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# Activision Blizzard, Inc. (ATVI)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

**Robert A. Kotick**

*Chief Executive Officer & Director, Activision Blizzard, Inc.*

**Daniel I. Alegre**

*President & Chief Operating Officer, Activision Blizzard, Inc.*

**Dennis M. Durkin**

*Chief Financial Officer & President, Emerging Businesses, Activision Blizzard, Inc.*

**Rob Kostich**

*President, Activision, Activision Blizzard, Inc.*

**J. Allen Brack**

*President, Blizzard Entertainment, Activision Blizzard, Inc.*

**Humam Sakhnini**

*President, King Digital Entertainment, Activision Blizzard, Inc.*

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## OTHER PARTICIPANTS

**Eric J. Sheridan**

*Analyst, UBS Securities LLC*

**Doug Creutz**

*Analyst, Cowen & Co. LLC*

**Alex Giaimo**

*Analyst, Jefferies LLC*

**Yung Kim**

*Analyst, Piper Sandler & Co.*

**Mario Lu**

*Analyst, Barclays Capital, Inc.*

**Brian Nowak**

*Analyst, Morgan Stanley & Co. LLC*

**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

**Gerrick L. Johnson**

*Analyst, BMO Capital Markets Corp.*

**Kunaal Malde**

*Analyst, Atlantic Equities LLP*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the Activision Blizzard second quarter 2020 earnings conference call. Today, all participants will be in a listen-only mode. [Operator Instructions] Please note that today's event is being recorded.

At this time, I would like to turn the conference call over to Christopher Hickey, Senior Vice President of Investor Relations. Please go ahead.

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### Christopher Hickey

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

Good afternoon, and thank you for joining us today for Activision Blizzards second quarter 2020 conference call. With us are Bobby Kotick, CEO, Daniel Alegre, President and COO, and Dennis Durkin, Company CFO and President of Emerging Businesses. And for Q&A, Rob Kostich, President of Activision, J. Allen Brack, President of Blizzard Entertainment, and Humam Sakhnini, President of King, will also join us.

I would like to remind everyone that during this call, we will be making statements that are not historical facts. The forward-looking statements in this presentation are based on information available to the company as of the date of this presentation. And while we believe them to be true, they ultimately may prove to be incorrect.

A number of factors could cause the company's actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. These include the impact of the COVID-19 pandemic, the risk factors discussed in our SEC filings, including our 2019 Annual Report on Form 10-K, our first quarter 2020 10-Q, and our second quarter 2020 10-Q, which will be filed shortly, and those on the slide that is showing. The company undertakes no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after today, August 4, 2020.

We will present both GAAP and non-GAAP financial measures during this call. We provide non-GAAP financial measures, which exclude: the impact of expenses related to stock-based compensation; the amortization of intangible assets and expenses related to acquisitions, including legal fees, costs, expenses, and accruals; expenses related to debt financings and refinancings; restructuring and related charges; the associated tax benefits of these excluded items; and significant discrete tax-related items, including amounts related to changes in tax laws, amounts related to the potential or final resolution of tax positions, and other unusual or unique tax-related items and activities.

These non-GAAP measures are not intended to be considered an isolation from, as a substitute for, or superior to our GAAP results. We encourage investors to consider all measures before making an investment decision. Please refer to our earnings release, which is posted on [www.activisionblizzard.com](http://www.activisionblizzard.com), for a full GAAP to non-GAAP reconciliation and further explanation with respect to our non-GAAP measures.

There's also an earnings presentation, which you can access with the webcast and which will be posted to the website following the call.

And now I'd like to introduce our CEO, Bobby Kotick.

## Robert A. Kotick

*Chief Executive Officer & Director, Activision Blizzard, Inc.*

Thank you, Chris, and thank you all for joining us today.

We hope all of you and your families are safe and healthy. Our employees continue to do an extraordinary job managing family demands, working in challenging circumstances, and remaining focused on execution of our stakeholder priorities. Ensuring that our employees and their families have the very best healthcare everywhere we operate remains our priority.

Against the backdrop of the ongoing pandemic and significant social and cultural upheaval, we are delivering entertainment that inspires and unites, helps break down barriers, and enables players to forge and sustain friendships and community through gameplay.

With billions of gamers worldwide, games provide social interactions that connect people more deeply than any other form of entertainment. The investments we have made in new compelling content and experiences within our franchises has helped us expand to almost every country in the world across a wide range of audiences. Today, we have a broad and diverse player base of over 400 million players, with over 100 million players in each key region we operate, EMEA, Asia-Pacific, and the Americas. And we estimate that approximately half of our players are now female. We have an opportunity to grow and serve more players globally as we discover more ways to connect and engage the world through our epic entertainment.

Our second quarter results significantly exceeded our prior outlook for both revenue and earnings per share. And with continued momentum in our business, we are again raising our full-year outlook. Of course, in these uncertain and unpredictable times, our results are subject to change and volatility.

In the second quarter, our player base grew 30% year over year, adding more than 100 million monthly active players. Time spent in our games grew 70% over the same period, and Q2 engagement and player investment were at historic highs. We grew net bookings 70% year over year, setting new highs for second quarter net bookings on both mobile and console, with operating margin up strongly year over year.

Our results benefited from increased demand from our content, as people around the world sheltered at home. This upside varied across businesses and franchises, with our most social content seeing the strongest and longer-lasting impact. The biggest driver of our year-over-year engagement and financial performance was Call of Duty, which has seen a remarkable increase in its scale as we expanded the franchise across platforms, geographies, and business models. As the world starts to reopen, we believe these actions have delivered a true structural change in the trajectory of our largest franchise. And this is the roadmap we plan to follow for the many franchises we have in our library, which dates back to 1980.

