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Conference Call Transcript

ERTS - Q2 2012 Electronic Arts Inc Earnings Conference Call

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PRESENTATION

Operator

Welcome and thank you for standing by. At this time all participants are in a listen-only mode. (Operator Instructions). Today's conference is being recorded. If you have any objections you may disconnect at this time.

Now I will turn the meeting over to Mr. Rob Sison, Vice President of Investor Relations.

Rob Sison - *Electronic Arts, Inc. - VP-IR*

Thank you. Welcome to EA's fiscal 2012 second-quarter earnings call. With me on the call today is John Riccitiello, our CEO; Eric Brown, CFO; Peter Moore, COO, and Studio President Frank Gibeau will join for the Q&A.

Please note that our SEC filings and our earnings release are available at ir.ea.com. In addition, we have posted earnings slides to accompany our prepared remarks. Lastly, after the call, we will post our prepared remarks and audio replay of this call in a transcript.

This presentation and our comments include forward-looking statements regarding future events and future financial performance of the Company. Actual events and results may differ materially from our expectations. We refer to you 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 October 27, 2011 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, Inc. - CEO*

Thanks, Rob. We are pleased to report a strong second quarter with results ahead of the top and bottom line expectations that we provided on our last earnings call. Our results reflected a tremendous performance by our EA sports titles and a strong showing for our newest game on the Facebook platform, The Sims Social.

EA has delivered solid results in the first half of our fiscal year and we are now focused on our biggest titles for the holiday.

FIFA 12 is having its best year ever with a critical index of 92 and record sales in both North America and Europe. Battlefield 3 was launched on Tuesday and has opened very strong. We shipped 10 million units to retail and we are already receiving reorders. The data is still early but sell-through is strong.

Next up is Need for Speed - The Run on November 15 and then the most anticipated event of the year, Star Wars - The Old Republic, launching on December 20. We also have a number of social and mobile titles that we will announce closer to their launch.

Based on this strong performance and our expectations for the holiday, we are raising the midpoint and narrowing our full year non-GAAP EPS guidance to \$0.75 to \$0.90 while increasing both our total revenue guidance and our digital revenue guidance. We are increasing the low end of the EPS guidance range by \$0.05 based on our strong performance in Q1 and Q2 and, in part, based on the great initial performance of Battlefield 3, partially offset by the later ship date of Star Wars - The Old Republic. Eric Brown will provide more detail on this.

Next, I want to give you a progress report on the three major strategic initiatives we defined at the start of our fiscal year. Our first priority is brands. EA has roughly one dozen globally recognized brands often referred to as intellectual properties, which are at the foundation of our Company. Together they constitute a powerful competitive advantage unmatched by our principal competitors.

Our mission is to transform these brands from single event every one-to-two years to 365-day businesses with packaged good launches sustained by frequent updates, downloadable content and extensions in the social and mobile platforms.

Flagship brands like Battlefield, Need for Speed, Mass Effect, FIFA and Madden are now built on this strategy. Each is expected to deliver greater revenue and profitability than we generated in the past on single event packaged goods launches. And this is a strategy that only EA can deliver on. Our competitors either have too few brands or have not demonstrated the ability to project their games on to multiple platforms.

A prime example of this strategy is The Sims brand. Today The Sims Pets is the leading PC game in the market and it is performing well on consoles. The Sims is a leader on Apple platforms and The Sims Social is doing exceptionally well on Facebook, dislodging several leading games to become the number two on Facebook. The Sims Social is a certified hit that is based on one of EA's most valuable brands.

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Our next priority is platform. Over the past three years, EA has been investing to put in place the foundation for true cross-platform capability with our brands and for a high-value safe and secure set of services we can offer our consumers online. Our nucleus registration entitlement service, which now boasts over 140 million users, was our first step in this direction. The EA Sports Online Pass is a program enabled by this platform investment. The nucleus system is also a key technology that allows us to extend our relationship with retailers to sell on game sites, such as GameStop, Wal-Mart, Amazon, and The Game Chain in Europe.

This summer we launched Origin, a direct to consumer digital service that is essentially a window into our own platform. In time, Origin will evolve into a unique, strategic advantage for EA.

This week, we welcome three independent publishers to the platform, Warner Bros, CapCom and THQ. We couldn't be more pleased with how consumers and independent publishers have responded to this initiative.

Our third priority is talent. EA is organized to put full responsibility for managing our key brands behind the teams that create them. Rather than scattering the development for console, mobile and social across multiple organizations, we are consolidating key elements of production, marketing and community into one team. That is better for consumers who deserve creative continuity and improved service across multiple platforms.

And it's better for our employees. Rather than being pigeonholed in the same platform year after year, they see the entire spectrum of gameplay technology and business model and their franchise. Employees see much better career development and, frankly, they have more fun at work.

So to summarize, we are focused on our brands, transforming EA into a platform player, and investing in our talent. We have delivered another solid quarter and are on our way to another strong year.

With that, I'll turn the call over to Eric.

Eric Brown - Electronic Arts, Inc. - CFO

Thank you, John. Starting with a review of Q2, EA performance in Q2 exceeded the non-GAAP revenue in EPS guidance that we provided on the Q1 earnings call. Total Q2 non-GAAP revenue was \$1.034 billion, growing 17% versus last year. The growth was driven by strong performance in each of our sports releases. The current releases of FIFA, Madden, NCAA and NHL each grew year-over-year and, collectively, they grew more than 20%.

Q2 digital non-GAAP revenue increased 30% year-over-year to \$216 million. Downloadable content and free to play micro transaction content was \$85 million in Q2, up 33% versus last year due to the inclusion of PopCap revenue and The Sims Social game which launched midway through the quarter. FIFA was a key contributor, generating more than \$20 million of non-GAAP digital revenue for Q2.

Mobile and other handheld digital revenue was \$55 million, up 8% versus last year, due to continued growth in smartphone-related revenue. New titles like Spy Mouse for the Apple iOS and established brands like FIFA contributed to the smartphone revenue growth, which offset the reduction in feature phone-related revenue.

Full game downloads were \$26 million, up 44% year-over-year, driven by downloads for Sims 3 and PopCap games. Additionally Battlefield Bad Company 2 continues to perform as a catalog download title in console. Revenue from subscriptions, advertising and other was \$50 million, up 52% year over year.

