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Activision Blizzard, Inc. (ATVI)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Activision Blizzard Third Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

I'd now like to turn the conference over to Christopher Hickey, Senior Vice President of Investor Relations. Please go ahead.

Christopher Hickey

Senior Vice President of Investor Relations, Activision Blizzard, Inc.

Good afternoon, and thank you for joining us today for Activision Blizzard's third quarter 2020 conference call. With us are Bobby Kotick, CEO; Daniel Alegre, President and COO; and Dennis Durkin, CFO. 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 and second quarter 2020 10-Q, and those on the slides that are shown. The company undertakes no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after today, October 29, 2020.

We will present both GAAP and non-GAAP financial measures during this call. We provide non-GAAP financial measures, which excludes 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 in 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 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. I hope all of you and your families are safe and healthy.

In the midst of the ongoing pandemic, this week, a few hundred of our employees were evacuated from their homes in Orange County because of fires. The resilience our employees around the world continue to show under very difficult circumstances is incredibly inspiring.

Our extraordinarily talented teams have been able to connect and entertain hundreds of millions of people around the world at a time when connection and joy is more important than ever. This led to better-than-expected third quarter results, and we're again raising our outlook for the full year. We now expect net bookings in 2020 to grow over 25% year-over-year, with earnings per share growing even faster.

Since refocusing our teams on our greatest opportunities, we've started to return to the execution excellence we've always been known for. We've significantly grown the number of creative and commercial employees working on our key franchises. We have a clear strategy to continue expanding reach, engagement, and player investment across all of our biggest franchises. And we continue to increase investment to grow the communities anchored in our franchises.

We have a deep company-wide commitment to continue to deliver the highest-quality content and live operations to our network of almost 400 million players. And we've transitioned the business to a digital-first model, enabling our players to consume our content in the most convenient value-focused manner.

Our continued strong results reflect our focus on execution. Today, we're in a position to deliver sustained and significant long-term expansion across our portfolio of fully-owned franchises. As we execute against our content pipeline, extend our key franchises to mobile, introduce new free-to-play experiences, and continue to optimize in-game operations, we are positioned to continue converting our growing engagement into consistent and long-term revenue and earnings growth.

Call of Duty is the first community to benefit from our pursuit of this franchise-based strategy. With over 100 million monthly players, the Call of Duty community is larger than ever before, and with expansion across all platforms, the franchise has transformed into a truly social experience that engages and connects our players in truly epic ways.

Through Modern Warfare and our free-to-play game Warzone, over two-thirds of players play in groups of friends, demonstrating the rich social connections enabled by our games.

On mobile, Call of Duty has been downloaded over 300 million times worldwide and has become the highest-grossing new game in the US App Store since its launch last October. By expanding to mobile, we have brought in tens of millions of new players in countries far beyond our traditional audiences. With the game now in final large-scale testing in China and over 50 million players already pre-registered, we see a clear path to continue growing Call of Duty's reach, engagement, and player investment on mobile in the largest mobile gaming market in the world.

Deep engagement in premium Call of Duty content as well as the addition of free-to-play experiences across mobile, console, and PC, drove the number of monthly players in the community to over three times the year-ago level in this third quarter, and hours played were seven times higher than a year ago. As the community engages, they consume more content. More players are purchasing premium content than ever before, and these growth rates highlight the tremendous power of the combination of our premium and free-to-play business model.

We expect to continue the Call of Duty momentum when we deliver Black Ops Cold War in two weeks. And our marketing has changed to reflect the scale and size of our own proprietary network. In August, millions of players gained access to the Black Ops Cold War reveal trailer by playing interactive content within Warzone, generating a true virtual water cooler moment and driving substantial interest in the new release.

Going direct to our network of players in this way represents more effective marketing than any paid media network. We intend to achieve with all our franchises as well as the potential new franchises we are actively creating, many of the successes we have had with Call of Duty.

In World of Warcraft, for example, we've seen unprecedented engagement trends since the subscriber base doubled following the launch of Classic last year. Pre-sales of the upcoming Shadowlands expansion are the highest we've seen at this stage ahead of any release.

