyst***

Sorry. I was on mute. I was wondering if you could you give a little more color on the European continent and where you're seeing strength in packaged goods sales and where trends might not be as positive?

John Riccitiello - ***Electronic Arts - CEO***

It's basically southern Europe stronger, northern Europe a little bit weaker so far this year, would be the highlight. We can break out details by country but the trends are not dramatic but they are definitely there, which you can pick up parts like Italy doing relatively well. The UK a little bit weaker.

Sean McGowan - ***Needham & Company - Analyst***

So it doesn't seem to correlate with the headlines on bank pressures and things like that?

John Riccitiello - ***Electronic Arts - CEO***

I think it's interesting I think one of the things to remember as well, is relative to the console business, the southern markets are nowhere near as developed as the UK and so I do think that's a fair judgment that you're making. But I think it's also worth pointing out that the southern European markets are, on an install base -- substantially lower. So they just probably have more room to grow. They also, historically, relative to consoles who tend to be more price sensitive and they pick up more as price comes down and you tend to get more early adopters in Scandinavia and the UK. So they have a little bit less to grow when you see price reduction as we have this past year. So I think it's another factor. In the German market, it's never fully embraced console, tends to be more PC centric. So while it's great that you're asking the question, what we tend to want to think of Europe as one market, it is anything but.

We have different regulatory regimes for how we deal with ratings in these different markets, Germany standing outside of the, what most of the rest of Europe has, and so it's just the different uptake depending on the platform and titles. It's a market where Sony tends to outperform.

Microsoft struggles a little bit more. So the relative, it's not really a mirror of the US and across north to south, they tend to move differently, with the southern markets, I think having a little bit more room to run given that they start a little slower.

Sean McGowan - ***Needham & Company - Analyst***

Great. Thank you very much.

Operator

Our next question comes from the line of Atul Bagga with ThinkEquity LLC.

Atul Bagga - ***ThinkEquity LLC - Analyst***

Hey guys, thanks for taking my question. One more question on the social gaming strategy. I was wondering if you can share your experience with FIFA Superstar? Was this within expectation in terms of usage, in terms of monetization, and how will that, if any, change your strategy in bringing other IPs on the social network? And second, beyond Facebook, how do you see your social game strategy either with Google and Yahoo or even on consoles and last, how is it affecting your Google business? Thank you.

John Schappert - ***Electronic Arts - COO***

Okay, you got a lot of in there quickly. Hi Atul, it's John Schappert. So the first question is FIFA Superstars. FIFA Superstars, we're very excited about, again, we certainly had expectations and it exceeded our expectations. That being said, we also understood it was a new segment so we were pioneering something and I think that we're happy with the results that we've seen. And as I've said before, we think that our IP will continue to do well in this space though, there will be other games from a place that's using EA IP that you'll be seeing launched in not-too-distant future. Nothing to announce right now though. With respect to the announcements, you mentioned Google and Yahoo and other social networking sites, there's a lot of talk and a lot of buzz these days. We get excited about that so we are platform agnostic and we do well when there's other platforms and we love our success on Facebook. And at the same time, look forward to other people creating new platforms for us to take our IP and excel on, so that's something we're going to stay abreast of and hopefully, see new opportunities for us.

Lastly it was the impact of POGO. POGO is slightly down in terms of Club Pogo subscribers. However, they're hanging in there pretty well with revenue and what we're doing is, we've got a very dedicated user base there spending about five billion minutes a month. And we're certainly going to continue to cultivate our portal and domain, at the same time we're also looking at bringing Pogo over to some of the social gaming sites. So you'll see that this year and Pogo is already in beta on Facebook so we've got high hopes for Pogo when it hangs in there pretty well despite the trends in casual gaming being down in that segment. They're hanging in there pretty well and on the upside, we hope, if the Facebook consumer will enjoy Pogo later this year when we launch this.

John Riccitiello - ***Electronic Arts - CEO***

Today we've had usage on Facebook that is consistent with what we've had off of Facebook which is an astonishing and unexpected outcome. So it may turn out in time that Facebook wins or is a winner for Pogo. The only other cautionary point that I would put out there is social network games imply a social network and so at this point in time, Google and Yahoo have their offerings but they operate quite differently than Facebook does. And in configuring that out, they, as platform holders, that'll tell us what the opportunity really is.

John Schappert - ***Electronic Arts - COO***

And while we haven't figured it out, we're all sorting it out in beta right now is, will people move from Pogo.com to playing on Facebook and stuff. So there's still a lot to figure out but we know it's having Pogo on Facebook seems like a missed opportunity so we are pursuing that while hanging in there and continuing to try to grow subscribers and unique visitors per month.

Eric Brown - ***Electronic Arts - CFO***

Atul, this is Eric. The final point I would make about strategy social games in general. We purchased Playfish last November for $275 million. It was a clear number two at the time and still is today. Disney purchased Playdom, a smaller social network games company for $563 million as much as $750 million earn-out all in, and so that implies a dramatically higher revenue multiples certainly versus what we paid so it's certainly a point of validation that we're in the right space. We think at a better entry point and we see a huge amount of time being spent by people online on a combination of social networks playing games and so we're quite happy to be in that space with the Playfish division.