We continue to see growth in digital and extended game play on our core packaged goods franchises like FIFA 11 and Battlefield Bad Company 2 where the forecast on digital revenue for these two titles is now up more than 10% versus just last quarter.

PopCap continues to grow faster than the overall market. On a standalone basis, excluding the one-time effects of the acquisition, PopCap's Q2 non-GAAP revenue grew 28% year-over-year and continues to be on track to deliver more than 30% growth for all calendar 2011.

In summary, relative to our previous non-GAAP guidance, revenue was \$84 million above the midpoint, gross profit margin of 59% was slightly better than expected, and operating expenses came in at the lower end. This is a good quarter overall.

Turning to cash on the balance sheet. Net cash used in operations this quarter was minus \$211 million versus minus \$134 million a year ago. The change in operating cash flow was primarily due to the timing and amount of our Q2 shipments. Trailing 12-month operating cash flow was \$117 million. EA has approximately \$4.52 per share in cash, short-term investments and marketable securities. Roughly 57% of our cash and short-term investments are onshore.

During the quarter, EA repurchased 4.7 million shares at a cost of \$98 million. \$353 million remains authorized for the repurchase program over the next eight months.

Sector performance. Overall, the worldwide interactive entertainment segment was up mid-single digits in the September quarter, a composite of greater than 20% growth in digital offset by an 18% decline in packaged goods. Calendar year-to-date, the Western world packaged goods market was down 12% comprised of a 6% decline in high-definition platforms and a 20% decline in standard definition platforms. Quarter-to-date, EA was the number one publisher in the Western world with 26% share in North America, 25% share in Europe, and 25% share overall in the Western world versus 21% a year ago.

Moving on to fiscal '12 guidance, EA is raising the midpoint and narrowing the range of its full year non-GAAP EPS guidance to \$0.75 to \$0.90 diluted earnings per share. EA is also raising the midpoint and narrowing the range of its non-GAAP revenue to \$4.05 billion to \$4.2 billion. This increase in our non-GAAP revenue and EPS is a function of the following.

Number one, our performance to date, our Q2 results exceeded the midpoint of our guidance for both non-GAAP revenue and non-GAAP EPS by \$84 million and \$0.13, respectively. Number two, digital revenue where we are investing to drive growth. On a trailing 12-month basis our digital revenue grew 37%. Number three, the move of Star Wars - The Old Republic to December results in a projected reduction of \$0.10 of EPS versus the [assumptions] associated with the upper end of our prior EPS guidance range.

The other consideration for the second half of the fiscal year is our Q4 title lineup. We may move a title of fiscal 2012 in order to get a better ship window.

The move to a late December ship date for Star Wars is a key factor for guidance. If we are to hold all of the assumptions constant versus our last quarter's guidance, the only changed -- the Star Wars launch date to December -- our earnings guidance would be \$0.70 to \$0.80.

We are now providing non-GAAP EPS guidance between \$0.75 to \$0.90, an increase in guidance that reflects our strong performance to date and revised assumptions for the balance of the fiscal year.

Breaking down the fiscal '12 non-GAAP revenue, non-GAAP digital revenue is expected to increase to approximately \$1.15 billion to \$1.2 billion while non-GAAP revenue from EA published titles is estimated to be between \$2.65 billion to \$2.75 billion. The balance is approximately \$250 million of expected distribution revenue.

Fiscal '12 GAAP revenue and EPS. Our fiscal '12 GAAP net revenue guidance is approximately \$4.05 billion to \$4.2 billion. Our fiscal '12 GAAP EPS guidance now ranges from \$0.15 to \$0.36 diluted earnings per share. GAAP tax is expected to be a benefit of approximately \$10 million.

Gross profit margins. We expect full year non-GAAP gross profit margins of approximately 63% and we expect full year GAAP gross profit margins of approximately 62%.

Operating expenses. We expect fiscal '12 non-GAAP operating expenses to be slightly greater than \$2.2 billion, a \$50 million plus increase from prior guidance due to the investment in our digital growth. GAAP operating expense are expected to be slightly greater than \$2.45 billion.

Our fiscal '12 non-GAAP EPS guidance range corresponds to a non-GAAP operating income margin of approximately 9% to 10% with approximately \$4 million of expense in the other income and expense line, a full year non-GAAP tax rate of 28% and an estimated 334 million diluted shares.

Cash flow. We expect fiscal '12 operating cash flow to be \$250 million to \$300 million, consistent with our previous guidance. We expect fiscal '12 capital spending of approximately \$125 million.

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Q3 guidance. For Q3 fiscal '12, we expect the following for non-GAAP results. Revenue between \$1.55 billion and \$1.65 billion and non-GAAP earnings per share of \$0.85 to \$0.95. Non-GAAP gross profit margin is expected to be approximately 67%, operating expense is expected to be approximately \$650 million, a non-GAAP tax rate of 28%, and diluted share count is an estimated 334 million.

For GAAP results, we expect the following for Q3 fiscal '12. Revenue between \$1.0 billion and \$1.1 billion and GAAP diluted loss per share of minus \$0.77 to minus \$0.63. Gross profit margin is expected to be 47% to 49%, operating expense is expected to be \$715 million and share count is an estimated 330 million.

Foreign exchange. Our guidance assumes the following foreign exchange rates for the fiscal year. \$1.36 US to the euro, \$0.98 US to the Canadian dollar and \$1.57 US to the British pound. The strength in the US dollar since our July call has been reflected in our updated guidance and does create a small decrease in second-half non-GAAP EPS versus our prior foreign exchange rate assumptions.

Lastly, our assumptions on this sector remained unchanged with mid single digit growth overall comprised of greater than 20% growth in digital, continued low single digit growth in high-definition consoles and PC, offset by an 18% decline in standard definition.

Now I'll turn the call over to Peter Moore.

Peter Moore - Electronic Arts, Inc. - COO

Thanks, Eric. I am going to cover three topics today. First, an update on our cross-labeled digital business including the Origin platform. Second, a quick recap of Q2 which show a breakout performance by EA Sports and, finally, a perspective on our key Q3 launches.

That is a lot of ground to cover so let's get started.

Our digital business is tracking extraordinarily well and with the addition of PopCap and a fantastic performance from The Sims Social, we are now confident we can exceed our goal of generating over \$1 billion in the fiscal year. This is a feat which would put us in an elite group of four or five companies worldwide.

