



**ACTIVISION**®

**BLIZZARD**®

**FIRST QUARTER 2018 RESULTS**

**MAY 3, 2018**

# SAFE HARBOR DISCLOSURE

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

The statements contained herein 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 releases of products and services; (3) statements of future financial or operating performance, including the impact of tax items thereon; and (4) 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 risks, 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: sales levels of Activision Blizzard’s titles, products and services; concentration of revenue among a small number of titles; Activision Blizzard’s ability to predict consumer preferences, including interest in specific genres and modes, and preferences among platforms; the continued growth in the scope and complexity of our business, including the diversion of management time and attention to issues relating to the operations of our acquired or newly started businesses and the potential impact of our expansion into new businesses on our existing businesses; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; 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 motivate key personnel and developers that can create high-quality titles, products and services; changing business models within the video game industry, including digital delivery of content and the increased prevalence of free-to-play games; product delays or defects; competition, including from 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; the outcome of current or future tax disputes; litigation risks and associated costs; protection of proprietary rights; potential data breaches and other cybersecurity risks; shifts in consumer spending trends; capital market risks; the impact of applicable laws, rules and regulations, including changes in those laws, rules and 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 our Annual Report on Form 10-K for the year ended December 31, 2017.

The forward-looking statements in this press release are based on information available to the company at this time 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.

# USE OF NON-GAAP MEASURES

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 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 and our outlook:

- 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 refinancing of long-term debt, including penalties and the write off of unamortized discount and deferred financing costs;
- restructuring charges;
- other non-cash charges from reclassification of certain cumulative translation adjustments into earnings as required by GAAP;
- the income tax adjustments associated with any of the above items (tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results); and
- significant discrete tax-related items, including amounts related to changes in tax laws (including the Tax Cuts and Jobs Act enacted in December 2017), amounts related to the potential or final resolution of tax positions, and other unusual or unique tax-related items and activities.

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. Additionally, we consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Internally, management uses these non-GAAP financial measures, along with others, 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 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.

# BETTER-THAN-EXPECTED AND RECORD PERFORMANCE

## *Executing on core interactive and growth opportunities*

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### **A record first quarter:**

- Record Q1 net bookings<sup>1</sup> of \$1.4B, up 16% Y/Y
- Record Q1 revenues of \$2.0B and non-GAAP<sup>2</sup> EPS of \$0.78, up 14% and 8% Y/Y respectively
- Record Q1 digital, mobile, and in-game revenues and net bookings
- Record Q1 operating cash flow of \$529M, up 29% Y/Y

### **Record results speak to the breadth and enduring nature of our portfolio:**

- **Our franchises continue to drive** innovation at a regular pace, with new content, social features, and regular updates
- **Candy Crush™** is demonstrating growth, holding both the number one and two grossing titles in the U.S. for the second quarter in a row<sup>3</sup>
- **World of Warcraft®** is on a strong trajectory, with an encouraging start to pre-sales for the upcoming expansion
- Strength across our portfolio, including **Overwatch®**, where franchise engagement is up, and **Call of Duty®**, where the digital season and reach have been strong, ahead of the highly anticipated **Black Ops 4** release

### **Significant opportunities ahead in both core interactive and adjacencies:**

- Runway ahead in \$120B interactive market<sup>4</sup> with opportunities in mobile and in-game
- Executing on growth initiatives outside of core interactive business with esports leagues, esports network, advertising, and consumer products

<sup>1</sup> Net bookings is an operating metric that is defined as the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others. and is equal to net revenues plus the impact from deferrals.

<sup>2</sup> Non-GAAP reconciliations are in the earnings release dated May 3, 2018, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>3</sup> Publisher ranking for U.S. Apple App Store and Google Play Store per App Annie Intelligence for Q1 2018.

<sup>4</sup> Based on Activision Blizzard internal estimates.