The launch of Warzone within the Call of Duty universe has given existing players compelling new content and enabled large numbers of first-time players to unleash their inner military heroes. Over 75 million people have played Warzone since its launch, adding significant reach and engagement to a franchise that already enjoyed strong momentum following the 2019 launches of Modern Warfare and Call of Duty Mobile.

We've truly seen a step change in the engagement of our franchise, with total time spent in Call of Duty in Q2 more than eight times higher than in the year-ago quarter. And as players engage, they're choosing to invest, with in-game player investment and sales of premium content both meaningfully higher than last year. The expansion of the Call of Duty franchise to over 100 million players across PC, console, and mobile highlights the scale of the opportunity for our broader portfolio of fully owned intellectual property.

We're also seeing ongoing momentum from our growth initiatives for World of Warcraft and Candy Crush. And as we execute on our pipeline of major content and live operations on mobile, PC, and console, we expect to continue expanding the scale of our franchises. We remain focused on investing in our creative talent, growing our development teams to continue delivering more high-quality content more frequently, and continuing to reduce unnecessary process that stifles innovation and creativity. With more players in more countries on more platforms and our deep experience across a wide range of business models, we're on track to deliver the strong long-term financial performance that our stakeholders expect.

I'm incredibly proud of our employees and their families. They have overcome difficulties, demonstrated great empathy and resilience, and through extraordinary circumstance, have remained steadfast in their commitment to meet growing audience demand for our games.

And more than ever, there's a growing need for the services of our Call of Duty Endowment, which helps returning veterans transition to the civilian workforce. We of course were delighted to fund a record number of placements in the second quarter, and have now helped more than 72,000 veterans find high-quality jobs since we started the Call of Duty Endowment in 2009.

In the near term, while the economic outlook remains very unclear, the ongoing commitment of our creative and commercial teams should enable us to remain on track to deliver great new content in the second half of the year. We now expect record full-year net bookings and earnings per share.

Thank you all for your support and your encouragement. Daniel will now review the highlights of our operations for the past quarter with you.

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## Daniel I. Alegre

*President & Chief Operating Officer, Activision Blizzard, Inc.*

Thank you, Bobby.

As you heard, Activision Blizzard significantly exceeded its second quarter outlook. Each of our key franchises delivered better than expected results, with growth led by the Call of Duty franchise following the launch of Warzone. During the quarter, we remained laser-focused on driving financial performance through our three strategic growth drivers of expanding audience reach, deepening engagement, and increasing player investment. Strong execution against these growth drivers enabled us to serve compelling experiences to an expanded gaming audience against a backdrop of demand tailwinds from shelter-at-home in the quarter.

We saw substantial growth in our biggest franchises. And importantly, the increased investment and successful initiatives that drove strong Q2 results also position us to continue growing and delighting our global communities and to deliver sustained greater financial performance over the long term.

Now turning to our franchise and operational highlights across our business units, starting with Activision, monthly active users, or MAUs, grew more than threefold year over year to 125 million. Call of Duty reached new heights in the quarter, with reach, engagement, and player investment experiencing another step change increase following the launch of Warzone in March. Warzone has now brought in more than 75 million players. In the first full quarter since Warzone launched, hours played in the Modern Warfare universe increased eightfold year over year, driven by both existing and new players. As Warzone players engaged, many upgraded to the premium Modern Warfare experience. In fact, in Q2, we added more players outside of the launch quarter to the premium

Call of Duty experience than ever before, with the majority coming through Warzone, reflecting the powerful combination of premium differentiated content alongside a free offering.

Warzone's success is enabling us to reach new players in new geographies, including on PC, with PC consumption more than double the prior premium content release. Call of Duty in-game net bookings more than doubled from Q1 and were around five times higher than the year-ago quarter. In its first three quarters, total in-game net bookings for Modern Warfare now exceeded the prior three Call of Duty titles combined over the same period.

Engagement has remained strong in the third quarter, and our fifth season of new content launches tomorrow, with map changes and new events that we think will continue to delight players.

As we look ahead, Activision will continue to build on its direct digital relationship with this expanded community as it delivers the next premium installment for Call of Duty, which comes from our wholly owned Call of Duty Studios, Treyarch, and Raven Software. We're excited for its planned release later this year.

Call of Duty continues to break new ground on the mobile platform too. Call of Duty Mobile saw strong sequential growth in engagement and player investment, benefiting from both shelter-in-place tailwinds and the team's ongoing work to further optimize gameplay, monthly seasonal content, and the in-game economy. The game climbed up the US app store grossing charts, and each of the three seasons in Q2 generated more net bookings per day than the prior. And having pivoted all matches to online play and remote production in April, we continue to celebrate player achievement and drive even greater franchise engagement with the Call of Duty League.

And Activision continues to refresh beloved IP for some of the world's most passionate fans, with two titles that are shaping up fantastically. We are thrilled to again partner with legendary skateboarder Tony Hawk to bring Tony Hawk's Pro Skater 1 and 2 back to gamers in September. And Activision will build on the incredible success of the Crash franchise in recent years to launch Crash Bandicoot 4: It's About Time, the first entirely new, built from the ground up Crash experience in over a decade, launching in October.

Now turning to Blizzard. MAUs were 32 million in Q2. World of Warcraft reach and engagement once again increased sequentially, as shelter-at-home conditions further boosted the franchise's strong trajectory since the launch of Classic.

Blizzard is delivering live operations, quality of life enhancements, and major content to keep its expanded community engaged. This includes the release of the most significant multiplayer event in WoW Classic in July. And anticipation continues to build for Shadowlands, the next expansion for modern WoW, coming in the fourth quarter. Engagement in the franchise is the highest it has been at this point ahead of an expansion in a decade. And Shadowlands is seeing an enthusiastic response from players in its public testing, with presales accelerating even further in the second quarter.

