

**ACTIVISION®**



# Fourth Quarter 2013 Results

February 6, 2014

# 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; (3) statements of future financial or operating performance; and (4) statements about the impact of the recently consummated transactions involving the repurchase of shares from Vivendi, S.A., and the debt financing related thereto. The company generally uses words such as “outlook,” “will,” “could,” “should,” “would,” “might,” “remains,” “to be,” “plans,” “believes,” “may,” “expects,” “intends as,” “anticipates,” “estimate,” “future,” “plan,” “positioned,” “potential,” “project,” “scheduled,” “set to,” “subject to,” “upcoming” and similar expressions to identify forward-looking statements. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties.

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 such forward looking statements. Such factors include, but are not limited to, sales levels of Activision Blizzard's titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the macroeconomic environment, Activision Blizzard's ability to predict consumer preferences, including interest in specific genres such as first-person action, “toys to life” and massively multiplayer online games and preferences among competing hardware platforms, the seasonal and cyclical nature of interactive entertainment, changing business models, including digital delivery of content, competition, including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, particularly during the ongoing console transition, rapid changes in technology and industry standards, the current regulatory environment, litigation risks and associated costs, protection of proprietary rights, maintenance of relationships with key personnel, customers, financing providers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, potential challenges associated with geographic expansion, capital market risks, the possibility that expected benefits related to the recently completed transactions with Vivendi may not materialize as expected, the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt, and the other factors identified in the risk factors section of Activision Blizzard's most recent annual report on Form 10-K and most recent quarterly report on Form 10-Q.

The forward-looking statements in this presentation are based on information available to the Company as of the date of this presentation and, while believed to be true when made, may ultimately prove to be incorrect. The Company may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in the Company's assumptions or otherwise. 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, February 6, 2014, or to reflect the occurrence of unanticipated events.

# Activision Blizzard's Transformational 2013

Better-than-expected results; Expecting non-GAAP<sup>1</sup> Revenue growth & record EPS in 2014

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## Return to independence following close of accretive transaction on 10/11/13

### Better-than-expected financial results:

- GAAP: \$4,583M revenues, 30% operating income, \$0.95 EPS
- Non-GAAP<sup>1</sup>: \$4,342M revenues, 31% operating income, 33% Adjusted-EBITDA, \$0.94 EPS
- Operating Cash Flow: \$1,264M; Free Cash Flow: \$1,190M

### Capital allocation:

- Repurchased 429 million shares from Vivendi for \$5.8B (\$13.60/share); Paid over \$215M in dividends
- Announcing debt repayment of \$375M, to be paid in February
- Increasing dividend to \$0.20 per share, to be paid in May

### Strong 2013 product performance:

- #1 Independent publisher in North America and Europe combined in 2013<sup>2</sup>
- #1 Franchise, Call of Duty, at Retail in North America in 2013<sup>2</sup>
- #1 Subscription-based MMORPG<sup>3</sup>, World of Warcraft, ended 2013 with 7.8 million subscribers
- #3 Franchise, Skylanders, at Retail in both North America and Europe, including toys and accessories<sup>2</sup>

### Expecting growth and record 2014 Non-GAAP EPS driven by strong slate:

- Activision Publishing: Destiny, Skylanders, Call of Duty
- Blizzard Entertainment: Hearthstone, Diablo III: Reaper of Souls and another major game