Blizzard has the largest team ever working on ensuring Shadowlands meets all of our players' highest expectations and to deliver more frequent major content launches across both the modern game and classic in the years ahead. Blizzard has also dedicated creative talent focused on delivering multiple mobile experience in the coming years. Our franchises are well-suited for global, mobile, console, and PC gaming audiences. And we're determined to deliver compelling mobile experiences for both existing fans of our franchises and the hundreds of millions of players around the world who haven't yet played our games.

We also see continued growth opportunities for Candy Crush, even as the franchise continues its leadership as the number-one franchise in the US App Stores, with both in-app purchases and advertising driving growth in the third quarter. We'll continue to introduce competitive and collaborative social features to further broaden reach and deepen engagement in the coming quarters.

There are few entertainment franchises that generate over \$1 billion in annual net bookings, and today, we operate three of them. Call of Duty, World of Warcraft, and Candy Crush, and each has clear opportunity for sustained growth. With our teams hard at work on multiple products in the Diablo franchise and major innovations for the Overwatch franchise, as well as a number of new potential franchises at Blizzard and King, the pipeline across our portfolio and the potential for revenue and earnings expansion has never been stronger.

I am so proud of our employees amid what continues to be the most challenging environment I've ever experienced in my three decades of leading the company. Our teams continue to perform with extraordinary commitment to our audiences around the world. Of course, ensuring that our employees and their families are safe and healthy remains my number-one priority. The majority of our teams continue to work successfully from home and they continue to show ingenuity and fortitude as they overcome challenges in health care, family care, and work.

For the balance of this year, we're raising our outlook and we believe we will continue connecting and engaging more players than ever before in 2021.

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

Daniel I. Alegre

President and Chief Operating Officer, Activision Blizzard, Inc.

Thank you, Bobby. Even through the challenges of operating during the pandemic, Activision Blizzard significantly exceeded its third quarter outlook with strong execution across our three strategic growth drivers: expanding audience reach, deepening engagement, and increasing player investment.

Our player base grew 23% year-over-year and total time spent in our games increased even more. We grew net bookings 46% year-over-year driven by strong in-game performance with substantial operating margin expansion and earnings per share more than doubling year-over-year.

We achieved these results through a laser-focus on execution, both in major content launches and live operations across PC, console, and mobile and in our new approaches to engagement and business models, particularly the introduction of Call of Duty free-to-play experiences.

Our continued investments and successful initiatives for our largest franchises position the business for ongoing strong results, and we expect reach, engagement, and player investment to remain structurally higher going forward.

We're seeing a clear return on our increased investment in creative and commercial talent, and we intend to continue scaling our capabilities across our six key franchises: Call of Duty, Candy Crush, World of Warcraft, Hearthstone, Diablo, and Overwatch. We're still early in unlocking the full potential of these wholly-owned franchises and IP.

Now turning to our franchise and operational highlights across our business units, starting with Activision, monthly active users tripled year-over-year to 111 million. The Call of Duty ecosystem had another fantastic quarter, again delivering substantial year-over-year growth across reach, engagement, and player investment. The combination of premium Modern Warfare content and the free-to-play Warzone experience on PC and console continues to expand the community and drive deep engagement.

Modern Warfare and Warzone saw more than three times as many monthly players as the prior title in the year-ago quarter, with strong growth both inside and outside our traditional regions. Console player numbers grew strongly and monthly players grew over tenfold year-over-year on PC.

Across platforms, hours played in the Modern Warfare Universe were approximately seven times higher year-over-year versus the prior title. We again saw substantial year-over-year growth in premium game sales as Warzone players chose to upgrade to the full Call of Duty experience. Modern Warfare's first year sales are the highest in the Call of Duty's history, with two-thirds of lifetime units sold digitally. And we are seeing sustained strength in the franchise's revamped in-game system, with console and PC in-game net bookings four times the year-ago level.