The expanded Hearthstone team launched the game's latest expansion as well as a new Hero Class during the second quarter as they continue to accelerate the pace of innovative content in the franchise. Building on the success of Battlegrounds and strong execution in live operations, the Hearthstone pipeline includes expansions, new engagement features, and exciting new game mode planned for the coming quarters.

Overwatch saw a significant number of returning players contributing to strong year-over-year growth in engagement. The franchise continues to enjoy a sizable, loyal, and engaged community, both in the game and

bolstered by ongoing enthusiasm for the Overwatch League as the development team works on the eagerly anticipated Overwatch 2.

And finally, the Diablo franchise's entry into mobile, Diablo Immortal, looks great, with Blizzard planning to expand internal testing with the company playtests to start in the coming weeks.

Now turning to King, King MAUs increased 5% year over year to 271 million, including double-digit growth in MAUs for the Candy Crush franchise. King delivered strong increases in reach and engagement amid shelter-at-home conditions at the start of Q2. We saw these tailwinds moderate in the second half of the quarter, although MAUs remained higher year over year, again driven by Candy Crush. The team's ongoing initiatives to broaden the payer base enabled the business to benefit from this higher reach and engagement.

Payer conversion was higher year over year throughout Q2, continuing the improving trends seen in recent quarters and positioning the business for stronger results over the medium and long term. And Candy Crush was once again the top grossing franchise in the US app stores.

King recently announced its first release since narrowing its pipeline to focus on its highest potential projects. As we leverage the strongest capabilities across our business units to further expand the reach of our IP, King will bring Activision's beloved Crash franchise to the mobile platform. Crash Bandicoot: On the Run! is an ambitious new take on the runner category with deep social and resource management elements, and the game is already looking great as it progresses through testing.

Along with higher performance for in-app purchases, King also delivered strong growth in advertising, accelerating through the quarter even with ongoing headwinds in the digital advertising sector. While the backdrop remains uncertain, the performance once again validates the value proposition of our premium safe platform for brands in any environment.

Turning to the impact of the pandemic on demand, shelter-at-home conditions boosted reach and engagement for each of our key franchises in the first half of the quarter. These tailwinds moderated in the second half as more countries started to reopen, with trends varying across geographies and franchises. EMEA and Asia-Pacific saw greater moderation as lockdowns ended, with the Americas seeing more sustained tailwinds. And while casual franchises returned to more typical trends more quickly, our core franchises with the greatest emphasis on social multiplayer gameplay are seeing engagement remain elevated even as regions reopen.

From an operational perspective, while the vast majority of our employees continue to work from home, our teams continue to deliver content, features, and services to our players. As discussed last quarter, remote working does add complexity and challenges in some areas of the game development process, but our mitigation measures have been effective so far, and we believe we are on track to deliver new content in the second half.

In summary, our franchise focus and a return to the execution standards that have driven our business for decades will result in substantial over-performance against our original outlook.

Dennis will now share the detailed results of our second quarter and specifics of our revised outlook. Dennis?

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### **Dennis M. Durkin**

*Chief Financial Officer & President, Emerging Businesses, Activision Blizzard, Inc.*

Thanks, Daniel. Today I will review our Q2 2020 results as well as our outlook for 2020 and the third quarter.

Our second quarter revenue and earnings were well ahead of our prior outlook, primarily driven by a strong player response to our initiatives in the Call of Duty franchise along with greater than anticipated shelter-at-home tailwinds for our other franchises. To review the quarter, let's start with our segment results.

Activision revenue was \$993 million, increasing 270% year over year. Growth was driven by Modern Warfare and Warzone in-game revenues, strong sales of premium Modern Warfare, the addition of Call of Duty Mobile, as well as catalog content sales. Operating income was \$559 million. Activision's operating margin was 56%, an all-time record, reflecting high incremental margins for both in-game and upfront sales on console and PC.

Blizzard revenue was \$461 million, growing 20% year over year, driven by another strong quarter of growth for World of Warcraft. Operating income was \$203 million with an operating margin of 44%, both significantly higher year over year.

King revenue was \$553 million. It was the highest since the 2016 acquisition, growing 11% year over year. In-app revenue growth moderated during the quarter but remained positive throughout, while advertising revenues reaccelerated throughout the quarter. Operating income was \$212 million, again the highest since the acquisition, with an operating margin of 38%, 4 percentage points higher year over year. Across our segments, in-game net bookings grew 77% year over year to a record \$1.37 billion.

Now let's turn to our consolidated results. Unless otherwise indicated, I will be referencing non-GAAP figures. Please refer to our earnings release for full GAAP to non-GAAP reconciliations.

For the quarter, we generated Q2 GAAP revenues of \$1.93 billion, \$242 million above our May guidance. This includes the net deferral of \$146 million. Net bookings of \$2.08 billion were \$403 million above our May outlook. And we generated Q2 GAAP EPS of \$0.75 and Q2 non-GAAP EPS of \$0.81, which was \$0.17 above guidance. These figures include the net deferral of \$0.16.

Turning to cash flow and the balance sheet, Q2 operating cash flow was \$768 million, increasing over \$600 million year over year, reflecting higher operating income and lower cash taxes, offset by working capital timing. During the quarter we paid an annual dividend of \$0.41 per share, 11% higher year over year, for a total of \$316 million. Our cash and investments at the end of June was approximately \$6.5 billion, and we ended the quarter with a net cash position of approximately \$3.8 billion.