# Better-than-Expected Q4 and 2013 Results

Record Q4 non-GAAP<sup>2</sup> EPS

	Prior Q4 2013 Outlook <sup>1</sup>		Q4 2013 Actual		Prior 2013 Outlook <sup>1</sup>		2013 Actual	
	GAAP	Non-GAAP <sup>2</sup>	GAAP	Non-GAAP <sup>2</sup>	GAAP	Non-GAAP <sup>2</sup>	GAAP	Non-GAAP <sup>2</sup>
<b>Net Revenues</b>	\$1,255M	\$2,215M	\$1,518M	\$2,272M	\$4,320M	\$4,285M	\$4,583M	\$4,342M
Operating Margin	8%	37%	19%	38%	28%	31%	30%	31%
Operating Income	\$104M	\$812M	\$284M	\$860M	\$1,190M	\$1,307M	\$1,372M	\$1,355M
<b>EPS</b>	<b>\$0.05</b>	<b>\$0.72</b>	<b>\$0.22</b>	<b>\$0.79</b>	<b>\$0.83</b>	<b>\$0.89</b>	<b>\$0.95</b>	<b>\$0.94</b>
Share count <sup>3</sup>	785M	785M	780M	780M	1.06B	1.06B	1.06B	1.06B

	Initial 2013 Outlook <sup>4</sup>	
	GAAP	Non-GAAP <sup>2</sup>
<b>Net Revenues</b>	<b>\$4,085M</b>	<b>\$4,175M</b>
Operating Margin	26%	30%
Operating Income	\$1,051M	\$1,259M
<b>EPS</b>	<b>\$0.68</b>	<b>\$0.80</b>
Share count <sup>3</sup>	1.15B	1.15B

<sup>1</sup> Prior outlook provided on Nov. 6, 2013.

<sup>2</sup> Non-GAAP reconciliation tables are in the appendix of the earnings releases dated Feb. 7, 2013, Nov. 6, 2013 and Feb. 6, 2014, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com)

<sup>3</sup> Fully diluted weighted average shares outstanding includes participating securities, and dilutive options based on average share price.

<sup>4</sup> Initial outlook provided on Feb. 7, 2013.

# Balance Sheet Highlights

\$4.45B Cash and Investments as of 12/31/13, up vs. 12/31/12 after \$1.3B payout<sup>3</sup>

	12/31/12	9/30/13	12/31/13	Post \$375M debt repayment <sup>4</sup>
<b>Cash and investments</b>	<b>\$4.38B</b>	<b>\$4.55B</b>	<b>\$4.45B<sup>5</sup></b>	<b>\$4.08B</b>
Cash and investments per share <sup>1</sup>	Approx. \$3.69	Approx. \$3.82	Approx. \$5.82	Approx. \$5.33
\$250M revolving facility	---	---	---	---
7-year secured bank loans	---	---	\$2.49B	\$2.12B
8-year notes (5.625%)	---	\$1.50B	\$1.50B	\$1.50B
10-year notes (6.125%)	---	\$0.75B	\$0.75B	\$0.75B
<b>Gross Debt</b>	---	<b>\$2.25B</b>	<b>\$4.74B</b>	<b>\$4.37B</b>
<b>Net Debt</b>	---	---	<b>\$0.29B</b>	<b>\$0.29B</b>
		<b>Adjusted EBITDA<sup>2</sup></b>	<b>\$1,439M</b>	<b>\$1,439M</b>
		Secured Debt / Adj. EBITDA <sup>2</sup>	1.73x	1.47x
		Gross Debt / Adj. EBITDA <sup>2</sup>	3.29x	3.04x
		Net Debt / Adj. EBITDA <sup>2</sup>	0.20x	0.20x

<sup>1</sup> Based on fully diluted shares outstanding of 1.19B, 1.19B, and 765M as of Dec. 31, 2012, Sept 30, 2013 and Dec. 31, 2013 respectively. Includes outstanding common shares, restricted stock rights and all outstanding options to acquire shares of common stock as of each of the respective dates.

<sup>2</sup> Adjusted EBITDA is calculated as non-GAAP operating income plus depreciation for the year ended Dec. 31, 2013.

