



# First Quarter 2016 Results

May 5, 2016

# Safe Harbor Disclosure

## Please review our SEC filings on Form 10-K and Form 10-Q

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The statements contained in this presentation that are not historical facts are forward-looking statements, including, but not limited to, statements about (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those related to product releases; (3) statements of future financial or operating performance; (4) statements relating to the acquisition of King Digital Entertainment plc and expected impact of that transaction, including without limitation, the expected impact on Activision Blizzard's future financial results; and (5) statements of assumptions underlying such statements. The company generally uses words such as "outlook," "forecast," "will," "could," "should," "would," "to be," "plan," "plans," "believes," "may," "might," "expects," "intends," "intends as," "anticipates," "estimate," "future," "positioned," "potential," "project," "remain," "scheduled," "set to," "subject to," "upcoming" and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict.

The Company cautions that a number of important factors could cause Activision Blizzard's actual future results and other future circumstances to differ materially from those expressed in any forward looking statements. Such factors include, but are not limited to: uncertainties as to whether and Activision Blizzard will be able to realize the anticipated financial results from the acquisition; the integration of King being more difficult, time-consuming or costly than expected; the diversion of management time and attention to issues relating to the operations and integration of King; sales levels of Activision Blizzard's titles including; increasing concentration of revenue among a small number of titles; Activision Blizzard's ability to predict consumer preferences, including interest in specific genres and preferences among hardware platforms; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; adoption rate and availability of new hardware (including peripherals) and related software; counterparty risks relating to customers, licensees, licensors and manufacturers; maintenance of relationships with key personnel, customers, financing providers, licensees, licensors, manufacturers, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality titles; changing business models, including digital delivery of content and the increased prevalence of free-to-play games; product delays or defects; competition, including from used games and other forms of entertainment; rapid changes in technology and industry standards; possible declines in software pricing; product returns and price protection; the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion; the seasonal and cyclical nature of the interactive entertainment market; litigation risks and associated costs; protection of proprietary rights; shifts in consumer spending trends; capital market risks; applicable regulations; domestic and international economic, financial and political conditions and policies; tax rates and foreign exchange rates; the impact of the current macroeconomic environment; and the other factors identified in "Risk Factors" included in Part I, Item 1A of Activision Blizzard's most recent annual report on Form 10-K and subsequent quarterly reports on Form 10-Q.

The forward-looking statements in this press release are based on information available to the Company and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations. The Company undertakes no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the original date of this presentation, May 5, 2016.

# Strong Start to the Year, Many Opportunities Ahead

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## Better-Than-Expected Q1 Financial Results:

- GAAP: record Q1 revenues of \$1,455M, EPS of \$0.45
- Non-GAAP<sup>1</sup>: record Q1 revenues of \$908M and record Q1 EPS of \$0.23
- Over-performed non-GAAP<sup>1</sup> guidance<sup>2</sup> by \$108M on revenues and \$0.12 on EPS
- Record quarterly digital revenues

## Raising Outlook:

- Increased 2016 non-GAAP<sup>1</sup> outlook to revenues of \$6.275B and EPS of \$1.78

## Talent Drives Our Results:

- Recognized again by FORTUNE as one of the '100 Best Companies to Work For®'

## Engagement Drives Opportunities Ahead:

- Over half a billion MAUs<sup>3</sup> and 42B<sup>4</sup> hours of annual entertainment
- New opportunities such as esports and new revenue streams such as advertising