We have long viewed our strong balance sheet as a strategic asset, and we're pleased that the strength of our business fundamentals and conservative financial policy were recognized in the recent upgrade of our credit rating to A- at S&P.

Now let's turn to our outlook for Q3 and the full year. With regard to our slate, in Q3 Activision's fifth season of content for Call of Duty: Modern Warfare and Warzone launches tomorrow, and the team will release new features, events, and seasons for Call of Duty Mobile. On September 4 Activision will release Tony Hawk Pro Skater 1 and 2 for the PlayStation 4, Xbox One, and PC. Blizzard will launch its latest Hearthstone expansion, Scholomance Academy, on Thursday this week, and through the quarter will continue to support other key franchises with in-game content. And King is planning numerous features and innovative live ops in Candy Crush as well as other games across its portfolio.

In the fourth quarter, in addition to ongoing live ops and in-game content across the portfolio, Activision plans to launch Crash Bandicoot 4: It's About Time. And most importantly, the new Call of Duty premium release is slated



to arrive into what we expect to be the largest and most engaged franchise player base at launch ever. And Blizzard plans to release the World of Warcraft Shadowlands expansion for its expanded community.

In the second half, we will also continue to refine and test new mobile content in our pipeline, although consistent with our prior outlook, we don't include any material revenue from new mobile titles in our guidance.

Before I discuss the specifics of our outlook, I'll provide some context. We continue to experience strong momentum in the business, even as tailwinds from shelter-in-place moderate. In the second half, we are planning to launch major new content into key franchises with meaningfully larger audiences than we have seen previously, creating the opportunity for strong financial results. In particular, the addition of the Warzone free-to-play experience has significantly increased the reach, engagement, and player investment in Call of Duty, building on existing strength for our largest franchise and creating a strong foundation for future financial performance.

That said, we remain mindful of risks and uncertainties related to the global economic weakness, rising unemployment, and potential pressures on the retail channel and pricing. The full extent of the impact of the COVID-19 pandemic on our business operations and financial results will depend on numerous evolving factors that we are not able to fully predict at this time. We continue to believe we are being prudent in our guidance to account for these risks, and there could be over-performance if these risks do not materialize.

So with that as a backdrop, we are again raising our outlook for net bookings, revenue, and EPS for the year, with our full-year outlook increasing by an amount greater than our second quarter over-performance.

Now let me get into the specifics. For Q3 on a GAAP basis, we now expect revenues of \$1.8 billion, including the net recognition of deferrals of \$150 million. We expect net bookings of \$1.65 billion, product costs, game operations, and distribution expenses of 18%, and operating expenses, including software amortization of 46%, and a GAAP-only restructuring charge of approximately \$20 million. We expect a tax rate of 20%, GAAP and non-GAAP share count of 780 million, and EPS of \$0.64. For Q3 on a non-GAAP basis, we now expect product costs, game operations, and distribution expenses of 18% and operating expenses, including software amortization, of 40%. We expect a tax rate of 19% and non-GAAP EPS of \$0.75, including the net recognition of deferrals of \$0.15.

On a GAAP basis for 2020, we now expect revenues of \$7.28 billion, including net deferrals of \$350 million. We now expect net bookings of \$7.63 billion, \$725 million above our May outlook, product costs, game operations, and distribution expenses of 19%, operating expenses, including software amortization, of 47%, and a GAAP-only restructuring charge of approximately \$50 million. We expect a GAAP tax rate of 20%, GAAP and non-GAAP share count of 780 million and GAAP EPS of \$2.46. For 2020 on a non-GAAP basis, we expect product costs, game operations, and distribution expenses of 19% and operating expenses, including software amortization, of 42%. We expect a tax rate of 19% and non-GAAP EPS of \$2.87, including net deferrals of \$0.18.

So in closing, our business had strong momentum heading into the back half of the year. Having increased investment in development and commercial resources for our largest franchises last year, strong execution against our strategic initiatives meant we were well-positioned to drive growth in reach, engagement, and player investment in the second quarter as people sheltered at home. This puts us in a very good place for the second half of the year and beyond. The opportunity set for our business and wholly owned franchises across platforms, geographies, and business models has never been greater. And we remain confident in our ability to deliver the long-term business excellence and performance that our shareholders rightly expect.

Now I welcome our business leaders, J., Humam, and Rob, as they join us for the Q&A portion of the call.  
Operator?

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] Today's first question comes from Eric Sheridan with UBS. Please proceed.

**Eric J. Sheridan**  
*Analyst, UBS Securities LLC*

Q

Thanks so much for taking the question. I think coming back to some of the comments you made during your prepared remarks, I wanted to know how you view COVID-19 as acting as an accelerant against various industry trends, digital downloads, expanding the base of users, expanding time spent by users, and what you think the sustainability of that current momentum is over the medium term?

And, Dennis, you made a reference to in some of your comments how you also think about the potential unwind from these current trends and how it could play out across some of the platforms where you operate. Thank you so much.

**Daniel I. Alegre**  
*President & Chief Operating Officer, Activision Blizzard, Inc.*

A

Thank you, Eric. This is Daniel, and thank you for the question. It certainly looks as if COVID has really accelerated secular trends in the sector. In terms of our player numbers and engagement, we think you're seeing an acceleration in something that was already strong and was the strong growth in gaming that we've been experiencing. Consumer leisure time has been shifting to more interactive forms of entertainment for many years, and that has just accelerated in the recent months.

Now, we believe that as new players come into gaming, they're going to gravitate towards the largest franchises that have massive communities who are enjoying fresh and compelling experiences. So we've seen that with Call of Duty and World of Warcraft in particular, where content initiatives over the last few quarters meant that we were really well-positioned to deliver great content as new players came in.