On November 13, we will launch Black Ops Cold War, the latest installment for Call of Duty. Anticipation for the release is high, with far more players engaged in the game's public testing than for the year-ago title.

Supporting cross-platform play across PC, current-generation, and next-generation consoles, the premier release includes three compelling modes: an immersive single-player campaign set in a volatile geopolitical battle of the 1980s, a deep and engaging multi-player game play that Black Ops fans expect, and a terrific zombies mode, and there's so much more to come. We are releasing the title into the largest and most-engaged community at the time of launch in franchise history. And we are leveraging our direct digital relationships with our players to build awareness through entirely new in-game initiatives.

Black Ops Cold War's in-game content will be centered around the same in-game system that resonated so well with players in Modern Warfare. And starting with the first season of in-game content in December, Black Ops Cold War will be integrated into Warzone. We'll bring Black Ops Cold War's characters and weaponry into the free-to-play experience along with substantial new content, ensuring that Warzone remains both a terrific experience and a powerful on-ramp for the franchise's premium content.

We are confident that Call of Duty will once again be the number-one console franchise globally for upfront sales this year. And we expect a continued shift to full-game downloads given the convenience for players and in-game marketing initiatives enabled by Warzone.

On mobile, Call of Duty Mobile sustained the impressive levels of reach and engagement seen in the second quarter. As the game passes its first anniversary, the team continues to refine and optimize game play, seasonal content, and the in-game economy, leveraging over 15 years of proven content and learnings in the franchise.

October saw the biggest update yet with the addition of the Alcatraz map for Black Ops 4 and further social features driving continued growth and engagement and player investment versus Q3 seasons. And with further innovations ahead, the game now in final large-scale testing in China, the title is well-positioned for further growth as it enters its second year.

Also in Q3, the inaugural season of the Call of Duty League concluded with the Champs Weekend breaking records for the highest viewership of any Call of Duty E-sports event. Overall, the Call of Duty franchise and ecosystem are in great shape, and we can't wait to build on this with the premium release in a couple of weeks.

Also, in the third quarter, Activision continued to reimagine beloved IP with the successful launch of Tony Hawk's Pro Skater 1 and 2. The game received fantastic reviews and became the fattest title in the series to reach 1 million units sold, highlighting the opportunity for our rich library of classic franchises. And in October, we launched Crash Bandicoot 4: It's About Time, the first all-new Crash title in over a decade, again to a great critical reception.

Now turning to Blizzard, MAUs were 30 million in Q3. World of Warcraft MAUs were stable year-over-year having structurally increased last Q3 following the launch of Classic. Anticipation continues to build for the Shadowlands expansion ahead of its November 23 launch. Franchise engagement is at its highest level for this stage ahead of an expansion in a decade, with pre-sales well ahead of any prior expansion.

The team is determined to build on this momentum, incorporating the community's feedback from testing to ensure that the expansion delights and engages players over a sustained period. The response has been extremely positive so far, particularly around the new character customization options and the new player experience, which not only streamlines how players enter the game but allows current players to seamlessly level up new characters in previous expansions. And Blizzard will follow Shadowlands with more content for the franchise than ever before, into the next year and beyond.

Hours played in Hearthstone grew year-over-year in the third quarter, with the Battlegrounds mode seeing sustained strong engagement since its release last November. Battlegrounds engagement illustrates the significant potential for new modes within the franchise, and the team continues to execute against an innovative pipeline with regard to this opportunity.

November will see the broad release of Duels, a new player-versus-player mode, which is already seeing strong interest in early access since its reveal last week, alongside a new in-game progression system and the latest

expansion, Madness at the Darkmoon Faire, all aimed at providing a rich and rewarding experience that drives growth across existing, lapsed, and new players.

Overwatch continues to have a large and dedicated community with an average 10 million monthly players in the quarter, more than four years since launch. Millions more have engaged with the 2020 season of the Overwatch League with the Grand Finals being the most-watched event in the league's history.

And finally, amongst multiple Blizzard mobile titles under development, Diablo Immortal saw a hugely enthusiastic response in internal testing in the third quarter and will soon enter external regional testing.