The Sims Social has nearly 40 million monthly active users. It is generating high engagement with over eight million daily active users logging in for an average of four times a day.

The Sims Social was developed in close collaboration between designers from our Maxis studio, where the franchise resides, and our Playfish studio in London, which developed and operates the game. Together, they produced a game that was a clear step beyond the fare that has to date dominated the Facebook platform. That is the model you will be seeing as we continue to expand our top brands to the Facebook platform.

Up at PopCap in Seattle, the integration with EA is going very well. They have enthusiastically embraced the new product roadmap and SKU plan designed to accelerate their growth. Plants vs. Zombies is already running on our Pogo site, and in August, PopCap began cross promoting The Sims Social on Bejeweled Blitz. Bejeweled 3 is now on Xbox Live Arcade and coming soon to the PlayStation Network and Nintendo DS.

As of today, there are five flash-based games from PopCap that are accessible through Origin PC.

On mobile, EA is once again the number one publisher for all paid games on Apple's App store, an honor we have held for three years running. We have double the segment share of our next closest competitor. Spy Mouse, the new title from our recently acquired Simon studio launched directly into the number one slot on iTunes and Madden 12 hit number one on Android. We recently launched Tetras 3 on Android in August and we have more than 10 new freemium titles coming within the fiscal year.

Now John mentioned the impressive growth of Origin where more than 6 million customers have downloaded the client. Partnerships announced this morning with THQ, Warner Bros Interactive, and Capcom are gamechangers, proof that in addition to the powerful EA portfolio we can attract and represent AAA titles from the industry's top developers and publishers.

So, first titles, Pac-Man Arkham City from Warner Bros and Saints Row: The Third from THQ will go live for presales on Origin in early November.

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Now as a crossover to an update on our packaged goods business, I will start with an EA brand that exemplifies the state of the art in the game industries.

FIFA 12 -- a franchise with a core SKU on disk and a world of game-expanding services offered online. Around the globe the consumer reaction to FIFA 12 has been remarkable. Five million consumers purchased this latest iteration so far, the best reviewed sports game of this current console generation. And with those big sales numbers, FIFA 12 is drawing unprecedented levels of online engagement. Four weeks into the launch we have hosted 271 million online games, an increase of 105% over last year. Fans are currently playing an average of 94 million minutes per day of FIFA 12 online.

These numbers can be confusing, so let me provide some context. One month after FIFA 12 launched in stores, the game is still in the console tray and they're still generating incremental revenue. Players are rewriting our assumptions about the traditional decay curve. They are playing longer, they are more engaged and they are eager to spend in order to extend the experience.

Two key innovations are driving engagements. First, EA Sports Football Club is a live service that ties directly into the real world of football. Players receive challenges based on the week's big matches.

Two weeks ago with 36,000 people in the stadium, Tottenham beat Arsenal 2-1. By the next day more than 10 times that number had taken one of the live challenges and replayed the final minutes to see if they could rewrite football history.

Second, FIFA Ultimate Team, which allows fans to manage squads and trade players, is scaling into a large and vibrant social experience. Last year we offered Ultimate Team as a free post-launch download. This year we put it right on the disc. Roughly 2 million people are actively engaged and since launch have conducted more than 51 million trades and contributed an incremental \$13 million.

On the disc and online, FIFA 12 is truly an incredible achievement and my congratulations go to our FIFA team in Vancouver.

Moving to the other football, we were delighted when the NFL Owners and Players Association signed its new 10-year agreement in time for a full season of action. Our strategy to mitigating potential downside from the NFL lockout was well-conceived and executed. We did it by extending the window for NCAA 12 and launched Madden two weeks later than usual to coincide with our sponsorship of NFL Kickoff Week. Backed by a solid marketing campaign, NCAA 12 also performed well.

Both games have performed better this year thanks to innovation from our people in the Tiburon Studios and some of the best marketing in recent memory.

I also want to give a shout out to the EA Canada team that developed and marketed NHL 12. Year after year, it is one of the top quality games we make here at EA and it has found a solid niche with a group of intense fans. Congratulations to that team, also based in our Vancouver studio.

Now we have three major title launches in the December quarter. Need for Speed - The Run will launch on November 15 in North America and November 17 in Europe. It is an incredible racing experience built on the Frostbite 2 engine and at its core is an online innovation we call Autolog. Autolog tracks every event in the career of a driver, allowing players to post their spectacular success and epic crashes. Autolog essentially turns our packaged goods game into a social online experience. In Need for Speed - The Run, online features make every second count in the race from San Francisco to New York.

Next, our biggest event of the year, the December 20 launch of Star Wars - The Old Republic. This is inarguably the most anticipated game of the year, an epic MMO that makes each player at the hero of their own Star Wars saga. The Old Republic is in beta right now and players are blown away by the immersive story, dynamic combat, and authentic Star Wars feel. In the coming weeks, we will invite hundreds of thousands of players into our biggest beta test to date.

I will finish with Battlefield 3. As you know we launched this title earlier this week and the results have been tremendous. Thanks to the superb quality of the title produced by our DICE Studio in Stockholm and the world-class marketing executed by our teams globally. Our working made adept use of YouTube where 13 million people have viewed our trailers and on Facebook where we have 2.1 million fans.

Battlefield 3 PR was everywhere, and on launch date in North America alone, more than 8,400 stores opened early to sell the game. We couldn't be happier with the launch of Battlefield 3.

So to sum it all up, we are nailing it in digital and nailing it in packaged goods. Now I'll turn the call back to John.

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John Riccitiello - Electronic Arts, Inc. - CEO

Thanks, Peter. We feel that EA is executing well. We are halfway through our fiscal year and delivering on our plans and raising guidance. We began the year with three objectives that none of our competitors can deliver.

First, we vow to drive our key brands further. We did that with investments in quality and by driving them to mobile, social, and micro-transaction models. Madden, FIFA, Battlefield 3 and, soon, Need for Speed The Run and Mass Effect 3. No other company can deliver that degree of quality and digital experience from this many brands.

This year, we are adding Star Wars: the Old Republic to our list of key franchises and have our launch now set for December. Second, we said that we would begin to transport -- transform EA into a platform company in fiscal '12 -- Nucleus, EA's fourth season ticket, and Origin.