And as we continue to benefit from the social nature of many of our games, we expect that as new players engage and form in-game connections with existing or new friends, many of them will stay engaged for the long term, and we see this as a really big opportunity. And as you'd expect, in our franchises we're doing everything we can to welcome as many new players as possible and expanding the funnel to bring more gamers into our communities and really give them the compelling social experiences that turns them into long-term fans.

We've also seen a further acceleration in the ongoing mix towards full-game downloads, which as you know, has a positive financial impact for us. And as you've seen for many years, now that as consumers buy media digitally, they tend not to go back to physical purchases because of the conveniences and the advantages of buying digital. So we think this shift is likely going to be sustained.

Now some of the demand tailwinds from shelter-at-home are moderating, as we discussed in our opening remarks. But what's more important for us as we look forward is that there's just such a huge opportunity for us to further expand our franchises as we execute on our pipeline and our growth initiatives and invest in great and

innovative new content. While we have over 400 million players already, there are billions of users and gamers out there worldwide, and we want to continue to find ways for them to experience our franchises in whichever way that they prefer. We have the pipeline in place to achieve that and are focused on continuing to execute against this pipeline to really unlock that full potential of our portfolio.

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**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

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Thanks, Eric. Operator, can we have the next question, please?

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**Operator:** Today's next question comes from Doug Creutz with Cowen. Please proceed.

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**Doug Creutz**

*Analyst, Cowen & Co. LLC*

Q

Hey, thanks. So we're all waiting with bated breath to hear about what you've got planned for Call of Duty this year. Obviously, this is by far the latest you've gone without showing it to your audience. How should we think about the marketing campaign you've got prepared for this year's Call of Duty? How do you plan to integrate Warzone into the new Call of Duty? And what are you thinking about for pricing for next-gen games right now?

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**Rob Kostich**

*President, Activision, Activision Blizzard, Inc.*

A

Hey, Doug. It's Rob. Thanks for those questions. Let me try and tackle them one by one. I'd probably want to just start out by saying first that the success of seeing Warzone and Call of Duty Mobile in addition to, of course, what we've continued to see in our premium games, has created a ton of new opportunities for the franchise. And so starting with marketing, it's definitely had an impact there on how we think about marketing in this new world. As you seen from our results, right now we have a larger, more engaged, and more global audience than we've ever had at any point in time in our history, and that means that we can be more direct and more targeted than we've ever been before. So that's a huge benefit and plus for us when we think about marketing on that vector.

Another thing I think that's really important for us as it relates to marketing is from storytelling, from a storytelling perspective, where we could be even more creative and fun and engaging with our fans than ever before. So if you look at Warzone in particular, it's not only like a great game experience, but it's also a great platform for us to share new franchise news and information directly with our community like we haven't done before.

So this is also a big and positive change for us as we think about the business and, to your initial point that you were talking about, why you were waiting for such a long time, we are and we aren't, but it's Warzone I think that's caused us to rethink how, when, and even where we reveal our upcoming titles. So we can't wait to share it with the community, and we think it's going to be very different and more engaging than anything that we've ever done before.

Now as you heard on the call before, Treyarch and Raven are coming up with the next premium game, and obviously very excited on what they're working on, and do we think fans are going to absolutely love it. The game looks incredible right now, and internally people are having a ton of fun playing across its campaign mode as well as the online modes that the developers are very well-known for. And so all I can say in terms of timing is, I suspect you'll be hearing more about this fairly soon.

Now on your question of how we're going to integrate the new title with Warzone, I think that's a good one and it's an important one. And what you should expect is that we do a very tight integration between the two. Modern

Warfare and Warzone are obviously very tightly connected. I think that's really important for the player base. We plan to do the same with all our upcoming titles as well, our premium titles, to ensure that we can reward all of our players and give them fresh new experiences, regardless of whether they choose to just play in Warzone or also play in the premium game as well. So the connection will absolutely be there.

And then finally, I think on your last question was in regards to next-gen pricing. And so what I'll say here is we'll be sharing our plans soon, so I'm not going to share anything today. For now, we're just very excited for the launch of the new generation of hardware. We think it represents another strong leap forward in creating really incredible entertainment and value for our fans as we look forward. Thanks.

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**Doug Creutz**

*Analyst, Cowen & Co. LLC*

Thank you.

Q

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**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

Thanks, Doug. Can we have the next question, please?

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**Operator:** The next question comes from Alex Giaimo with KDV (sic) [Jefferies]. Please go ahead.

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**Alex Giaimo**

*Analyst, Jefferies LLC*

Hey, thanks for the question. This is Alex Giaimo from Jefferies. On the Blizzard side, I was hoping to just get an update on how the development teams are adapting to work from home as of now, and if there's any potential impact to the timing of the sequels announced at BlizzCon 2019. And then since there won't be a BlizzCon this year, should we expect some form of virtual update from the Blizzard team at some point? Thanks, guys.

Q

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**J. Allen Brack**

*President, Blizzard Entertainment, Activision Blizzard, Inc.*

Thanks, this is J. I think the teams have done a good job in adapting to a remote work environment. When you think about the team-based collaboration that's required to create great games, the current remote work environment does have some challenges when it comes to iteration and ideation. But I'm proud of the teams, and I feel like they've been incredibly resourceful to figure out ways to continue to serve the community with the great content, as you saw in Q2 and in Q1 this year.

A

All of this gives us a lot of momentum heading into the second half of this year, where we have a lot of things planned. The WoW and the Hearthstone teams continue to bring lots of content to the community, and this is important for both of these games going forward. Longer term, our longer-term projects that are in a more creative or collaborative stage of development make it harder to really measure the impact of the shift to remote working. And one of the things that we're conscious of is the longer this situation persists, the greater the challenge. So we're continuing to actively monitor, continuing to plan, and try to put ourselves in the best possible position, continuing to operate effectively during COVID and beyond.