Now turning to King. Overall King network MAUs were stable year-over-year at 249 million, while King's most important franchise, Candy Crush, again grew MAUs solidly year-over-year. In-game net bookings grew year-over-year. King's initiative to attract both lapsed and new players have meaningfully improved the trajectory for number of payers over the last year. And we are now starting to see the benefits of these actions in net bookings with a healthier payer base that is responding positively to compelling new features and live operations.

As a result, Candy Crush was once again the top grossing franchise in the US App Stores. We also saw strength in two of King's other franchises, Farm Heroes and Bubble Witch, which both grew net bookings year-over-year as the team delivered a higher frequency of in-game content. Along with higher performance for in-app purchases, King again delivered robust double-digit growth in advertising with strength across both direct brand advertisers and partner networks.

The teams' investments in its direct sales channel, tech infrastructure, and product innovation, continues to pay off. The advertising business is on track to grow net bookings around 40% this fiscal year, and similar to King's in-app business, is set to enter next year with a strong trajectory. And as we announced this week, King's newest title, Crash Bandicoot: On the Run!, will launch in spring. The title has already been met with incredible fan reception with pre-registrations off to a very strong start. Around 10 million people have already registered their interest in the game.

In summary, execution against our franchise strategy has driven another quarter of strong year-over-year growth across the business and we have momentum heading into Q4 and next year.

Dennis will now share the detailed results of our third quarter and specifics of our raised outlook.

Dennis M. Durkin

Chief Financial Officer and President of Emerging Businesses, Activision Blizzard, Inc.

Thanks, Daniel. Today, I will review our Q3 2020 results as well as our outlook for the fourth quarter. Net bookings in the third quarter grew 46% year-over-year to \$1.77 billion, with digital net bookings growing 65% year-over-year and representing over 90% of the total.

Let's start by looking at our segment results. Activision revenue was \$773 million, growing 270% year-over-year. Growth was again driven by Modern Warfare and Warzone in-game revenues, strong sales of premium Modern Warfare, the addition of Call of Duty Mobile, and the successful Tony Hawk launch. Operating income was \$345 million with an operating margin of 45%, both third quarter records.

Blizzard revenue was \$411 million, growing 4% year-over-year driven by another strong quarter of growth for World of Warcraft. Operating income was \$133 million, increasing 80% year-over-year, with an operating margin of 32%, 14 points higher year-over-year.

King revenue of \$536 million was 7% higher year-over-year, with both in-app revenue and advertising revenue growing. Operating income was \$248 million, the highest since acquisition, with an operating margin of 46%, 8 points higher sequentially boosted by lower sales and marketing versus Q2.

In total across our segments, in-game net bookings were \$1.2 billion, growing 69% year-over-year with each of Activision, Blizzard, and King contributing to the strong performance. Total segment operating profit of \$726 million grew 147% year-over-year. This was despite an approximately \$50 million headwind as we adjusted E-sports franchise terms and made investments to support our team owners and ecosystems amid a challenging environment for live events during the pandemic. This was primarily in Blizzard segment results.

Now, let's turn to our consolidated results. Please refer to our earnings release for full GAAP to non-GAAP reconciliations.

For the quarter, we generated Q3 GAAP revenues of \$1.95 billion, \$154 million above our August outlook. This includes the net recognition of deferrals of \$187 million. Net bookings of \$1.77 billion were \$117 million above our August outlook. And we generated Q3 GAAP EPS of \$0.78 and Q3 non-GAAP EPS of \$0.88, which was \$0.14 and \$0.13 above guidance, respectively. These figures include the net recognition of deferrals of \$0.17.

Turning to cash flow and the balance sheet, Q3 operating cash flow was \$196 million, reflecting higher cash taxes paid and changes in working capital. Year-to-date, operating cash flow of \$1.11 billion grew 22% year-over-year. Our cash and investments at the end of September were approximately \$7.6 billion, and we ended the quarter with a net cash position of approximately \$4 billion.