Nucleus has 140 million registered users. This week we announced Origin had surpassed 6 million client downloads and 3 major third-party publishers will be joining us on the platform. We are at the early stage of our development as a platform company and are making good progress.

Third, we have prioritized and invested deeply in talent. Branded development teams have taken full cross-platform responsibility for the brands they lead. Four new leaders have stepped up to head our four major labels. To accelerate our transformation we have hired our first CTO in modern memory. And we are integrating an extraordinarily creative team at PopCap. I don't recall a stronger team at EA or one more energized by the opportunity in front of us.

Together, they are the best team in the industry and getting better. It is an honor for me to work with them.

With that, Eric, Peter, Frank and I will take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Edward Williams, BMO Capital Markets.

Edward Williams - BMO Capital Markets - Analyst

Good afternoon. First of all, a quick question looking at FIFA for a moment. Can you give us a little bit of color as to how much the revenue and profitability of that franchise has been enhanced by the move into digital?

John Riccitiello - Electronic Arts, Inc. - CEO

The first part of your question was cut off. Could you repeat that again please?

Edward Williams - BMO Capital Markets - Analyst

I'm curious about FIFA and how to look at how FIFA 12 is performing relative to prior versions of it, given the significant focus on digital. And what I am trying to figure out is how much has the revenue of that property been enhanced and how much has the profitability of that property been enhanced as you really embrace digital for that particular game?

Peter Moore - Electronic Arts, Inc. - COO

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I think it's -- think of it in these terms. Obviously with the packaged goods business being up 25% globally so far this year, we are feeling very good about that end of it, the core SKU as I spoke about in the prepared statements. We are seeing over 2 million people now already engaged in FIFA Ultimate Team.

If you recall on the last earnings call I believe it was I talked about the ARPU. I think it is fair to say when I look at the projection going forward, we could get as much as 24% more digital revenue on top of the core packaged goods business. Last year we did over \$100 million with Ultimate Team which was FIFA 10 and FIFA 11 combined.

Also important to note we are still getting considerable revenue right now from our FIFA 11 franchise where Ultimate Team is still open and FIFA 12 as well. So as I said in the statement we're already at \$13 million. I think approximately 25% on a go-forward run rate feels like a good figure for me.

John Riccitiello - Electronic Arts, Inc. - CEO

I think Peter is talking about Ultimate Team which is the extension to our console game. To that you would have to add what we get in mobile, what we get in social, what we have in career with FIFA online. And just another observation the telemetry data is pretty clear. When we extend our brand into new platforms we actually create more users for our packaged goods games.

So it is actually a very virtuous cycle. It drives frankly a stronger brand into stronger revenue opportunity and without getting too sharp a point on it, FIFA's development costs have not been escalating in line with this type of growth in revenue opportunity so it is a margin expander.

Edward Williams - BMO Capital Markets - Analyst

The other quick question I had for you is looking at The Sims Social, can you give us an idea as to what monetization trends are like for that?

John Riccitiello - Electronic Arts, Inc. - CEO

In terms of trends, I think that is a little hard to pinpoint. Only because I don't know that we have been in the market long enough to experience anything I would call a trend. We are getting very solid monetization to, if you will, similar games in the industry. We feel great about the number.

What we are focusing on at this point is understanding what we can do around the game architecture and design and feature set over time to see if we can buck the trend of declines after titles are out there for some months while driving ARPU. We have been very good with all of our social games. To get them out there and then to drive up ARPU over time, we expect to be able to do that. What we would like to be able to do, something a little bit different, usually the best in class is driving ARPU to offset traffic declines. We want to drive ARPU while driving a second stage in, if you will, user growth.

Edward Williams - BMO Capital Markets - Analyst

Okay, great. Thank you.

Operator

Brian Pitz, UBS.

Brian Pitz - UBS - Analyst

Thanks for taking my question. Congratulations on the successful launch of Battlefield 3. It looks great coming out of the box. Just a couple of questions on that. We are hearing there are some issues with recent server outages that prevented gamers from accessing the multiplayer game. Did these servers go down due to a larger than expected demand or was it some other issue?

And second, a quick follow-up. Can you share any data points for how the game is selling on Xbox versus PC? Thanks.

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Frank Gibeau - Electronic Arts, Inc. - Studio President

Sure, this is Frank. In terms of the network services, we have had unprecedented and historic peaks in terms of activity that we are getting from the Battlefield community and players. It has caused parts of our network to experience some outages. We were very rapid in our response there and were able to get those back up. We feel like we've really got a handle on it now, and the service as it scales through the release in Europe this weekend should be solid.

In terms of the mix on PC and Xbox sellthrough, it's only been out a couple of days and we really haven't seen enough information to give you a solid trend answer for the mix there. I can tell you that the PC SKU is performing extremely well.

Brian Pitz - UBS - Analyst

And just that one quick follow-up. Given what you've seen on this launch, are you confident that your servers are going to be ready for the Star Wars launch when that comes out just a couple of months from now? Thanks.

Frank Gibeau - Electronic Arts, Inc. - Studio President

Yes we are. It is a very different configuration than what we are experiencing with Battlefield. It is a PC-only configuration and one that we have full control over and we are very confident that Star Wars will be a solid launch.

John Riccitiello - Electronic Arts, Inc. - CEO

So recall Star Wars is already in beta and we will be gaining the amount of units we put in the channel to act our capacity. We take a slightly different approach with the packaged goods game where so much is hanging on the first week sellthrough.

Brian Pitz - UBS - Analyst

Great, thanks for the color.

Operator

Brian Karimzad, Goldman Sachs.

Brian Karimzad - Goldman Sachs - Analyst

I guess first one is can you help us put the 10 million shipments in context maybe versus what you had initially shipped on Medal of Honor or Bad Company 2 and then I have a follow-up.

Peter Moore - Electronic Arts, Inc. - COO

This is -- to be very clear -- this is the biggest one day shipment the Company has ever done. So as regards relating it on an index basis to Medal of Honor I don't have that information. We can probably get it for you but this is, we think it may be as much as double what we did on Medal of Honor.

John Riccitiello - Electronic Arts, Inc. - CEO

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Yes if I recall Medal of Honor was a little bit less. I think it was like 3 to 4 day one and over the course of the first month we got -- first couple weeks we got to about 5. So it is actually larger than that. You know, gapping it over Battlefield - Bad Company 2, call Bad Company 2 between the two would be the best way to think about that.