So you mentioned BlizzCon. We did announce that we will not be bringing the community together this fall, but we are planning on channeling the spirit of BlizzCon into a virtual event in early part of next year. We're really fortunate to have a passionate and engaged community that's really looking forward to what we're creating and what we're working on, and we're looking forward to sharing what the teams have been working on in that event.

Since you asked about sequel, Diablo and Overwatch teams, they're deeply committed to creating awesome AAA experiences for players. They're working hard to bring those games to the community, and we expect the launches and data that we continue to release on those to be big events for those franchises.

And beyond those launches, we've been focused on delivering new experiences within our live games that the community really enjoys. We talked about here in WoW, through Classic, we've been able to introduce more content from the existing subscription to continue to give the community real reasons to stay engaged. And outside the tent-pole sequels, we have a number of initiatives that are underway. And we expect to deliver strong and consistent performance in the future, that's something that's very important to us. Thanks for the question.

**Alex Giaimo**

*Analyst, Jefferies LLC*

Thank you.

Q

**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

Thanks, operator. Can we have the next question, please?

A

**Operator:** The next question comes from Yung Kim with Piper Sandler. Please proceed.

**Yung Kim**

*Analyst, Piper Sandler & Co.*

Thank you for taking the question. Can you describe the trends you've seen in the advertising business since the last call? Help us understand the drivers and what the opportunity for growth looks like.

Q

**Humam Sakhnini**

*President, King Digital Entertainment, Activision Blizzard, Inc.*

Hey, this is Humam. Thanks for the question. Our advertising business proved resilient in the second quarter, and we delivered robust year-over-year growth. Now at the heart of this ad business is our platform, which provides a fully controlled, safe environment for brands. And that's a very powerful value proposition for advertisers, especially given the current backdrop.

A

Now to add to that, we have a number of initiatives underway that will further strengthen this platform. As an example, we're continuing to invest in the direct sales force and expand our network demand partners as well. And again, we saw strong year-over-year growth across both the direct advertisers and our demand partners in Q2. Now add to that that we're continuing to invest in our tech infrastructure, and we continue to invest in tools as well to further optimize this demand and the pricing around it.

But at the heart of it, the way I think about the investment is also the investment in the product itself and the innovation there, so that is also resonating. So as an example, to give one, we worked with Target in Q2, and they were looking to drive awareness and consideration with their Easter marketing campaign. And when we combined an integrated sponsorship in Candy Crush Saga with our rewarded video product, Target was able to reach tens of millions of players in the US, and they achieved a 10 point lift in their top of mind awareness and a 7 point lift in consideration.

So all of this is allowing us to attract new brand advertisers into the ecosystem. And over the past few months, we had a number of these, which spanned a number of sectors. And these games spanned something like from Samsung to Breyers, JVC to Sargento to Home Depot. And we continue to use our direct sales force to reach out to more of these advertisers across these sectors and continue to innovate the product around them.

Now with all that said, there is uncertainty in the ad market, as we've seen in the recent months. And that includes Apple's recent announcement around IDFA [Identifier for Advertisers]. Now it's still too early to determine the specific impact on the business, at least on our business, but we're working closely with our advertising partners and our demand partners to prepare for these changes. So puts and takes out there, net-net, we still remain confident in the value proposition and the long-term opportunity of this advertising business.

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**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

A

Thanks, Humam. Operator, could we have the next question, please?

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**Operator:** The next question comes from Mario Lu with Barclays. Please proceed.

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**Mario Lu**

*Analyst, Barclays Capital, Inc.*

Q

Great, thanks for taking the questions. I have two on Call of Duty Mobile. With the titles generating more bookings per day and each season of Q2 versus season prior, any color you can provide on how sustainable that performance is going forward?

And secondly, with the Activision segment reaching its record operating margins this quarter, are most profits of CoD Mobile in particular still being invested back into growth, as you guys stated previously, or are some flowing down to the bottom line now?

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**Rob Kostich**

*President, Activision, Activision Blizzard, Inc.*

A

Mario, it's Rob. I'll take that one. Obviously, we do believe that it's sustainable, and we're very excited for what's going on CoD Mobile. We're seeing really strong momentum with the title of all the games now surpassed over 250 million downloads globally, and it just keeps on tracking for us. Over the past several months, the team has made really great progress on adding great new content, content for the community, and then also in optimizing the engagement, the retention, and the in-game economy to make sure we're working on all components. So overall, the game is performing really well.

And as you noted in your question, we are absolutely still reinvesting in both the product itself and also in the marketing to build an even larger audience, similar to what you'd see a lot of top mobiles do, especially in this earlier growth phase to mobile. But I'd also say at the same time, the game is still contributing nicely both to the top and bottom line for Activision. But because of its scale, we're seeing it benefit us and we're also reinvesting in it.

The game is coming up on its one-year anniversary in October, and I mentioned the content investment. In October we plan on delivering significant new content to the game and a lot of in-game enhancements, including a new weapons system for mobile. Now, you've probably seen and our players have certainly noticed in Modern Warfare how much they're enjoying customizing their weapons and how they do it in that experience. And we think the community is going to love the opportunity to do the same in CoD Mobile.

So overall, we're extremely happy with the sustained trends we're seeing on mobile. We continue to reach new audiences around the world, and I'd say we're just very committed to growing our mobile business. For us, that includes adding additional internal mobile talent and resources. Of course, we'll continue to support our existing initiatives, and I think importantly as we look forward, even more tightly integrating mobile into the overall Call of Duty ecosystem to bring our community together, closer, and having more fun.