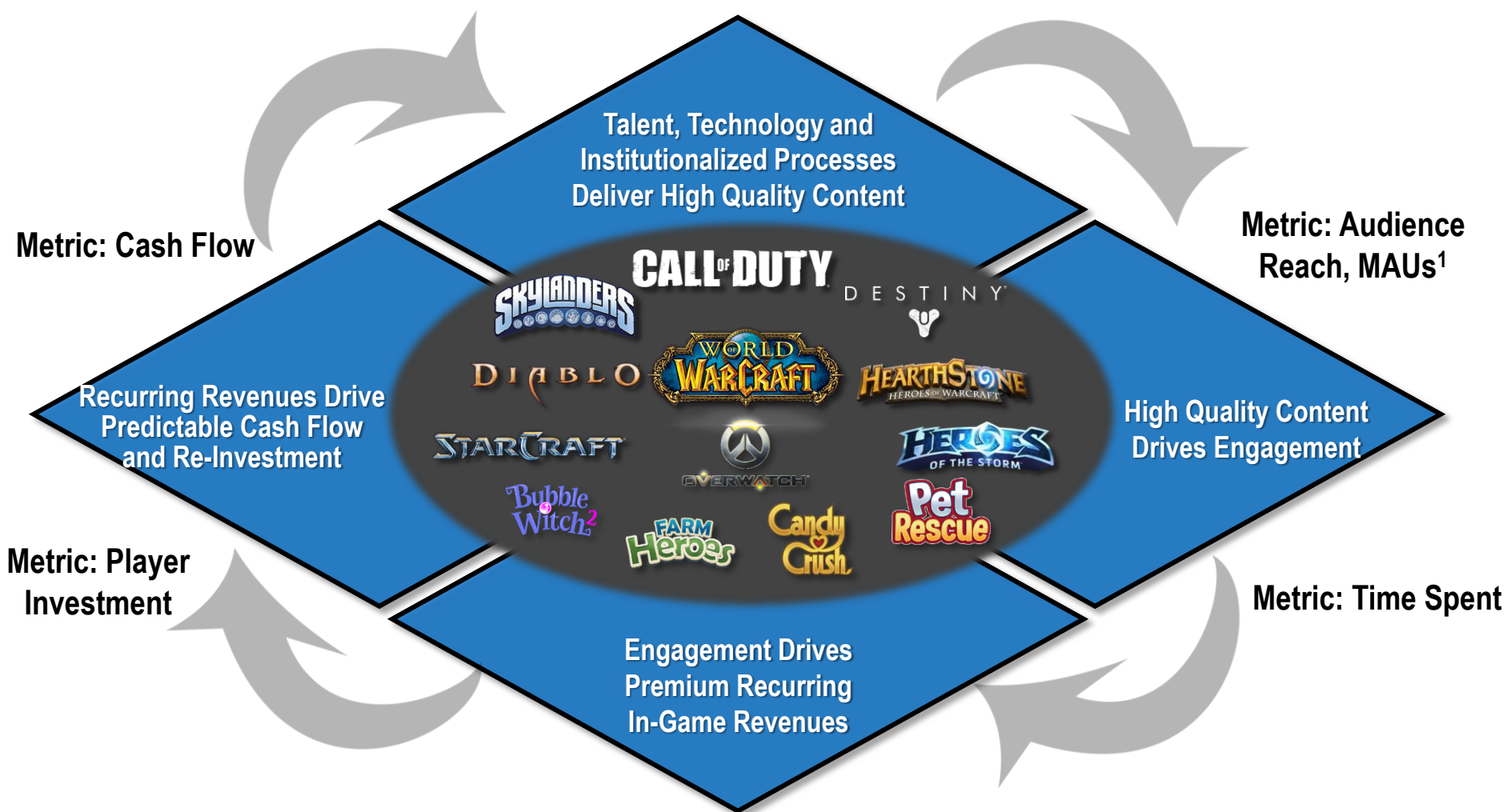
<sup>1</sup> Non-GAAP information; reconciliation tables in the appendix of the earnings release dated May 5, 2016, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>2</sup> Prior outlook provided February 11, 2016.

<sup>3</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details. <sup>4</sup> Includes King for full period.

# Strategic Focus on Franchises

We have relentlessly focused on building reach, engagement, and player investment



<sup>1</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

# Expanding Audience Reach

Broadened audience reach across portfolio, platforms, and geographies to 544M MAUs<sup>1</sup>

MAUs<sup>1</sup>

Activision	Blizzard	King
55M, +10% Y/Y	26M, +23% Y/Y	463M, +3% Q/Q

## Franchise Details:



- **Candy Crush Jelly Saga™** launched in January and reached top 10 grossing games on iPhone in the U.S. and Google Play worldwide. The launch, along with the first two **Candy Crush™** games' performance, returned the franchise to sequential growth<sup>2</sup>
- King has had 3 of top 15 grossing games on U.S. app stores for the last 9 quarters<sup>2</sup>



- Record franchise MAUs<sup>1</sup>, exceeding the December launch quarter
- **Call of Duty®: Black Ops III:** Attached to ~85% of all PS4's sold in Q1, in NA
- **Call of Duty: Infinite Warfare**, the first 3-year development cycle title from award-winning studio, Infinity Ward, expected to launch 11/4/16. Legacy and Digital Deluxe Editions to come with **Call of Duty: Modern Warfare® Remastered**, a next-gen remaster of beloved title



- **Hearthstone®: Heroes of Warcraft™** surpassed 50M registered players
- Six major content additions since launch ~2 years ago



- Early access to **Overwatch™** open beta began May 3 and beta will continue through May 9
- Millions of players are already playing ahead of the expected launch on May 24
- Expected to be Blizzard's biggest launch since **Diablo® III** in 2012

<sup>1</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details. <sup>2</sup> U.S. ranking for Apple App Store and Google Play Store, per App Annie Intelligence for first quarter 2016.

