



ACTIVISION[®]

BLIZZARD[®]

SECOND QUARTER 2018 RESULTS

AUGUST 2, 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 PERFORMANCE

Better-than-expected second quarter and record 1st-half:

- Q2 revenues of \$1.6B and non-GAAP² EPS of \$0.62, up 1% and 13% Y/Y respectively
- Q2 net bookings¹ of \$1.4B, \$35M above guidance
- Record Q2 mobile revenues and mobile net bookings
- Record 1H top and bottom-line results

Continuing to execute across our strategic priorities:

- The **Overwatch League**TM Grand Finals was the culmination of a successful inaugural season of celebrating our players, attracting invaluable team owners and partners, and delivering premium viewing experiences. We've recently announced the first set of season-two team sales, welcoming new team owners to the league with more to come
- Bringing **Call of Duty**[®] to mobile in China as part of our broader mobile strategy to extend our franchises to the 3 billion global smartphone install-base

¹ 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.

² Non-GAAP reconciliations are in the earnings release dated August 2, 2018, which is available on www.activisionblizzard.com.

FOCUS ON REACH, ENGAGEMENT, INVESTMENT DRIVES VIRTUOUS CYCLE



AUDIENCE REACH

352M MAUs¹ in the quarter across the company

	Activision	Blizzard	King
Q2 MAUs ¹	45M	37M	270M

Details:

CALL OF DUTY

- *Call of Duty: WWII* continued to see higher MAUs¹ than the prior franchise release
- Pre-orders for *Call of Duty: Black Ops 4* are strong
- *Black Ops 3* MAUs¹ grew Q/Q and, in June, reached the highest level for this year as 15M+ players geared up for *Black Ops 4*

DESTINY



- *Destiny 2*'s second expansion, *Warmind*, saw higher attach rates than *Destiny 1*'s second expansion
- *Destiny 2* MAUs¹ grew Q/Q, and the community is excited for the upcoming *Forsaken* expansion and its Gambit mode



- *Crash Bandicoot™ N. Sane Trilogy* successfully launched for Xbox One, Switch, and PC in the quarter with strong performance



- *World of Warcraft®* momentum remains high ahead of the upcoming expansion, *Battle for Azeroth™*, which is seeing strong pre-orders



- Blizzard is building on the excitement around the **Overwatch League** with more esports events and a continuous stream of content for the game in the second half of this year, including seasonal events, maps, heroes, and new cosmetic items



- Pre-purchases for the upcoming *Hearthstone®* expansion, *The Boomsday Project™*, are tracking ahead of any prior expansion at the same point in time pre-release



- *Candy Crush Saga™* mobile MAUs¹ were stable Q/Q and up Y/Y

DEEP ENGAGEMENT AND PLAYER INVESTMENT

Deep Engagement: celebrating player achievement and providing compelling spectating experiences to the growing esports community



- King's engagement trends remain strong with daily time spent per user stable at 36 minutes



- The **Overwatch League** held its Grand Finals event at Barclays Center in New York on June 27-28. The Grand Finals had a sold-out live audience and millions of global viewers watched on TV networks and streaming platforms
- The hard-to-reach 18 to 34 demographic made up approximately 70% of the global audience



- **Call of Duty World League** continues to enjoy momentum with year-to-date minutes watched up 50% year-over-year heading into its championships later this month in Columbus, Ohio

Player Investment: delivered \$1B for in-game net bookings in Q2 and a record of approximately \$2B year-to-date



- Activision had record second quarter in-game net bookings, driven by:



- *Call of Duty: WWII*
- *Call of Duty: Black Ops 3*



- *Destiny 2*



- King had two of the top-10 highest-grossing titles in the U.S. mobile app stores for the nineteenth quarter in a row, with **Candy Crush Saga** at #1 again¹



- **Candy Crush™** franchise net bookings overall grew double-digits Y/Y
- King's advertising business was profitable for the second quarter in a row with net bookings growing Q/Q

SECOND QUARTER 2018 SEGMENT RESULTS

	ACTIVISION	BILZARD ENTERTAINMENT	King
Q2 Segment Net Revenues:	\$338M	\$489M	\$502M
Q2 Segment Operating Income:	\$84M 25% operating margin	\$133M 27% operating margin	\$169M 34% operating margin
Key Highlights:	<ul style="list-style-type: none"> Revenues grew 7% Y/Y, driven by double-digit growth for in-game net bookings Call of Duty: WWII's digital season continued to outperform that of the prior release Destiny 2 saw strong participation in its Warmind expansion Operating income down slightly relative to prior year, with modestly lower margins from product mix 	<ul style="list-style-type: none"> Revenues and operating margin declined Y/Y, reflecting the timing of major content releases and investment in key growth initiatives including the Overwatch League, MLG Network, Battle.Net®, & mobile incubation Bolstered by the release of World of Warcraft: Battle for Azeroth in August, Blizzard is expected to return to Y/Y growth and margin expansion in 2H 2018 	<ul style="list-style-type: none"> Revenues grew 5% Y/Y Operating income grew 3% Y/Y Net bookings growth from continued live title innovation and monetization improvements Candy Crush franchise net bookings overall grew double-digits Y/Y

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 August 2, 2018, which is available on www.activisionblizzard.com.