Peter Ausnit - ***Electronic Arts - VP of IR***

We have time for one more question. Whoever's up next.

Operator

Our final question comes from the line of Dave Hartman with Arcadia.

Unidentified Speaker - ***Arcadia - Analyst***

Hi. JT here for Dave. I've got a couple questions. The first is that -- could you characterize a little better this $20 million phasing on the digital side either by platform or something, give us any more color on that?

Eric Brown - ***Electronic Arts - CFO***

Hello, this is Eric. It's a combination of PC, digital distribution revenue and DLC and console-based digital revenue so those two platforms.

Unidentified Speaker - ***Arcadia - Analyst***

So I'm just -- was there one, I don't know, partner or something or was it a collection of things?

Eric Brown - ***Electronic Arts - CFO***

It's a collection of things. We have a very broad set of distribution partners both on the PC and the console side as well as direct distribution ourselves and so, there's no one item to point to.

John Riccitiello - ***Electronic Arts - CEO***

JT, we're purposely not going into further detail but what we're basically saying is that we had over 50% year-over-year quarter. I think probably a true or underlying number is probably in the mid-30% and we're just identifying the part of it that seems to be if it's less likely to be recurring going forward. So we're just trying to clarify for investors, but we're not prepared to go further. We'd be digging into the lines of the P&L that we don't discuss publicly.

Unidentified Speaker - ***Arcadia - Analyst***

No, that's cool. So it's high-margin stuff so I'm just try to get a little bit there. Okay the shift of Crysis from Q3 to Q4, is that part of the reason you're not pushing forward some of the upside in Q1 into the upside line and guidance for the year?

Eric Brown - ***Electronic Arts - CFO***

JT, this is Eric. There is a whole series of things that factor into our guidance. The most important point is with Q1, again, versus midpoint guidance. We're 14% of the way through the year so it's still a long ways to go and we have a lot of different variables to deal with. FX volatility being one of them. Moving one title out of a holiday quarter into Q4 is one change in the forecast that we need to call out in terms of phasing, but net given it's so early in the year, we think it is entirely appropriate to maintain the range of $0.50 to $0.70.

Unidentified Speaker *- Arcadia - Analyst*

Okay, all right. And let me touch on the ad spend question for a minute if I can. So of the amount that you have set aside for marketing and driving demand through the year, I wonder if there's any way you can characterize that as, how much is a 100% committed and is going to be spent no matter what happens as opposed to what you might be telling us but really keeping in your back pocket in terms of your discretionary go-ahead? And I'm keen on John's comment -- John Schappert's comment that there's a plan for and there's hope for -- maybe that was yours, I don't remember who said it. But how much of that is up to how consumers respond and a decision about whether you push on a string or not in terms of driving sales? Thanks.

John Riccitiello *- Electronic Arts - CEO*

Look, I would turn that around and sorry I'm not going to answer your question exactly as you framed it. What we're trying to say and I would like to stick with is we think we've got the right marketing investment for introducing some of the new franchises we have this year and driving upside to, I think, at least gross for existing franchises like Madden, Medal of Honor, Need for Speed and others. So we think we got the number about right. We, of course, make adjustments if we want to do things in the marketplace. So if things are performing or if they are performing sometimes you chase opportunities and sometimes you cut back to deal with risks that you're trying to avoid a downside. I can't see through that for you on a call right now given that it's still in front of us. The point I was trying to make, JT, is this.

Great franchises often are assuring of one title doing better than the last and the one after that doing better than that. Two is doing better than one and three is doing better than two. It's judicious investment and you get marketing leverage as you grow those franchises. Franchises is like Dead Space and FIFA and Madden and Medal of Honor and Battlefield are exactly the kind of franchises we want to build and take market share and grow from top 30 to top 20 to top ten to top five over time. We think we know how to do that, we think we've got the quality to do that. And it's achieving that over the course of the next couple of years that we'll realize marketing efficiencies, at least from a financial perspective, when as percent of spent, our marketing sales can go from sort of 17%-ish to a lower number.

And so what I was try to get at was not some "I've got a hidden back pocket just in case" scenario. What I was trying to make was this strategic point that, I frankly think we're over-investing a couple 3 points in marketing to re-establish the growth trend for these brands. We started it last year, we got our quality right last year, sort of this management team's second year in operation. Where it was their game's up and the quality went up, we've got better results than the year before. We want to see more of that this year and we want to continue to drive that chart position which yields the leverage and by the way, it doesn't cost more to make those same games when they sell more units. That's how leverage drops to our business and that's what we’re driving.

Peter Ausnit *- Electronic Arts - VP of IR*

So operator that was the last question. We'd like to thank everyone for joining us on the earnings call today. We will look forward to speaking with you next quarter.

Operator

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