# Deepening Engagement

>10B<sup>1</sup> hours spent playing our games in Q1; 42B<sup>1</sup> hours including spectating in the last 12 months



Hours spent with content in last 12 months

ATVI

42B<sup>1</sup>

vs:

NFLX

42.5B

FB Videos

~37B

Sports Leagues<sup>2</sup>

~10B

## Details:



- **Whispers of the Old Gods™** expansion launched April 26 driving record number of daily active users and play time per daily active user



- Next expansion, **Legion™**, expected to launch August 30 with new features to deepen and extend engagement post-launch



- 2<sup>nd</sup> year of **Heroes of the Dorm™** collegiate tournament, with finals live telecast across ESPN networks; household audience from telecast up 17% Y/Y



- **Destiny** now has nearly 30M registered players averaging >100 hours of gameplay each
- April update added content and gameplay improvements, which drove strong reengagement
- Large new expansion coming later this year



- Concluded Stage 1 Finals of the **Call of Duty World League**; Championships this fall with \$3M prize pool
- MLG providing league sanctioning systems, event production, in-game live video viewer



- Our Media Networks division held an event for Valve's **CounterStrike: GO Major** and delivered 45M hours of viewership, ranking amongst the top esports events

<sup>1</sup> Includes King for full period. <sup>2</sup> National viewership of major professional U.S. sports leagues only.

# Increasing Opportunities for Player Investment

Increased player investment and deeper engagement are a virtuous cycle

Q1 non-GAAP revenues from in-game content

ATVI	Y/Y (standalone)	Y/Y (incl. King)
>\$620M <sup>1</sup>	+20%	+80%

## Details:



CALL OF DUTY



- King's metrics improved Q/Q with growth in monthly unique payers, gross bookings per paying player, and overall gross bookings
- Implemented live ops across games, including fresh content and events to drive engagement and provide value added services
- **Call of Duty** set new records for in-game content sales
- Season Pass attach rates at all-time highs, and number of players who chose to purchase in-game more than doubled while maintaining average revenue per paying user
- **Destiny's** newly launched loot box with double-digit attach rate
- 20% non-GAAP<sup>1</sup> revenue growth year-over-year in Q1

<sup>1</sup> Non-GAAP information; GAAP revenues from in-game content were \$640 million, which includes the impact of changes in deferred revenues which are excluded from non-GAAP.



# A Portfolio of Compelling Owned Franchises

A network of 544M MAUs<sup>1</sup> with 42B<sup>2</sup> hours of annual entertainment across franchises

**ACTIVISION**

4 of top 10 titles on next-gen consoles, life-to-date<sup>3</sup>

**CALL OF DUTY**

DESTINY

**SKYLANDERS**

**BILZARD**  
ENTERTAINMENT

Growing community of highly engaged players

**WORLD OF WARCRAFT**

**HEARTHSTONE**  
HEROES OF WARCRAFT



OVERWATCH

DIABLO

STAR CRAFT

**HEROES OF THE STORM**

**King**

3 of top 15 grossing games on U.S. app stores for 9 consecutive quarters<sup>4</sup>

**Candy Crush**

**Bubble Witch<sup>2</sup>**

**Pet Rescue**

**FARM Heroes**

<sup>1</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details. <sup>2</sup> Includes King for full period. <sup>3</sup> NP. <sup>4</sup> U.S. ranking for Apple App Store and Google Play Store, per App Annie Intelligence for first quarter 2016.