# FOCUS ON REACH, ENGAGEMENT, INVESTMENT DRIVES VIRTUOUS CYCLE












# AUDIENCE REACH

374M MAUs<sup>1</sup> in the quarter across the company

	Activision	Blizzard	King
Q1 MAUs <sup>1</sup>	51M	38M	285M

Details:	
	<ul style="list-style-type: none"> <li>• <b>Candy Crush</b> mobile MAUs<sup>1</sup> grew sequentially for the second quarter in a row</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Call of Duty</b> MAUs<sup>1</sup> grew Y/Y with players engaging across the franchise including in <b>Call of Duty: WWII</b></li> <li>• Treyarch's <b>Black Ops</b> sub-franchise with 200M+ players and 15B hours played across titles to-date</li> <li>• This year's <b>Black Ops 4</b> to launch in October with more of the gameplay, features, and modes fans will love</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Crash Bandicoot™ N. Sane Trilogy</b> coming to additional platforms this summer, like Xbox One, Nintendo Switch, and PC</li> </ul>
	<ul style="list-style-type: none"> <li>• Activision releasing remastered collection of three <b>Spyro™ the Dragon</b> games on PlayStation 4 and Xbox One this September</li> <li>• Trailer has already had tens of millions of views and preorders have exceeded expectations</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>World of Warcraft</b> is releasing more content, more regularly than ever before, leading to overperformance versus the prior expansion at this point in time and higher engagement sequentially</li> <li>• <b>Battle for Azeroth™</b> expansion launches in August with preorders ahead of plan</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Hearthstone®</b> continued to reach and engage its large global audience through multiple efforts, including a new promotional bundle, an expansion, and a player versus environment mode, Monster Hunts, which has had strong engagement so far</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Overwatch</b> continued to add new players, and engagement remains strong, with the most recent seasonal event, Retribution, having the highest participation rate to-date</li> <li>• Recognized as BAFTA's "Best Evolving Game"</li> </ul>

ACTIVISION | BLIZZARD <sup>1</sup> MAUs defined as number of individuals who accessed a particular game in a given month averaged across the number of months in a respective period. Refer to the definition included in today's earnings release for additional details.

# DEEP ENGAGEMENT

*Celebrating player achievement and providing awesome spectating experiences to growing esports community*

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## Details:



- King's engagement remained strong with daily time spent per user at record levels



- The inaugural regular season for the **Overwatch League™** launched in January and continues to reach millions each week
- Combined hours spent playing and watching **Overwatch** increased quarter-over-quarter
- The **Overwatch League** and its partners introduced new engagement programs like token drops, cheermotes and the new Twitch league pass, which deliver enhanced viewing experiences while adding unique revenue opportunities
- Planning to add a handful of teams in key strategic markets by end of year

**CALL OF DUTY.**



- League capabilities to be applied to other franchises in the near future, including **Call of Duty**
- **Call of Duty World League** completed stage one in mid-April and continues to have strong viewership, with cumulative hours watched doubling year-over-year

# PROVIDING MORE OPPORTUNITY FOR PLAYER INVESTMENT

*Delivered Q1 record of approximately \$1B for in-game net bookings*

## Details:



- King continues to drive player investment and had its highest net bookings quarter since Q1 2015
- Overall net bookings grew 3% sequentially and 13% year-over-year
- King's core business, mobile, had its highest net bookings quarter ever
- Absolute number of paying players increased quarter-over-quarter
- King had two of the top-10 highest-grossing titles in the U.S. mobile app stores for the eighteenth quarter in a row, with **Candy Crush Saga™** and **Candy Crush Soda Saga™** at #1 and #2 for the second quarter in a row, respectively<sup>1</sup>
- King continues to make progress in ramping its advertising business, with industry-leading viewability, completion, and ad-recall rates<sup>2</sup>
- King continues to attract new advertisers and has repeat advertisers across multiple industries



**CALL OF DUTY**

- **Call of Duty's** strong launch last year led to in-game net bookings growth Y/Y, with **WWII's** Q1 second only to that of **Black Ops 3**






- **World of Warcraft** had strong community participation with in-game purchases