During the quarter, we issued \$2 billion of unsecured 10-year and 30-year notes. We redeemed all of our outstanding \$1.05 billion of notes due in 2021 and 2022, with the remaining \$950 million further strengthening our balance sheet as we took advantage of historically low interest rates

Now, let's turn to our outlook for the fourth quarter and the full year.

In the fourth quarter, in addition to ongoing live operations and in-game content across the portfolio, Activision launched Crash Bandicoot 4: It's About Time, on PS4 and Xbox One in early October. And of course, on November 13 we will release Call of Duty: Black Ops Cold War on current and next-gen PlayStation and Xbox and PC. Blizzard will release Hearthstone's Madness at the Darkmoon Faire expansion and the World of Warcraft Shadowlands expansion. And King is planning numerous features and innovative live-ops in Candy Crush.

Before I discuss the specifics of our outlook, I'll provide some context. We are entering the holiday season with strong momentum across Call of Duty, World of Warcraft, and Candy Crush, our three largest franchises, which bodes well for the future. And we are launching major new content for Call of Duty and World of Warcraft in the highly engaged communities. But at the same time, in the short-term we wish to remain prudent in our assumptions regarding the consumer spending environment, the console transition, and the pace of player migration from deeply engaging existing content. I'd also note that while Call of Duty Mobile has entered final large-scale testing in China, we do not include material revenue from the region in our Q4 outlook and anticipate monetization will become more meaningful next year.

For Q4 on a GAAP basis, we expect revenues of \$2.0 billion including net deferrals of \$731 million. We expect net bookings of \$2.7 billion. We now expect a GAAP-only restructuring charge of approximately \$50 million and a GAAP operating margin of 24%. And we expect GAAP and non-GAAP share count of 782 million and EPS of

\$0.44. For Q4 on a non-GAAP basis, we expect an operating margin of 33% and non-GAAP EPS of \$0.63 including net deferrals of \$0.46.

On a GAAP basis for 2020, we now expect revenues of \$7.7 billion including net deferrals of \$425 million. We now expect net bookings of \$8.1 billion, \$475 million above our August outlook. We expect a GAAP-only restructuring charge of approximately \$90 million and a GAAP operating margin of 34%. We expect GAAP and non-GAAP share count of 779 million and GAAP EPS of \$2.61.

For 2020, on a non-GAAP basis, we expect an operating margin of 39%, and non-GAAP EPS of \$3.08 including net deferrals of \$0.27.

Now, I'd also like to briefly touch on 2021. I'd note that it is still early, we remain cognizant of macro risks, and we will take our normal prudent approach to forecasting results, but strong business momentum works in our favor and we see numerous opportunities to expand the scale of our franchises. Successful execution against our plans will position our segments to build on the aggregate performance reflected in our revised 2020 outlook.

So in closing, our business has seen structural change this year and we continue to experience strong momentum heading into the holiday season and next year. We see substantial opportunity ahead for our franchises, across geographies, platforms, and business models. And we'll continue to focus on business improvements and operating efficiencies and the service of investing more in development to further expand our communities and franchises. We remain confident that executing against our plan will position us to deliver strong results and shareholder value over the long-term.

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: Thank you. We will now begin the question-and-answer session [Operator Instructions] Our first question comes from Ryan Gee from Barclays (sic) [Bank of America Merrill Lynch] (00:29:10). Please go ahead.

Ryan Gee

Analyst, Bank of America Merrill Lynch

Q

Yeah, hey, guys. This is Ryan. Thanks for taking the question. On Call of Duty, what should the player community expect to see change following the launch of Cold War next week? Specifically, curious how the team plans to tie the progression between Cold War's multi-player mode and then the free-to-play mode in Warzone, and what they would say is the value prop for those Warzone players to upgrade to Cold War?

And as a follow-up, is there anything you guys can say about the timing of content updates for both Cold War and Warzone, and how those two may overlap? Thanks.

Rob Kostich

President of Activision Publishing, Activision Blizzard, Inc.