# Q1 2016 Results

Record first quarter non-GAAP<sup>1</sup> revenues and all-time high digital revenues

	Q1 2015 Actual		Prior Q1 2016 Outlook <sup>2</sup>		Q1 2016 Actual	
	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>
<b>Net Revenues</b>	<b>\$1,278M</b>	<b>\$703M</b>	<b>\$1,260M</b>	<b>\$800M</b>	<b>\$1,455M</b>	<b>\$908M</b>
Digital Revenues	\$581M	\$538M			\$926M	\$797M
Digital Revenues %	45%	76%			64%	88%
Operating Income	\$542M	\$204M			\$461M	\$252M
Operating Margin	42%	29%	21%	20%	32%	28%
Interest Expense, Net	\$50M	\$50M	\$56M	\$55M	\$52M	\$51M
Tax Rate	20%	24%	25%	25%	18%	14%
<b>EPS</b>	<b>\$0.53</b>	<b>\$0.16</b>	<b>\$0.21</b>	<b>\$0.11</b>	<b>\$0.45</b>	<b>\$0.23</b>
Weighted-avg shares outstanding:						
Diluted shares	731M	731M			746M	746M
Participating securities	10M	10M			4M	4M
Total share count for EPS <sup>3</sup>	741M	741M	756M	756M	750M	750M

<sup>1</sup> Non-GAAP reconciliations are in the appendices of the earnings releases dated May 6, 2015, February 11, 2016 and May 5, 2016, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com)

<sup>2</sup> Prior outlook provided February 11, 2016.

<sup>3</sup> Fully diluted weighted average shares outstanding includes options and participating securities based on average share price. May not recalculate due to rounding.

# Balance Sheet

**Paid down \$500M of term loan in Q1; \$0.26/share dividend to be paid on May 11**

	3/31/15	12/31/15	3/31/16
<b>Cash and investments</b>	<b>\$4.48B</b>	<b>\$5.40B<sup>1</sup></b>	<b>\$2.91B<sup>2</sup></b>
Cash and investments per share <sup>3</sup>	\$6.04	\$7.20	\$3.87
\$250M revolving facility	---	---	---
5-year term loan	---	---	\$2.55B
7-year term loan	\$1.87B	\$1.87B	\$1.12B
8-year notes due 2021 (5.625%)	\$1.50B	\$1.50B	\$1.50B
10-year notes due 2023 (6.125%)	\$0.75B	\$0.75B	\$0.75B
<b>Gross Debt</b>	<b>\$4.12B</b>	<b>\$4.12B</b>	<b>\$5.92B</b>
<b>Net Debt<sup>4</sup></b>	<b>---</b>	<b>---</b>	<b>\$3.01B</b>
<b>Net Cash<sup>5</sup></b>	<b>\$0.36B</b>	<b>\$1.28B</b>	<b>---</b>

			As Reported	Including King TTM EBITDA <sup>7</sup>
<b>Adjusted TTM EBITDA<sup>6</sup></b>	<b>\$1,570M</b>	<b>\$1,552M</b>	<b>\$1,607M</b>	<b>\$2,275M<sup>7</sup></b>
Secured Debt / Adj. TTM EBITDA <sup>6</sup>	1.2x	1.2x	2.3x	1.6x <sup>7</sup>
Gross Debt / Adj. TTM EBITDA <sup>6</sup>	2.6x	2.7x	3.7x	2.6x <sup>7</sup>
Net Debt <sup>3</sup> / Adj. TTM EBITDA <sup>6</sup>	0x	0.0x	1.9x	1.3x <sup>7</sup>

<sup>1</sup> Includes \$3.6B of cash in escrow. <sup>2</sup> Includes over \$1.5B of domestic cash and investments.

<sup>3</sup> Based on weighted average shares outstanding of 741M, 750M, and 750M for the quarters ending March 31, 2015, December 31, 2015, and March 31, 2016, respectively.

<sup>4</sup> Net debt is defined as gross debt less cash and cash equivalents, short-term investments and long-term investments.

<sup>5</sup> Net cash is defined as cash and cash equivalents, short-term investments and long-term investments less gross debt.

<sup>6</sup> Adjusted TTM EBITDA is calculated as non-GAAP operating income plus depreciation for the trailing twelve months of respective periods end.

<sup>7</sup> Based on King's trailing twelve months adjusted EBITDA including \$207 million for Q2CY15, \$180 million for Q3CY15, and \$188 million for Q4CY15 (as reported by King), and 2016 pre-transaction close King adjusted EBITDA of \$93 million.