# FIRST QUARTER 2018 SEGMENT RESULTS

*Combined segment revenue and OI grew by double-digit percentages Y/Y*

			
<b>Q1 Segment Net Revenues:</b>	\$312M	\$480M	\$534M
<b>Q1 Segment Operating Income:</b>	\$92M 29%	\$122M 25%	\$191M 36%
<b>Key Highlights:</b>	<ul style="list-style-type: none"> <li>Segment revenue and operating income grew substantially Y/Y on the strength of <b>Call of Duty: WWII</b></li> <li>Growth in <b>Call of Duty's</b> digital season in particular drove a Q1 record for segment operating margin</li> </ul>	<ul style="list-style-type: none"> <li>Record Q1 segment revenue driven by in-game content across the portfolio, strong <b>World of Warcraft</b> expansion presales, and the <b>Overwatch League</b></li> <li>Segment operating margin decreased Y/Y as Blizzard continues to invest in key growth initiatives including the <b>Overwatch League</b>, MLG Network, Battle.Net, &amp; mobile incubation</li> </ul>	<ul style="list-style-type: none"> <li>Segment revenues and operating income grew 13% and 15% Y/Y respectively</li> <li>Segment operating margin of 36% improved Y/Y</li> <li>Continued investments and innovation in live titles resulted in <b>Candy Crush</b> franchise reaching its highest net bookings since Q4 2013</li> </ul>

Note: These segment results are consistent with how we report our U.S. GAAP segment results externally in the footnotes to our financial statements. The segment performance is exclusive of the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled products, share-based compensation expense, amortization of intangible assets as a result of purchase price accounting, fees and other expenses related to financings and acquisitions, including integration activities, certain restructuring costs, and other non-cash charges. Reconciliation of our segment results to our consolidated results is included in the earnings release dated May 3, 2018, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

# FIRST QUARTER 2018 RESULTS

*Record Q1 revenue, net bookings, and EPS*

	Q1 2017 Actual			Prior Q1 2018 Outlook <sup>1</sup>			Q1 2018 Actual		
	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals
<b>Net Revenues</b>	<b>\$1,726M</b>	<b>\$1,726M</b>	<b>(\$530M)</b>	<b>\$1,820M</b>	<b>\$1,820M</b>	<b>(\$540M)</b>	<b>\$1,965M</b>	<b>\$1,965M</b>	<b>(\$581M)</b>
Digital Revenues %	80%	80%					74%	74%	
<b>Operating Income</b>	<b>\$493M</b>	<b>\$747M</b>	<b>(\$396M)</b>				<b>\$595M</b>	<b>\$767M</b>	<b>(\$373M)</b>
Operating Margin	29%	43%		27%	36%		30%	39%	
Interest Expense, Net	\$40M	\$35M		\$30M	\$29M		\$28M	\$27M	
<b>EPS</b>	<b>\$0.56</b>	<b>\$0.72</b>	<b>(\$0.41)</b>	<b>\$0.47</b>	<b>\$0.65</b>	<b>(\$0.34)</b>	<b>\$0.65</b>	<b>\$0.78</b>	<b>(\$0.40)</b>
Total share count for EPS <sup>3</sup>	761M	761M		771M	771M		770M	770M	
<b>Operating Cash Flow</b>	<b>\$411M</b>						<b>\$529M, up 29% Y/Y</b>		
<b>Free Cash Flow<sup>4</sup></b>	<b>\$390M</b>						<b>\$498M, up 28% Y/Y</b>		
<b>Net Bookings (operating metric)</b>	<b>\$1,196M</b>						<b>\$1,384M, up 16% Y/Y</b>		

<sup>1</sup> Prior outlook provided February 8, 2018.

<sup>2</sup> Non-GAAP reconciliations are in the earnings releases dated May 4, 2017, February 8, 2018, and May 3, 2018, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>3</sup> Fully diluted weighted average shares outstanding includes options and participating securities based on average share price. <sup>4</sup> Free Cash Flow represents Operating Cash Flow minus Capital Expenditure.

# BALANCE SHEET AS OF MARCH 31, 2018

*\$0.34/share dividend to be paid on May 9*

	3/31/2017	12/31/2017	3/31/2018
<b>Cash and investments</b>	<b>\$3.27B</b>	<b>\$4.78B</b>	<b>\$5.30B</b>
Term loans	\$2.19B	\$0.99B	\$0.99B
Notes <sup>1</sup>	\$2.25B	\$3.45B	\$3.45B
<b>Gross Debt</b>	<b>\$4.44B</b>	<b>\$4.44B</b>	<b>\$4.44B</b>
<b>Net Debt<sup>2</sup></b>	<b>\$1.17B</b>	<b>-</b>	<b>-</b>
<b>Net Cash<sup>3</sup></b>	<b>-</b>	<b>\$0.34B</b>	<b>\$0.86B</b>
<b>Adjusted TTM EBITDA<sup>4</sup></b>	<b>\$2,581M</b>	<b>\$2,458M</b>	<b>\$2,482M</b>
Gross Debt / Adj. TTM EBITDA <sup>4</sup>	1.7x	1.8x	1.8x
Net Debt <sup>2</sup> / Adj. TTM EBITDA <sup>4</sup>	0.5x	NA	NA