A

Hey, Ryan, it's Rob. Thanks for the question. Let me first start by saying that obviously we're thrilled with how the community has embraced Warzone, and obviously we're very thankful for their support. We're also really proud of the work that our development teams have done on the game and continue to do so.

Warzone has really become an incredible addition to the franchise. It's a central place where we can connect and engage the entire Call of Duty community, and I also think maintaining that tight connection with our premium games has been really important especially for players who want to check out everything that Call of Duty has to offer, and we saw that with Modern Warfare and we plan to continue that into the future.

So the player community should expect to see Warzone evolve and innovate in a lot of fun ways, and alongside our premium games importantly.

Now let me clarify a bit on your question on how Cold War and Warzone are going to work together, and I'll do this at a high level, and please also note that we're going to be sharing a lot of details with the community coming up really soon.

But first, core Black Ops Cold War progression will build upon the success and will work similarly to how it did in Modern Warfare. So for example, all the awesome new Black Ops weapons and operators you unlock in your level 1 to 55 progression will be useable in Black Ops and in Warzone, just like that worked in Modern Warfare. Black Ops Battle Pass content and [ph] store (00:31:21) content will also work across Black Ops and Warzone.

Now players, of course, can continue to use their Modern Warfare content in Warzone once Black Ops launches, and as a result, one cool feature that players will see is that they'll be able to choose either their Black Ops load outs or their Modern Warfare load outs in Warzone for their game play, and this is just one example on how Warzone is going to expand and evolve over time.

Now players can also expect a ton of free post-launch content from the Black Ops Cold War premium experience across multi-player and zombies. I think we did a great job on this for the community for everyone with Modern Warfare, and we'll do the same with Black Ops.

So November 13 really is just the beginning for this game, and I think it's a great game, and just like Modern Warfare, this game is going to get bigger and better and more fun as the year goes on.

So in terms of overall progression, unlocks, and content, we've really built upon what has worked really well for the community with Modern Warfare. And we think people and players will be really excited to check out everything Black Ops Cold War has to offer as well.

Now in terms of timing of the next season, Daniel mentioned this. We expect season 1 for Black Ops Cold War and Warzone to launch this December and that's when you're going to be able to start to see the impact of Black Ops and Warzone really starting to work together in cool and fun ways. Again, a lot more detail here, which we're going to be revealing in the next week or two.

And I guess the final thing I would say, and Daniel I think mentioned this as well, what's exciting for us is we are launching Black Ops Cold War into the largest and most-engaged community in Call of Duty history. And now we're really excited to see what the community does and how they play together across this ecosystem that's now really expanding even further and we're excited about where it's going.

But thanks for the question.

Christopher Hickey

Senior Vice President of Investor Relations, Activision Blizzard, Inc.

A

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

Operator: Next question from Matthew Thornton from Truist Securities. Please go ahead.

Matthew Thornton

Analyst, Truist Securities, Inc.

Q

Hey, good afternoon, everybody. Thanks for taking the question. You know, there's a lot going on right now in terms of platforms, not only next-gen consoles launching, but new entrants in the industry [ph] make space (00:33:42) in particular. Just wondering if you can update us on your latest views on some more – you guys, supporting more platforms over time, and also, your strategy with respect to subscriptions? Color there would be helpful. Thanks, everyone.

Daniel I. Alegre

President and Chief Operating Officer, Activision Blizzard, Inc.

A

Thanks, Matt, and this is Daniel. I'll take that question. Look, we love to see the platform innovation, be it in next-gen consoles or streaming or the increased power of mobile devices, which really enables new and unique ways for us to deliver experiences and content to our communities.

With more well-capitalized companies coming into the space and really investing to extend the reach of gaming, if anything, this is just going to accelerate the growth in an already-growing industry, so it's actually great for everybody.

These platforms really need great content to thrive, and for us, as a leading content owner that fully owns our franchise and our IP, we're really well-positioned to take advantage of this expansion in platforms and also the associated economics.