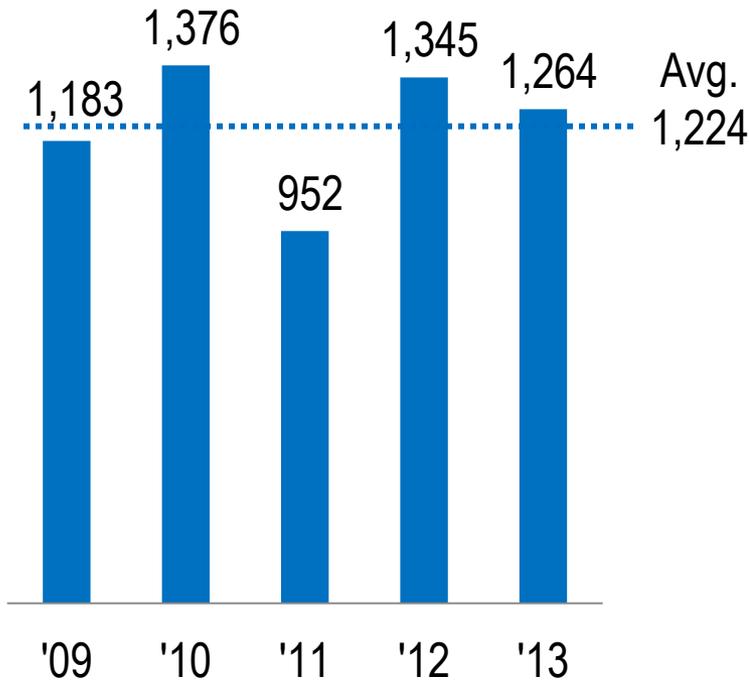
<sup>3</sup> Proceeds paid for repurchases and dividends, net of financing obtained.

<sup>4</sup> Reduce balances of cash and investments and 7-year secured term loan at December 31, 2013 by \$375M. <sup>5</sup> Includes \$1.1B of domestic cash and investments.

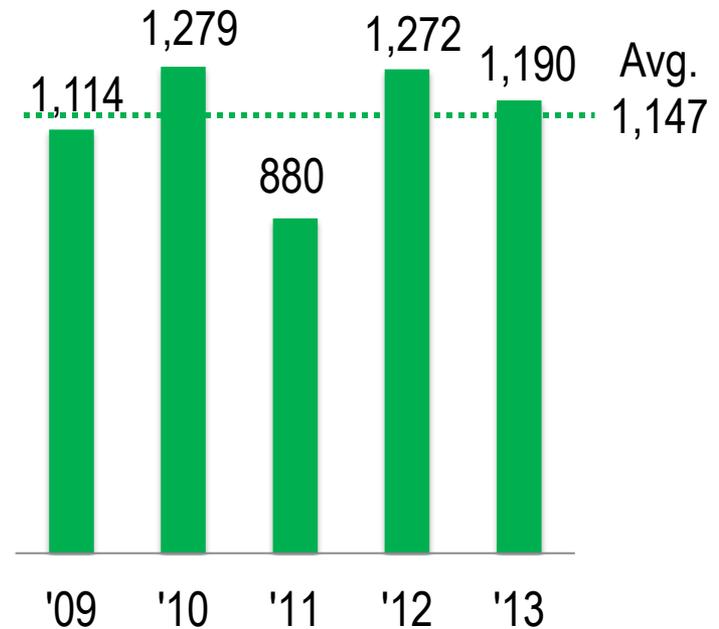
# Operating Cash Flow and Free Cash Flow

2009-2013: \$6.1B+ Operating Cash Flow and \$5.7B+ Free Cash Flow

## Operating Cash Flow (\$M)



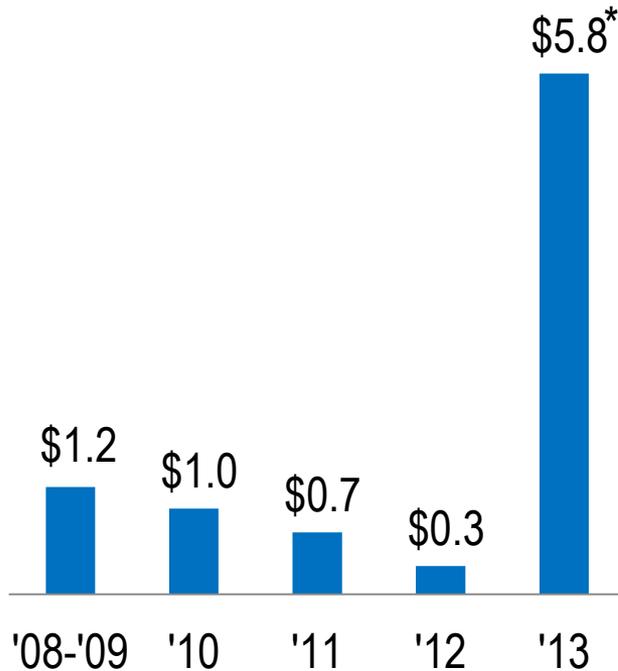
## Free Cash Flow\* (\$M)