## 2018 Capital Allocation:

- Increasing 2018 dividend by 13% to \$0.34 per share
- Board authorized further debt paydown of up to \$1.8B
- Recently upgraded by both Moody's and S&P; each have upgraded ATVI 3 times in the last ~2.5 years

<sup>1</sup> As of 3/31/18, includes notes for the maturity dates of 2021, 2022, 2023, 2026, 2027, and 2047.

<sup>2</sup> Net debt is defined as gross debt less cash and cash equivalents, short-term investments and long-term investments.

<sup>3</sup> Net cash is defined as cash and cash equivalents, short-term investments, and long-term investments less gross debt.

<sup>4</sup> Adjusted TTM EBITDA, for any given date, is calculated as non-GAAP operating income plus depreciation for the trailing 12 months.

# FINANCIAL OUTLOOK AS OF MAY 3, 2018

*Expect to grow with year-round engagement, in-game player investment, and new initiatives*

	Q2 2018			2018		
	GAAP	Non-GAAP <sup>1</sup>	Impact of GAAP Deferrals <sup>2</sup>	GAAP	Non-GAAP <sup>1</sup>	Impact of GAAP Deferrals <sup>2</sup>
<b>Net Revenues</b>	<b>\$1,555M</b>	<b>\$1,555M</b>	<b>(\$205M)</b>	<b>\$7,355M</b>	<b>\$7,355M</b>	<b>\$120M</b>
Product Costs, Game Ops & Distribution	22%	22%		22%	22%	
Operating Expenses, Incl. SW Amort <sup>3</sup>	57%	48%		53%	44%	
<b>Operating Margin<sup>4</sup></b>	<b>21%</b>	<b>31%</b>	<b>(7 pp)</b>	<b>25%</b>	<b>34%</b>	<b>0 pp</b>
Interest Expense, Net	\$68M	\$30M		\$135M	\$94M	
Tax Rate	23%	20%		18%	20%	
<b>EPS</b>	<b>\$0.26</b>	<b>\$0.46</b>	<b>(\$0.15)</b>	<b>\$1.79</b>	<b>\$2.46</b>	<b>\$0.05</b>
Fully Diluted Weighted Avg. Shares <sup>5</sup>	771M	771M		775M	775M	
<b>Net Bookings (operating metric)</b>	<b>\$1,350M</b>			<b>\$7,475M</b>		

## Currency Assumptions for Current 2018 Outlook:

- \$1.21 USD/Euro (vs. \$1.12 avg. for 2017 & \$1.11 avg. for 2016)
- \$1.39 USD/GBP (vs. \$1.30 avg. for 2017 & \$1.36 avg. for 2016)
- Note: Our financial guidance includes the forecasted impact of our FX hedging program

If you would like to calculate Non-GAAP metrics as previously defined, you would add the impact of GAAP deferrals to the relevant Non-GAAP metrics. Percentage points (pp) are treated the same. Please see materials from July 29, 2016 call for further details.

<sup>1</sup> Non-GAAP reconciliations are in the earnings release dated May 3, 2018, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>2</sup> Net effect of revenue deferral accounting treatment on certain of our online enabled products.

<sup>3</sup> Includes expenses related to product development, sales & marketing, and general & administrative, as well as software amortization & IP licenses costs.

<sup>4</sup> May not recalculate due to rounding.

<sup>5</sup> Including fully diluted shares based on average share price.

# A PORTFOLIO OF COMPELLING FRANCHISES

Eight \$1B+ franchises across our portfolio of primarily owned IP

 <p>Segment revenues and operating income grew substantially Y/Y with record Q1 segment operating margin, driven by Call of Duty: WWII</p>	  
 <p>Record Q1 segment revenue driven by in-game content across the portfolio, strong World of Warcraft expansion presales, and the Overwatch League</p>	     
 <p>2 of top-10 highest-grossing titles in U.S. app stores for 18<sup>th</sup> quarter in a row, with Candy Crush franchise taking top-2 spots again this quarter<sup>1</sup></p>	   



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**Q&A**

**MAY 3, 2018**