SECOND QUARTER 2018 RESULTS

Better-than-expected Q2 performance

	Q2 2017 Actual			Prior Q2 2018 Outlook ¹			Q2 2018 Actual		
	GAAP	Non-GAAP ²	Impact of GAAP deferrals	GAAP	Non-GAAP ²	Impact of GAAP deferrals	GAAP	Non-GAAP ²	Impact of GAAP deferrals
Net Revenues	\$1,631M	\$1,631M	(\$213M)	\$1,555M	\$1,555M	(\$205M)	\$1,641M	\$1,641M	(\$256M)
Digital Revenues %	80%	80%					77%	77%	
Operating Income	\$339M	\$576M	(\$105M)				\$434M	\$568M	(\$182M)
Operating Margin	21%	35%		21%	31%	(7 pp)	26%	35%	
Interest Expense, Net	\$46M	\$33M		\$68M	\$30M		\$26M	\$25M	
EPS	\$0.32	\$0.55	(\$0.12)	\$0.26	\$0.46	(\$0.15)	\$0.52	\$0.62	(\$0.21)
Total share count for EPS	764M	764M		771M	771M		770M	770M	
Operating Cash Flow – Q2 / TTM ³	\$265M / \$1,991M						\$9M / \$2,075M		
Free Cash Flow ⁴ – Q2 / TTM ³	\$234M / \$1,874M						(\$21M) / \$1,911M		
Net Bookings (operating metric)	\$1,418M						\$1,385M		

¹ Prior outlook provided May 3, 2018.

² Non-GAAP reconciliations are in the earnings releases dated August 3, 2017, May 3, 2018, and August 2, 2018, which are available on www.activisionblizzard.com.

³ Trailing Twelve Months represents the sum of four prior quarters.

⁴ Free Cash Flow represents Operating Cash Flow minus Capital Expenditure.

BALANCE SHEET AS OF JUNE 30, 2018

Paid \$0.34/share dividend in May, up 13% Y/Y, totaling \$259M

	6/30/2017	3/31/2018	6/30/2018
Cash and investments	\$3.29B	\$5.30B	\$4.98B
Term loans	\$0.99B	\$0.99B	\$0.99B
Notes ¹	\$3.45B	\$3.45B	\$3.45B
Gross Debt	\$4.44B	\$4.44B	\$4.44B
Net Debt²	\$1.15B	-	-
Net Cash³	-	\$0.86B	\$0.54B
Adjusted TTM EBITDA⁴	\$2,678M	\$2,482M	\$2,477M
Gross Debt / Adj. TTM EBITDA ⁴	1.7x	1.8x	1.8x
Net Debt ² / Adj. TTM EBITDA ⁴	0.4x	NA	NA

¹ As of 6/30/18, includes notes for the maturity dates of 2021, 2022, 2023, 2026, 2027, and 2047.

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

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

⁴ 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 AUGUST 2, 2018

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

	Q3 2018			2018		
	GAAP	Non-GAAP ¹	Impact of GAAP Deferrals ²	GAAP	Non-GAAP ¹	Impact of GAAP Deferrals ²
Net Revenues	\$1,490M	\$1,490	\$125M	\$7,355M	\$7,355M	\$120M
Product Costs, Game Ops & Distribution	27%	27%		24%	24%	
Operating Expenses, Incl. SW Amort ³	59%	49%		52%	44%	
Operating Margin⁴	14%	25%	3 pp	24%	33%	1 pp
Interest Expense, Net	\$62M	\$20M		\$130M	\$86M	
Tax Rate	18%	18%		13%	18%	
EPS	\$0.16	\$0.37	\$0.10	\$1.84	\$2.46	\$0.12
Fully Diluted Weighted Avg. Shares ⁵	772M	772M		774M	774M	
Net Bookings (operating metric)	\$1,615M			\$7,475M		

Currency Assumptions for Current 2018 Outlook:

- \$1.21 USD/Euro (vs. \$1.12 avg. for 2017 & \$1.11 avg. for 2016)
- \$1.35 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.

¹ Non-GAAP reconciliations are in the earnings release dated August 2, 2018, which is available on www.activisionblizzard.com.

² Net effect of revenue deferral accounting treatment on certain of our online enabled products.

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

⁴ May not recalculate due to rounding.

⁵ Including fully diluted shares based on average share price.

A PORTFOLIO OF COMPELLING FRANCHISES

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

	  
	     
	   



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Q&A

AUGUST 2, 2018