Brian Karimzad - Goldman Sachs - Analyst

Okay. That's fair. And then I guess on the guidance, so you made it clear that there would have been a \$0.10 deduction for the timing of Star Wars. And then we had essentially about a \$0.10 beat, so the high-end remained the same. But my sense is you probably when you laid out the initial guidance didn't plan to ship 10 million units of Battlefield upfront. Any sense for what needs to happen to hit the high end of the guidance and why you didn't raise that high-end?

Eric Brown - Electronic Arts, Inc. - CFO

We didn't specify what the assumption was 90 days ago on Battlefield 3 and we have had high expectations for the title throughout our planning process. Other key things to keep in mind for the back half of the year are the following.

We are seeing greater traction in digital, we are spending a bit more versus our original assumptions so that needs to be taken into account as well. And we are also holding up the possibility of slipping a title out of our fourth fiscal quarter into the next fiscal year in order to give ourselves a better ship window.

And the final point I would make is the back half of the fiscal year we are seeing a bit of an adverse due to FX. So those things factor into taking the upside in Q2 and then arriving at the \$0.75 to \$0.90 full-year updated guidance range.

John Riccitiello - Electronic Arts, Inc. - CEO

Just to make sure the math is clear though, when we gave our initial guidance for the year, we were very clear that our \$0.70 to \$0.90 can essentially be explained, that \$0.20 range virtually entirely on the basis of the ship date for Star Wars. You know, more or less what we had was sort of a September window, early October window around the high end of our guidance, a January window around the low end of our guidance and we basically lost the dime. Had we known Star Wars was a December ship, we would have given you a \$0.70 to \$0.80 guidance.

We have now updated the \$0.70 to \$0.80 as it were to \$0.75 to \$0.90. So I think it is fair to say it is the other things going well that has allowed us to add \$0.05 to the bottom and \$0.10 to the top holding Star Wars static around December had we done that to begin with. We didn't have that information, we were open about that and we gave our guidance in each of the last two calls.

Brian Karimzad - Goldman Sachs - Analyst

Okay, thank you.

Operator

Neil Doshi, Citigroup.

Neil Doshi - Citigroup - Analyst

Question on The Sims Social. You guys had tremendous success on the game itself, but we have seen at least through third-party data some of other daily activities or numbers come down. What have you been able to do to address this and is there a target daily active user number that you would like to get to or maintain? Thank you.

John Riccitiello - Electronic Arts, Inc. - CEO

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First off, I think one thing that people should note is that a couple of weeks back the data that you see, which is not necessarily the data that we see, on AppData reported a pretty substantial shift of about 25%, 26%. They changed their methodology for tracking DAUs and MAUs. By way of example, Zynga shifted down about 26% across the board and for all of their key titles, as did we. For some odd reason we were slightly less affected on a couple of our titles, but it was pretty much a change in methodology and everything shifted down. So when we were hitting 10, now we are hitting 8.

I would say that if we follow the pattern of the others in this space, we would probably drift down, starting essentially now through January to March while driving ARPU to offset the decline in daily active users. That is the pattern in social games absent gigantic news, relaunch to version 2, etc.

It is my view that Sims Social is a much deeper game with more opportunity for feature expansion and re-engagement of new players than other games that have been launched on the Facebook platform. And we are looking for ways to ensure that doesn't happen or at least testing the limits of what is possible. But if you expected us to follow the normal arc of a leading game that gets in -- one of the very few that gets into double-digit millions of DAUs you would have three or four months followed by a decay.

We haven't really seen much of a decay yet other than the one-time shift based on methodology, but that is what you would expect.

Operator

Justin Post, Bank of America.

Ryan Goodman - BofA Merrill Lynch - Analyst

Yes, this is Ryan G., calling for Justin. Getting onto Battlefield real quick, I was wondering if you guys could talk about your downloadable content or sort of add-on content plans for that over the next maybe three to six months? And then we are coming up to November when there is going to be competing shooter titles out there. How do you guys plan to maintain engagement for Battlefield during that time? And then maybe if you wanted to talk about Medal of Honor and how usage patterns either at retail or online changed November last year?

Frank Gibeau - Electronic Arts, Inc. - Studio President

Sure, this is Frank. In terms of engagement the Battlefield community has the highest engagement rates inside of Electronic Arts in terms of the online play. We do that through a variety of means. First and foremost, we have a fairly aggressive downloadable content plan out in front of us. We have already announced the [Strike at Carcan Map Pack] that is going to be coming available and we will be constantly updating the servers and infrastructure with new features and enhancements. Our plans over the next six months is to have a very robust set of expansion packs past Strike at Carcan that we think the community is going to be very, very excited about.

With regards to your question about this fall, in terms of looking at the overall market, we expect that we are going to grow share in our overall Shooter business and we see that the overall category is going to grow share. So I think that looking at past periods isn't probably the most indicative thing to trend out what is going to happen next. Also Medal of Honor is a very different design than Battlefield. Battlefield is a tremendous multiple player online game, 90 rated across the board in terms of its multiplayer. It has a very different offering than the other competitors out there.

Ryan Goodman - BofA Merrill Lynch - Analyst

Okay, great. And then I was wondering if you guys could update us maybe on the pre-orders for Star Wars and then any update on what subscriber potential could be either in fiscal '12 or fiscal '13 now that we have a firm release date for that game?

Frank Gibeau - Electronic Arts, Inc. - Studio President

Yes, in terms of pre-orders we haven't announced anything specific. I can characterize them though as very, very strong. They are the highest pre-orders we have ever had on a PC game. So we are feeling very good about the momentum and consumer demand out there.

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In addition to that, we really haven't set expectations for what subscriber levels are going to be. We are very excited about the potential gain coupled with the mass-market license like Star Wars, but as we get closer that will be information that we can communicate further.

Operator

Colin Sebastian, Robert W. Baird.

Colin Sebastian - Robert W. Baird & Company, Inc. - Analyst

Thanks. Congratulations on the quarter. Just two quick questions. Eric, sorry if I missed this, but the higher CAPEX in the quarter, is that related to ramping up servers for Star Wars? And I have one follow-up.