# Buybacks and Dividends

2008-2013: \$9.8B in Repurchases and Dividends

## Share Repurchases (\$B)



\* Purchased 429M shares from Vivendi for \$13.60 / share.

## Dividends Per Share (\$)



# 2014 Financial Outlook, as of February 6, 2014

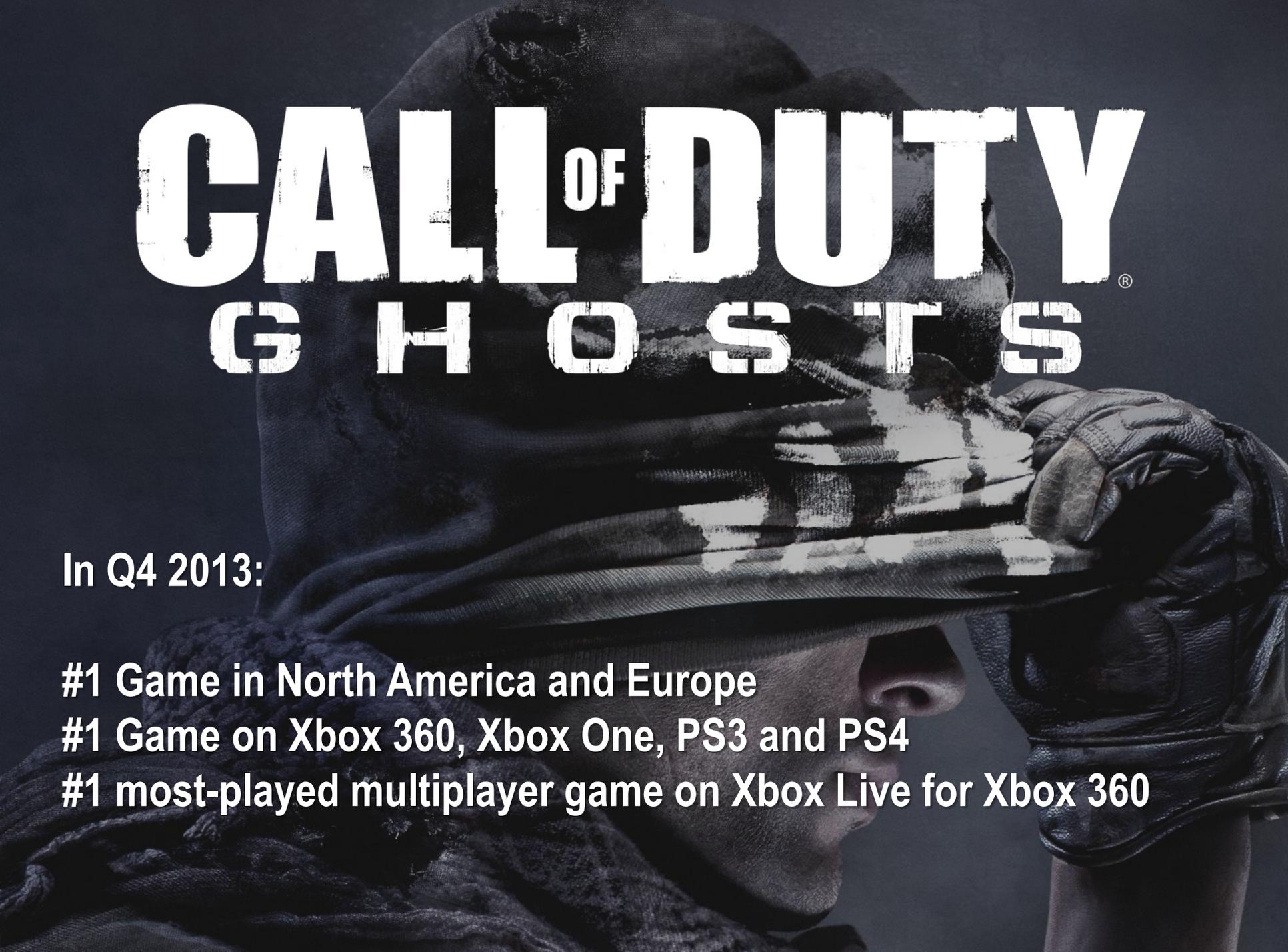
Expecting full year non-GAAP\* 6% Revenue growth, 8% OI growth and record EPS