And I'd just like to close by – and we've mentioned this before, I think, but it is important. Call of Duty right now through the success of our premium titles and Warzone and mobile is larger and more global than it's ever been at any point in time in its history. And I just want to say thanks to all our teams, have just done an incredible job across the board. And of course, we are super-thankful to our incredible community for their continued trust and support for what we do on Call of Duty. Thanks for the question.

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**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

A

Thanks, Mario. Operator, can we have the next question, please?

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**Operator:** The next question comes from Brian Nowak with Morgan Stanley. Please proceed.

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**Brian Nowak**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks for taking my question. I wanted to bring together the two segments. I'm curious about learnings you've had from Call of Duty, Warzone, and mobile that you think could be applicable to Diablo or other franchises, just to sort of help us think about some of the growth drivers for Diablo or other franchises in 2021 and 2022 they may have learned from Call of Duty. Thanks.

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**Daniel I. Alegre**

*President & Chief Operating Officer, Activision Blizzard, Inc.*

A

I'll take that. This is Daniel. And, Brian, thank you for the question. As you just heard from Rob, we are really bringing that community and that experience together across platforms and across experiences. And firstly, I'd say we're really just not done with Call of Duty. We're in the first inning. We've only been five months in since the [ph] life of a (45:15) Warzone, and the team is working really, really hard to integrate that with our next premium release so we can really maximize the potential of this powerful combination of both premium and free-to-play content.

And it's still early in expanding the audience on PC as well, which offers, as you know, a very significant potential for future growth when you consider the size of the player base and particularly including the fact that we are now having access to players all around the world and expanding it. PC obviously is more accessible. And then as Rob was mentioning, there's a lot more to come on mobile too. CoD Mobile is off to a really great start, but we're just scratching the surface of what that franchise can be on mobile. And then integrating the experiences across multiple platforms we know is just an incredible opportunity for the franchise.

But to the early successes, they do represent incredible proof points, as to your question, of how the franchise strategy is really working. And it certainly applies to a lot of other franchises that we have. We see that our current players really want more ways to engage with their favorite IP, be it through mobile or other platforms, and that offering authentic and really deep experiences on new platforms can drive much, much higher engagement. And this quarter's results really shows that.

And we also see that the free-to-play on mobile and other platforms can bring in multiples of new players into our franchises. Importantly, with strong execution, this is not cannibalistic. Actually, on the contrary, free-to-play coexists with other business models and can be meaningfully additive to a franchise, bringing new players into the ecosystem. So these proof points are relevant across our portfolio. And to your question, it's not just Diablo, but it's also across all our franchises. And our teams see an opportunity to drive that greater reach, engagement, and player investment, greater than ever before across our franchises. And with the really strong execution that we know we can deliver, we expect to continue that trend. And thanks again for your question.

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**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

A

Thanks, Brian. Operator, can we have the next question, please?

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**Operator:** The next question comes from Mike Ng with Goldman Sachs. Please proceed.

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**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, good afternoon. Thank you for the question. It was encouraging to hear that Diablo Immortal was entering into an extended company playtest in the coming weeks. Could you just give us an update on your expectations for the Diablo Immortal regional testing plan? Thank you.

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**J. Allen Brack**

*President, Blizzard Entertainment, Activision Blizzard, Inc.*

A

Hi. This is J. Thanks for the question. As we talked about earlier, we are planning for the game to enter, we're calling expanded internal testing this quarter. And internal testing is an important step for us, not only from [ph] fully an (48:26) operational perspective, but also because we have many Blizzard employees who are deeply engaged. We have quite a few extra players within the company, and a lot of the employees that we have represent many aspects of our global community.

From the very beginning, it was important to us to ensure that this is an authentic Blizzard-quality Diablo experience for the huge community of Diablo players around the world, and it's our intention to meet the expectations of those players everywhere. The type of experience that Diablo players have loved for over 20 years is one that we think is appealing to everyone, and we think that we're working here on a deep and engaging RPG on mobile. And so there's great potential for players in all regions to really love the game, and so we're more than willing to spend the time on it to get it right. We've continued to see a lot of interest and anticipation from the Diablo community, and the game's come along really well. We're eager to get it into the players' hands.

I'll mention one more thing. You asked about Diablo Immortal, but I do want to take the opportunity to also mention Diablo 4, which we are building for PC and for console, and is also coming along and looking really good. We share public quarterly updates with the community, and we really discuss – the team discusses the approach of different elements and different storytelling and design philosophies. And we get to interact and see that hardcore Diablo player base respond with the excitement about the direction of the game. And the entire team is deeply committed to bringing them a fitting continuation to that series. And so there's a lot for players and fans in the Diablo community to look forward to. Thanks for the question.

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**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Q



Thank you, J.

**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

A

Thanks, Mike. Operator, can we have the next question, please?

**Operator:** Your next question comes from Gerrick Johnson with BMO. Please proceed.

**Gerrick L. Johnson**

*Analyst, BMO Capital Markets Corp.*

Q

Good afternoon. Thank you. So Crash Bandicoot seems a bit of a shift for King here, now reaching into the Activision catalog to create games. Can you talk about this strategy a little bit and how King resources will be used going forward, especially as it pertains to the Activision Blizzard catalog? Thank you.

**Humam Sakhnini**

*President, King Digital Entertainment, Activision Blizzard, Inc.*

A

Hey, thanks for the question. This is Humam. First, at the heart of our strategy is our biggest live games, which represent the heart of our growth here, and that's consistent, I think, with the broader company approach. So we're continuing to focus on our last franchises, and in particular Candy Crush, where we see a really substantial opportunity for ongoing growth. And that means that we continue to invest in content and innovation features, both to engage our existing audience and to also continue to bring new players into our games network. And we've seen this pay off. We've seen double-digit growth year on year in Candy players. And we see continued progress on our payer conversion efforts. And we see the opportunity for growth across both the in-app purchase business and our ads business in the Candy franchise.