Eric Brown - Electronic Arts, Inc. - CFO

That is in part what is driving to CAPEX up is we put in place or purchased the equipment leading up to the December 20 launch date.

Colin Sebastian - Robert W. Baird & Company, Inc. - Analyst

Then maybe, Peter, Madden -- obviously a very strong launch. The later release date, does that have any impact on how that game sales in the fiscal third quarter either reorders or just holiday uptick? Thank you very much.

Peter Moore - Electronic Arts, Inc. - COO

No, I mean the strategy is you might remember from the last call was to actually coincide with the kickoff. It allowed us to be able to actually give the NCAA a little bit of its own oxygen and it clearly benefited from that. What we think as we ramp into the holidays and then towards the end of the fiscal year that the curve on Madden is going to hold strong and we are very, very optimistic for the games we already accrued in Madden holding tight all the way through the fiscal year. It has been a very good start from the Madden team.

John Riccitiello - Electronic Arts, Inc. - CEO

In fact I think we may actually have found a better cadence with giving a little bit room for NCAA to breathe and we clearly weren't hurt by an August 30 release for Madden. So sometimes you get a little lucky when you make changes in reaction to market realities.

Colin Sebastian - Robert W. Baird & Company, Inc. - Analyst

So next year we could perhaps see the later date repeated?

John Riccitiello - Electronic Arts, Inc. - CEO

I wouldn't -- we are not going to be -- guidance even on dates for next year, but that is a nice try.

Operator

Arvind Bhatia, Sterne, Agee.

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

Thank you. I wanted to see if you can refresh us on your long-term margin goals and kind of how you get there? How much of that is going to be through the mix shift towards digital, how much it's going to be from leverage on costs, etc. Just your long-term goals?

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John Riccitiello - Electronic Arts, Inc. - CEO

So first off I wanted to point out a couple of things here and I am going to let Eric pick up on this because of course he is focused on it in a laser-like way. Over the last three years, we've gone from negative to 5% of margin from 5% to 8% and our guidance for this year is tracking to 9% to 10%. We previously stated that we felt absent sort of [COD] level breakout hits getting into the teens seems like a very logical and straightforward thing to do and that digital could help enhance it from there. We haven't been more specific.

I would say another key aspect of this, of course, is more topline when you've got discipline on cost as a driver of margins. And by way of example on a competitive basis, one thing I'm pretty pleased with is if you take a look by way of example at the last fiscal year, as per our principal competitor in Los Angeles, you know they had about \$1 billion in more topline than we did in the last fiscal year, if you take their year end in calendar '09 and ours ending in March of '10.

It is about even now. We made up about \$1 billion in revenue and that is one of the drivers that allows us to expand our margin structure.

So we've been making steady progress. We have got some inflection points which I'm sure Eric is going to talk about. But a key driver is holding down the cost, of course, while pushing up the topline.

Eric Brown - Electronic Arts, Inc. - CFO

Yes, to elaborate a bit further again with out setting any specific timeframe on this, what we've been doing is if you look at the last three to four years is we've significantly reweighted the portfolio to the point where it is effectively 90% high-definition, packaged goods software and digital combined versus a 55/45 mix in FY 09. We expect that we're going to continue to grow rapidly in digital and as we move well past \$1 billion this year are guiding well past \$1 billion and digital, we can see getting to \$2 billion in digital and beyond.

With that we expect to see margins expand. Right now we are at a 9% to 10% non-GAAP op margin guidance for the current fiscal year. We have talked before about getting into the mid and high teens again without setting a specific timeframe. So, in essence, margin expansion will follow with continued digital growth rates and, again, just to be specific on a trailing 12-month basis to date, 37% growth we are already at \$900 million in actual TTM digital revenue. So we are well on that path.

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

One question on Battlefield 3 as well. Could you just remind us a mix of PC versus consoles for the last one and are you expecting a similar mix for this one as well?

Frank Gibeau - Electronic Arts, Inc. - Studio President

The mix going forward on those titles we haven't really announced and I don't think we are in a position to really talk to those yet. We are only two days in terms of sellthrough and we are looking at the reorders, but on the PC as I said before, overall, we expect will have grown as an overall business just because of how spectacular the software is on the PC and what it looks like.

And (technical difficulty) lion's share of the [in turn] console. So --.

Operator

Atul Bagga, Lazard Capital.

Atul Bagga - Lazard Capital Markets - Analyst

Thanks for taking my question and congratulations on a great quarter. I have a couple questions and mostly on EA Origin. First of all, can you talk a little bit about how big the market is for downloadable game? And what kind of share do you expect to gain in this market? And B, right

now it seems like Origin is more about e-commerce marketplace. Over the longer term, I mean how do you expect this to evolve and what kind of milestone we should be watching out for? And how do you manage to channel conflict with, say, someone like Game Stop?

John Riccitiello - Electronic Arts, Inc. - CEO

Let me start with one clear observation. We don't think of ourselves as participating in a downloadable games market. Yes, Origin has as a principal component of what we know what happens there, the download of the PC client. We also played games linking off of that through the browser. You can also stream games through the service with our partnership with Gaikai. There are also micro transactions.

So one of the things we try not to do is parse the concept of downloadable because we are not particularly partial to any one technology delivery system. There are times when it is appropriate to play something through a browser, there's times when it is appropriate to download, there's times when streaming works best, there's times when client/server works best.

So I don't think that we would parse it that way. We would say though that we think we have got a very substantial revenue opportunity just with the A titles through Origin over time. We think that consumers that are buying directly from us are going to buy more often, pay for micro transactions more often and grow their loyalty to our brand more often. And of course adding third parties can add materially to that.

In terms of the channel conflict, the most sophisticated of our partners, one of them by way of example would be Game Stop was in our offices this week, and we are not actually seeing conflict between their online ambitions and ours. In fact there is an awful lot of cooperation and partnership. They sell products on codes through their store for products from Electronic Arts and we do a lot of things where they sell things, we sell things, Origin and Game Stop's web service get closer and closer.

I expect really it is sort of a 1990's thing to see conflict in some of these things. At this point in time, you don't exactly own a consumer, but you can have a strong revenue stream and a margin expansion from it. But there is really not a -- the hostility that you might have expected if you are looking at it through the prism of, say, the last couple of years.