# Financial Outlook as of May 5, 2016

Raising 2016 non-GAAP<sup>1</sup> revenues by \$25M and EPS by \$0.03

	Q2 2016		2016	
	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>
<b>Net Revenues</b>	<b>\$1,425M</b>	<b>\$1,375M</b>	<b>\$6,130M</b>	<b>\$6,275M</b>
COGS (Prod/Online)	24%	23%	25%	24%
Op Ex, incl. Royalties	65%	46%	60%	44%
<b>Operating Margin<sup>2</sup></b>	<b>11%</b>	<b>31%</b>	<b>15%</b>	<b>32%</b>
Interest Expense	\$62M	\$60M	\$243M	\$235M
Tax Rate	23%	23%	24%	24%
<b>EPS<sup>2</sup></b>	<b>\$0.10</b>	<b>\$0.38</b>	<b>\$0.69</b>	<b>\$1.78</b>
Fully Diluted Weighted Avg. Shares <sup>3</sup>	755M	755M	765M	765M

## Currency Assumptions for Current 2016 Outlook:

- \$1.12 USD/Euro (vs. \$1.11 avg. for 2015 & \$1.33 avg. for 2014)
- \$1.45 USD/GBP (vs. \$1.53 avg. for 2015 & \$1.65 avg. for 2014)
- Note: Revenue and EPS increase if the Euro or GBP strengthen vs. USD

<sup>1</sup> Non-GAAP information; reconciliation tables in the appendix of the earnings release dated May 5, 2016, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>2</sup> May not recalculate due to rounding.

<sup>3</sup> Including fully diluted shares and participating securities based on average share price.

# Use of Non-GAAP Measures

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As a supplement to our financial measures presented in accordance with Generally Accepted Accounting Principles ("GAAP"), Activision Blizzard presents certain non-GAAP measures of financial performance. These non-GAAP financial measures are not intended to be considered in isolation from, as a substitute for, or as more important than, the financial information prepared and presented in accordance with GAAP. In addition, these non-GAAP measures have limitations in that they do not reflect all of the items associated with the company's results of operations as determined in accordance with GAAP.

Activision Blizzard provides net revenues, net income (loss), earnings (loss) per share and operating margin data and guidance both including (in accordance with GAAP) and excluding (non-GAAP) certain items. When relevant, the Company also provides constant FX information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. In addition, Activision Blizzard provides EBITDA (defined as GAAP net income (loss) before interest (income) expense, income taxes, depreciation and amortization) and adjusted EBITDA (defined as non-GAAP operating margin (see non-GAAP financial measure below) before depreciation). The non-GAAP financial measures exclude the following items, as applicable in any given reporting period:

- the change in deferred net revenue and related cost of sales with respect to certain of the company's online-enabled games;
- expenses related to stock-based compensation;
- the amortization of intangibles from purchase price accounting;
- fees and other expenses related to the King acquisition, inclusive of related debt financings; and
- the income tax adjustments associated with any of the above items.

In the future, Activision Blizzard may also consider whether other items should also be excluded in calculating the non-GAAP financial measures used by the company. Management believes that the presentation of these non-GAAP financial measures provides investors with additional useful information to measure Activision Blizzard's financial and operating performance. In particular, the measures facilitate comparison of operating performance between periods and help investors to better understand the operating results of Activision Blizzard by excluding certain items that may not be indicative of the company's core business, operating results or future outlook. Internally, management uses these non-GAAP financial measures in assessing the company's operating results, and measuring compliance with the requirements of the company's debt financing agreements, as well as in planning and forecasting.

Activision Blizzard's non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and the terms non-GAAP net revenues, non-GAAP net income, non-GAAP earnings per share, non-GAAP operating margin, and non-GAAP or adjusted EBITDA do not have a standardized meaning. Therefore, other companies may use the same or similarly named measures, but exclude different items, which may not provide investors a comparable view of Activision Blizzard's performance in relation to other companies.

In addition to the reasons stated above, which are generally applicable to each of the items Activision Blizzard excludes from its non-GAAP financial measures, there are additional specific reasons why the company believes it is appropriate to exclude the change in deferred revenues and related cost of sales with respect to certain of the company's online-enabled games.

Since Activision Blizzard has determined that some of our games' online functionality represents an essential component of gameplay and, as a result, a more-than-inconsequential separate deliverable, we recognize revenues attributed to these game titles over their estimated service periods, which is generally less than a year. The related cost of sales is deferred and recognized as the related revenues are recognized. Internally, management excludes the impact of this change in deferred revenues and related cost of sales in its non-GAAP financial measures when evaluating the company's operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of its management team. Management believes this is appropriate because doing so enables an analysis of performance based on the timing of actual transactions with our customers, which is consistent with the way the company is measured by investment analysts and industry data sources. In addition, excluding the change in deferred revenues and the related cost of sales provides a much more timely indication of trends in our operating results.



**Q&A**

May 5, 2016