Now having said that, we will continue to selectively invest in focused new games pipeline. And we explore both new IP and, where it makes sense, the Activision IP library. So with Crash in particular, when we saw its vibrant history and we saw what that represents over the past 20 years, it represented a great opportunity for us to expand the King portfolio with an iconic IP like that.

We have focused our new game development efforts over the past few years to really only selectively invest behind the most exciting opportunities. And with this one, the King team is thrilled to be developing a game with this IP from the Activision catalog. And as you see from the advance trailer, it's looking really great. We're reimagining the Crash franchise for an incredible mobile experience, and we just can't wait to get this game out there to the dedicated Crash fan base and to also bring it to new audiences. Rob, I don't know if you have anything to add from the Activision side.

**Rob Kostich**

*President, Activision, Activision Blizzard, Inc.*

A

Thanks, Humam. I think it just brings up a really important point and is a great example of what we can do as a broader organization when we leverage our respective strength to maximize the potential of our IP across the company. There are multiple examples, if you look at how we partnered with Blizzard to bring Call of Duty to Battle.net on PC where we're driven record results, and we also launched a world-class city-based esports business with the Call of Duty League in partnership with our Activision Blizzard esports team.

So now in the case of Crash, this IP is getting the full treatment it deserves, and it's getting it because of the talent across the company. First, we're very thrilled to be bringing in a brand new experience to consoles in October with

Crash 4, and the game is just coming along really great, and the team at Toys for Bob has done an excellent job of ensuring the game honors its rich history, yet delivers something totally new and fun to fans. So that's one really important vector that we're focused on.

But as we think in terms of mobile, last year we launched Call of Duty and Modern Warfare very successfully and very close together, quite frankly. And together, these games have proven accretive to our overall results, and it's certainly grown our audience on a global basis. So now we're standing here, we look at this opportunity with King and thinking what a perfect opportunity to partner with the talented team there who's so proven in mobile and have such great talent in their organization to expand the Crash IP on mobile with a unique game experience. It's different from what we're doing on console. And then of course, while at the same time, delivering a new premium experience to consoles with Crash 4. So net-net for me, one, it's a great time to be a Crash fan. And two, it's just also really great to see the company working so well together on so many fronts. So that's what I would add. Thanks.

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**Christopher Hickey**

*Senior Vice President-Investor Relations, Activision Blizzard, Inc.*

**A**

Thanks, Gerrick. Operator, we have time for one last question.

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**Operator:** Today's final question comes from Kunaal Malde with Atlantic Equities. Please proceed.

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**Kunaal Malde**

*Analyst, Atlantic Equities LLP*

**Q**

Hi, thanks for taking the question. I was hoping you could give us some more color on what's baked into your guidance, particularly what you've assumed in terms of stay-at-home tailwinds, and also the uncertainty around the economy in consumer spending that you've referenced a few times on this call.

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**Dennis M. Durkin**

*Chief Financial Officer & President, Emerging Businesses, Activision Blizzard, Inc.*

**A**

Hey, Kunaal. It's Dennis here. I really appreciate the question. We've known you for a long time, and we always try to be as thoughtful as we can and prudent in our approach to guidance. But I think it's even more important now obviously with the economic backdrop being so volatile and unpredictable.

Regarding shelter-at-home, you heard in our prepared remarks and Daniel referenced it earlier. We have seen some engagement and tailwinds moderating somewhat as regions reopen, particularly in some of our games that have less social connected tissue. We're assuming in our guidance that continues as more regions reopen in Q3, although it's not entirely clear how quickly that plays out because the trends kind of are different in different regions of the world.

Even so, we're obviously very strong. We have strong momentum, and we feel really confident about our third quarter guidance, particularly because our largest franchises have so much momentum, and that leads us to the strong guidance we have provided for Q3 already.

When you turn to Q4, our Q4 guide implies you'll see some appropriate risk that we've applied into our outlook. Obviously, there's a few reasons for that. Everyone's aware of the economic backdrop that we're in with unemployment at unusual levels, and risks to consumer spending, particularly with new consoles coming out, which will absorb some consumer wallets if they purchase new hardware. And similarly, we want to be relatively conservative about the retail channel as that continues to contract. We do see, obviously, the flip side of that is a

strong benefit and tailwind that brings to digital for us, which was in the comments that were mentioned earlier. We have seen acceleration on that console which is a nice tailwind, and we expect that to continue.

In an environment like this – and we talked a little bit about it last quarter – we do feel really good about the value proposition of our content. In past challenging economic times, interactive entertainment, given its low cost per hour relative to other forms of entertainment, is a very compelling value for consumers. So hopefully, that bodes well even in this uncertain economic environment that we find ourselves in.

But similar to last quarter, obviously there's a lot of unknowns, and we've tried to be prudent with our guidance. But in spite of that, we've obviously raised our full-year guidance by the largest amount in our history, and we believe there's obviously potential for even further over-performance if some of those risks don't materialize and if we can navigate through them effectively, which obviously would give us great momentum in the next year with a very, very large player base heading into 2021 and beyond. So lots of opportunity in front of us, albeit in an uncertain time.

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## Dennis M. Durkin

*Chief Financial Officer & President, Emerging Businesses, Activision Blizzard, Inc.*

So thank you very much for the question and thank you very much to everyone for joining us today and for your participation and interest. We look forward to speaking with many of you this quarter throughout the quarter, and hopefully we'll see many of you in-game. Thank you.

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