Atul Bagga - Lazard Capital Markets - Analyst

Makes sense. And, John, can you just elaborate on the milestones? The vision that you have around EA Origin, what are going to be the big milestones in when we should be expecting those things to come out? The micro transaction, I think you guys already have the Gaikai partnership in place, but the full streaming kind of a service, when can we expect to see that?

John Riccitiello - Electronic Arts, Inc. - CEO

You can do that now, but I would say that -- what I would be looking at here with a first major milestone was getting in the market and not having it fall over. I know that sounds pedestrian, but the number of companies that have attempted material platforms with a window onto it is directly intersected to the consumer, it is amazing how many of these things fall over and go nowhere.

From there, we wanted to get to scale and be able to deploy our games smoothly and efficiently. If you've tried a Star Wars -- Star Wars beta or Battlefield 3 you'll note that it worked very smoothly and efficiently and a number of clicks through the system. I still think it is more cumbersome than it ought to be, but it is one heck of a lot better than it could be and what a lot of competing services are.

Another milestone along the way was getting third parties to sign up for it. We announced three of those this week. A lot more interest beyond that out there.

I would say the principal things to look for in the next couple of years without sort of putting a target on my back for the competition are a lot more in the way of social features and more capability relative to channels beyond the PC. So that is where we are focused. It is not that I am trying to withhold information, but there are competitive and sensitive issues around what we do here.

Peter Moore - Electronic Arts, Inc. - COO

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Origin is part of my group. Going forward, you are going to hear three things from us about Origin. The numbers that we acquire are acquisition rates, and we are seeing that tremendous of course this week with Battlefield. And then the level of engagement. We will update you with that on a regular basis as the number of times people visit, what they are doing when they visit.

And then obviously for those of you on the call the monetization didn't that we are starting to derive from this customer base that will build over the next few years.

Atul Bagga - Lazard Capital Markets - Analyst

Wonderful. Thank you so much.

Operator

John Taylor, Arcadia.

John Taylor - Arcadia Investment Corporation - Analyst

I have got a couple questions as well. I guess the first question relates to how you are leveraging Nucleus and I think there are two parts to it. One, maybe Peter on the Sports side that you talk about what you are saying now that the Sports portfolio is up across the board. What you are seeing about unit consumption per sports fan or dollars per -- you know, kind of average revenue per player and then, the second part of that is maybe for you, John. Maybe talk about at what point you get to a place where you can pivot and leverage Nucleus such that you can bring down some of your sales and marketing media spending kind of thing? So that is the first question. I have got another one after that. Thanks.

Peter Moore - Electronic Arts, Inc. - COO

But, JT, you won't let me get out of my sports roots. EA Sports Football Club is a model you should keep a very close eye on. We'll update you as we go forward into the season here. The ability to provide both persistence and presence is going to be key to this across all the platforms the FIFA, in particular, is going to be available upon.

As John mentioned from the earlier question, the availability of FIFA on now I think it's 11 platforms is unprecedented and being able to tie it all together, reward those FIFA fans no matter what they're playing on from Facebook all the way up to Xbox Live is very important to our future here. And being able to monetize those consumers ultimately when they come on and engage with this is going to be key.

So that is the first of a pilot program you will see across Sports and then course across the Company itself.

Where it is still a little early, we are only six or seven weeks into FIFA so we are going to be as we get into the height of the holiday and FIFA numbers continue to grow, maybe on the next call we can update you on how that is working, give you some ARPU numbers which we were able to do last year. But still a little early with FIFA 12.

John Riccitiello - Electronic Arts, Inc. - CEO

So, your question about marketing cost, I would say it is a profoundly important question for us, and while I am very proud of EA, the quality of its product in its business model, I would say that relative to where we want to be and in a two-year time frame or thereabouts, is we have got an incredibly leaky bathtub. What I mean by that is and all game companies do -- one is, you are forced to reacquire your customer every year at a cost that is very significant. If a company is running on if they're just in the packaged goods business by way of example, if they are running 10% variable marketing cost against revenue, they are running \$5 a customer to acquire. And if they are running 15%, they are running \$7.50.

So that is an incredibly expensive thing to do to acquire -- to reacquire your customer every year.

The second thing is the ability to cross sell to new services whether those services be within a franchise or cross-franchise or even cross-platform. For contact makers historically the ability there has been virtually nonexistent. Our vision with the investments and platform is to solve both problems.

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Now I can't tell you exactly how it works when we solve both problems because no one has been there before. But I can tell you there are precious few companies that have taken great content and added strong platform components, which means they have created a lot of value. HBO is a company that has done that.

I believe frankly we are in it, similarly situated, to create an enormous amount of value here. That is exactly what we are focused on and, yes, we are going to see it I think in both ends of the equation. One is the lifetime value to the consumer; we should be able to drive that up by giving them more products and services. And then the cost to acquire or the marketing cost, which should be able to come down dramatically. We see margin leverage in both directions and that it can be quite substantial.

You know, two, three years ago I was telling you that quality into our titles would deliver us into a better revenue and margin structure. That may well have seemed slightly unbelievable a few years ago. This may seem slightly unbelievable today, but I am more convinced of this than almost anything we are working on.

John Taylor - Arcadia Investment Corporation - Analyst

So in terms -- I am not going to try to tie you to a specific timeline, but is this something we could start to see some meaningful impact in next year? Is this like more a two, three, four year thing out?

John Riccitiello - Electronic Arts, Inc. - CEO

We have already given hints about what are the drivers for our margin structure next year in and around a 12-month Star Wars business versus half-year and that type of thing. I really don't want to get into fiscal '13 guidance before the fiscal '12 holiday. I would like to actually experience the business before I give you an index of how we improve upon it and, literally, as you all well know, our Q3 guidance from a profit perspective looks an awful lot like our fiscal year guidance. So all the profits in the current quarter. So I want to deliver that before I start getting more precise over how we are going to beat it.

John Taylor - Arcadia Investment Corporation - Analyst

Okay. Let me ask the other one if I can. So you have had, I think, huge success with Sims Social. That particular property lines up nicely with who we think of as sort of the average Facebook gameplayer who tends to be different from first-person shooter player. So in looking at your portfolio, it doesn't look like there's an immediately strong second choice.

I wonder if you can talk a little bit about how you are going to leverage that traffic and cross sell it with the other properties you've got?