	Q1 2014		2014	
	GAAP	Non-GAAP*	GAAP	Non-GAAP*
<b>Net Revenues</b>	<b>\$885M</b>	<b>\$675M</b>	<b>\$4.0B</b>	<b>\$4.6B, up 6%</b>
COGS (Prod/Online)	33%	24%	24%	25%
Op Ex, incl. Royalties	45%	55%	53%	43%
<b>Operating Margin**</b>	<b>22%</b>	<b>21%</b>	<b>23%</b>	<b>32%</b>
Interest Expense	\$54M	\$54M	\$211M	\$211M
Tax Rate	20%	26%	20%	25%
<b>EPS**</b>	<b>\$0.15</b>	<b>\$0.09</b>	<b>\$0.76</b>	<b>\$1.26, up 34%</b>
Fully Diluted Weighted Avg. Shares***	745M	745M	750M	750M

\* Non-GAAP information reconciliation tables in the appendix of the earnings release dated Feb. 6, 2014, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

\*\* May not foot due to rounding.

\*\*\* Including participating securities, and dilutive option based on average share price.

A promotional image for Call of Duty: Ghosts. It features a soldier in a dark, tactical uniform with a white and black striped pattern on the chest. The soldier is wearing a black balaclava and a black leather tactical glove. The background is dark and textured. The title 'CALL OF DUTY GHOSTS' is written in large, white, distressed, stencil-style font across the top. The word 'OF' is smaller and positioned between 'CALL' and 'DUTY'. A registered trademark symbol (®) is located to the right of 'DUTY'.

# CALL OF DUTY GHOSTS<sup>®</sup>

**In Q4 2013:**

**#1 Game in North America and Europe**

**#1 Game on Xbox 360, Xbox One, PS3 and PS4**

**#1 most-played multiplayer game on Xbox Live for Xbox 360**

# Skylanders and Skylanders SWAP Force

Fastest IP from an independent game publisher to sell-through \$2B



## Skylanders franchise:

- #3 franchise in both NA and Europe in 2013<sup>1</sup>
- #1 kids' franchise in both NA and Europe in 2013<sup>1</sup>
- Approx. \$2B sold-thru LTD, including ~175M toys<sup>1</sup>

## SWAP Force, our 2013 game:

- Highest-rated game in franchise history
- #4 game in Q4 2013 in NA and Europe combined<sup>1</sup>
- #1 kid's game in 2013<sup>1</sup>



# Activision Publishing

Planning three big franchises in 2014: Call of Duty, Skylanders and Destiny

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## CALL OF DUTY

#1 franchise North America for fifth year in a row<sup>3</sup>  
#1 in Q4 2013 on PS3, PS4, Xbox 360 and Xbox One<sup>3</sup>  
Record digital performance in 2013<sup>1</sup>  
Call of Duty Online in development for China

2



#3 franchise in NA and Europe combined in 2013<sup>2</sup>  
#4 game in Q4 2013 in NA and Europe combined<sup>2</sup>  
Great new game from Toys-for-Bob in 2014

3

## D E S T I N Y

The logo for Destiny, featuring the word "DESTINY" in a spaced-out, black, sans-serif font. Below the letters is a stylized, black, Y-shaped symbol.