John Riccitiello - Electronic Arts, Inc. - CEO

I am going to make this really short, but there are a couple of properties we think have got enormous potential against that mass demographic that is on Facebook and other demographics, especially when you look at -- look deeper into our portfolio and also look at Playfish portfolio and in particular the PopCap portfolio.

The second thing I would tell you is core games when they monetize well on Facebook, they might have a fourth or thereabouts of the traffic. A lot of times they will have four times the ARPU if not more. And ultimately Facebook is a business of finding your whales and harvesting them in many ways. We think we've got IP that will do really, really well there and you'll see more from us on that front over the course of -- you know, frankly, every quarter we are going to give you an update on something. This past quarter was Sims Social. We have got some major launches in each quarter moving forward. But we don't point to them in advance JT. But thanks for the question.

John Taylor - Arcadia Investment Corporation - Analyst

Thank you.

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Operator

Doug Creutz, Cowen & Company.

Doug Creutz - Cowen & Company - Analyst

Earlier you talked about gating the ramp for Star Wars at launch. And I wondered if you could maybe go into a little bit more about how you are thinking about initially users you are going to let in, how quickly you think you can ramp that to demand. What you are planning to do if pre-orders sort of hit that level, how you are going to handle that and so forth? Thank you.

Frank Gibeau - Electronic Arts, Inc. - Studio President

We have taken a very detailed approach to looking at how do we maximize the customer experience when they go online with Star Wars to maximize the fun that they're having online, the stability, the quality of the experience. We are using our beta tests to inform us of what scale we can handle.

So our pre-order campaign is tailored towards how we are going to do that. I mean we are looking at a rollout plan that is fairly ambitious. We don't feel like we are going to be leaving too much demand behind at launch, but we definitely are going to be very cautious and thoughtful about how many people we bring on and in what order.

It is a very interesting proposition from that standpoint because you have a Star Wars brand that draws in a lot of people. And that is a good thing, because we think we can sustain the business over a very long time as we grow. There is going to continually be new customer segments that we can open up and bring into the service.

Doug Creutz - Cowen & Company - Analyst

Great, thank you.

Operator

James Hardiman, Longbow Research.

Phil Anderson - Longbow Research - Analyst

This is Phil Anderson from Longbow Research filling in for James.

Just wondering if you could quantify the -- you guys mentioned on a previous call that you were hedging or placing a collar around Madden's performance with the NFL players strike or lockout? And just wondering if you could quantify what the impact of that was during the quarter?

Peter Moore - Electronic Arts, Inc. - COO

It is pretty simple. We certainly have -- you have seen the numbers, the sellthrough numbers. We have grown our revenue but it has not been what we call high calorie attribution to the bottom line. Topline revenue growth has been strong, but our focus all along was about mitigating the downside for the potential of a lockout and we did that and did that very successfully in combination with our partners at both the NFL and the NFL PA.

So sales are strong in the top 10, but there wasn't necessarily and we stated this pretty early on the last call for Q1, wasn't going to filter down directly to the bottom line.

John Riccitiello - Electronic Arts, Inc. - CEO

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But it does bode well going forward [with] this late in the cycle especially with the negative overhang of the PR from the NFL during the lockout to be able to outperform last year and to reignite growth is a testimony to some great work inside the sports label.

Peter Moore - *Electronic Arts, Inc. - COO*

And on top of that of course we have got a digital layer of Madden Ultimate Team that ultimately should benefit from more copies being sold.

Rob Sison - *Electronic Arts, Inc. - VP-IR*

Operator, we have time for one more question and then we'll close out the call.

Operator

Mike Hickey, National Alliance.

Mike Hickey - *National Alliance - Analyst*

Thanks for taking my question. On Battlefield thinking forward strategically, how important do you think the single player experience is versus perhaps focusing purely on multiplayer with the service layer or more aggressive [PDLC] plan?

Frank Gibeau - *Electronic Arts, Inc. - Studio President*

It's a great question because we consider Battlefield an online service. First and foremost that brand was built on its multiplayer prowess and the technology really lends itself to that.

The single player experience is important. It is a great way to get sands into the experience, have them train up and get ready for multiplayer and a lot of fans just enjoy having that single player experience.

So I think you have to have both and clearly the multiplayer is the richer opportunity for us, because of the services opportunity and keeping a customer engaged 365 like what John talked about earlier on the call. Fortunately Battlefield is a franchise since the late '90s, it has been configured around multiplayer and I think that is why you are seeing such popularity around the design.

John Riccitiello - *Electronic Arts, Inc. - CEO*

Remember as well, the single player is often how new players ramp into the game. And important just to make sure Frank mentioned it, and I want to make sure it's understood, it is the way new players usually get exposed to a franchise.

Mike Hickey - *National Alliance - Analyst*

And then for John, you definitely are hitting on the platform theme and you have for a couple of quarters now. Does it make sense strategically for a player [versus] direct platform?

John Riccitiello - *Electronic Arts, Inc. - CEO*

You know, I don't -- personally I don't think so. I actually think it's would be no more logical frankly than us doing prior to Playfish or PopCap doing a PlayStation 3 direct to platform. There is a great social direct platform out there that is called Facebook. And I think they do really well with it. Where I think we add value is on open platforms like PC in general where there really [is such] a platform manager.

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Probably most importantly as we drive our intellectual properties across multiple platforms, consumers have every valid expectation that as they make progress on one type of a hardware platform that's recognized, rewarded, and connected to their experiences in others.

I play Scrabble with friends of mine and my family when we are going back and forth between Android and Facebook and iOS and DC. We are playing a similar -- we are playing the same product represented differently on those devices. And we are increasingly tying that together to create more value for the consumer.

This is an awful lot in that over time. I think one of the most valuable aspects of Electronic Arts is we are one of the very few players that has both breadth and intellectual property and then the ability to project those properties successfully on Android iOS, Facebook, PC, console, US, international, micro-transaction, packaged goods and add models. I think that is really the equation that is going to work in the future which is why we bring it down and concentrate on our most important dozen intellectual properties.

I am summing up if you will what our investment proposition is, but why platform is so important to it.

Rob Sison - Electronic Arts, Inc. - VP-IR

Okay, we'll wrap it up there. We thank you for your time today and look forward to speaking with you next quarter.

Operator

Thank you. This concludes today's conference. You may disconnect at this time.

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