From Bungie, the creators of the Halo franchise, which has sold 50M games on Xbox & Xbox 360<sup>3</sup>  
Beta in summer, launch on Sept. 9, 2014 on Xbox & PlayStation  
Tracking to record pre-orders for a new IP<sup>1</sup>

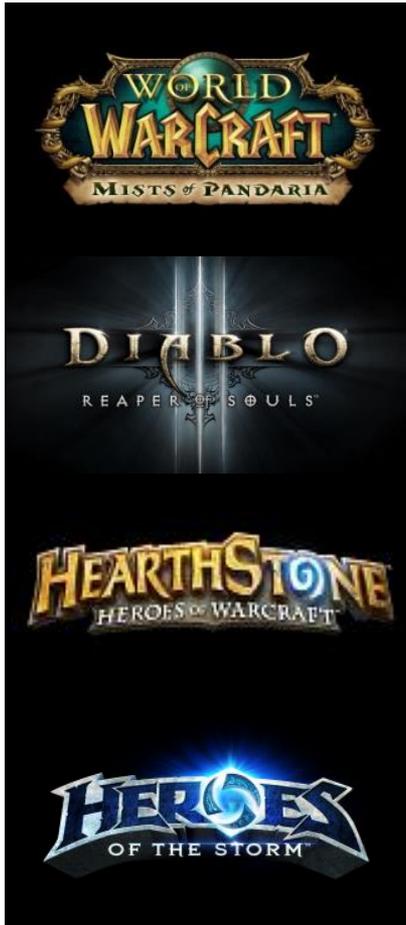
<sup>1</sup> Activision Blizzard internal estimates.

<sup>2</sup> Including toys and accessories. Source: NPD, GfK Chart-Track and Activision Blizzard internal estimates.

<sup>3</sup> Source: NPD, GfK Chart-Track and Activision Blizzard internal estimates.

# Blizzard Entertainment Highlights

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Ended 2013 with 7.8 million subscribers  
Fifth expansion, Warlords of Draenor, in development

Beta testing for Reaper of Souls expansion underway  
Slated for March 25, 2014 on PC and Macintosh

New free-to-play digital collectible card game for Windows, Mac, and iPad  
Millions of players globally in open beta on PC, iPad release expected soon, coming to iOS and Android later in 2014

New free-to-play online hero brawler for PC  
Excitement and accolades from BlizzCon and GStar

**Large slate planned for 2014**

# Use of Non-GAAP Measures

As a supplement to our financial measures presented in accordance with 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. 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;
- fees and other expenses related to the acquisition of 429 million shares of our common stock on October 11, 2013 from Vivendi, pursuant to the stock purchase agreement dated July 25, 2013 and the \$4.75 billion debt financings related thereto; and
- the amortization of intangibles from purchase price accounting; and
- the income tax adjustments associated with any of the above items.

In the future, Activision Blizzard may also consider whether other significant non-recurring 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.

Management compensates for the limitations resulting from the exclusion of these items by considering the impact of the items separately and by considering Activision Blizzard's GAAP, as well as non-GAAP, results and outlook, and by presenting the most comparable GAAP measures directly ahead of non-GAAP measures, and by providing a reconciliation that indicates and describes the adjustments made.

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 net revenue 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 revenue attributed to these game titles over their estimated service periods, which may range from five months to a maximum of 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 net revenue 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 net revenue and the related cost of sales provides a much more timely indication of trends in our operating results.

For such reconciliation of GAAP to non-GAAP numbers and a description of what is excluded from each non-GAAP financial measure, and for more detailed information concerning the Company's financial results for the three months ended Dec. 31, 2013, please refer to the Company's earnings release dated February 6, 2014, which is available on our website, [www.activisionblizzard.com](http://www.activisionblizzard.com).

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# **Fourth Quarter 2013 Results: Q&A**

February 6, 2014