We're also excited just for the next generation of consoles and the potential they offer to really bring even more compelling experiences to our players, and you're already seeing us supporting the new hardware with the launch of Black Ops Cold War on day one, as Rob was mentioning

Ultimately, for us, our priority is to build the best player experiences where our players want to be and really where they can connect with other members of the community. It's just so powerful. With that said though, our development resources just are finite, so we really have to focus on where the biggest opportunities are.

For example, we need to make sure that we're enabling our franchises on the billions of mobile devices that are available right now. That's by far our biggest opportunity, and we're investing meaningfully to capitalize on this and to take all our franchises to mobile over time. That's really, really important for us.

Now, regarding your question on subscriptions, we're also very fortunate in that we have exposure to every gaming business model at scale. We operate the largest subscription franchise in the industry in World of Warcraft. So we feel we have a good experience here and that we already have deep digital relationships with our players, including through Battle.net which gives us just a lot of potential in this area.

We already offer multiple ways for players to access our most-current and premium content. And this will really continue to evolve as our business needs change. Our current business model offers tremendous value to our communities and as you can see from our results, it's also driving great financial results for our shareholders. Good on all ends.

Christopher Hickey

Senior Vice President of Investor Relations, Activision Blizzard, Inc.

A

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

Operator: Next question is from Michael J. Hickey from The Benchmark Company. Please go ahead.

Mike Hickey

Analyst, The Benchmark Co. LLC

Q

Hey, Bobby, congrats on another solid quarter here, and thanks for taking my questions. A few questions for J., if you're up for it here. Curious if you could update us on WoW subscriber or player base, expectations for Shadowlands, and your view of the growth trajectory for the franchise heading into 2021? Thank you.

J. Allen Brack

President of Blizzard Entertainment, Activision Blizzard, Inc.

A

Thanks a lot for the question. It's a pretty big one. The first thing I have to do is express that we're really excited for players to get their hands on Shadowlands and we've announced that that release date is November 23. That is the exact 16-year anniversary for the launch of the original World of Warcraft. We made the delay earlier to Shadowlands to make sure that the quality of the game is really going to match our expectations and that the game was going to be great.

The community feedback that we received on that decision was overwhelmingly positive. And so we're keeping the quality of the game as a top concern. It's helped drive I think a lot of excitement for WoW, both in the form of really strong player engagement and as well as expansion in pre-sales. So players are already enjoying the content that we released with the Shadowlands pre-patch.

I want to talk about a feature of that I'm personally really passionate about, which is the new player experience. So the goal for this system was to really streamline learning how to play World of Warcraft for newcomers and also give people who have multiple characters a way to level-up in previous expansions. So today the way we look at the WoW ecosystem is that we operate two distinct game modes, both with very engaged player bases and that gives us the opportunity to deliver a lot of content into the WoW community really more than ever before, all under a single unified subscription.

We've talked before about our plans to expand the size of development teams, and we intend to follow the launch of Shadowlands with even more content across both the modern game and in Classic. But if we step back, we think of Warcraft as a huge franchise, and WoW is only a part of it. We're always exploring how to express Warcraft with new experiences and we see a lot of opportunity for growth in 2021 and beyond.

Thanks for the question.

Christopher Hickey

Senior Vice President of Investor Relations, Activision Blizzard, Inc.

A

Thanks, Mike. Operator, next question, please?

Operator: The next question comes from Mike Ng from Goldman Sachs. Please go ahead.

Michael Ng

Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon. Thanks for the question. I just have two. First, could you talk about the future of Call of Duty on mobile, including giving a more detailed update on COD Mobile in China? Is there anything more you can share about timing or the market opportunity?

And then second, are there any opportunities to make Warzone truly cross-platform by making it available on mobile? Any thoughts there would be great. Thank you.

Rob Kostich

President of Activision Publishing, Activision Blizzard, Inc.

A

Hey, Mike, it's Rob. I'll take this one. I think just starting at a high level, again on Call of Duty Mobile, we're really happy and proud of the success we've seen here with the over 300 million downloads around the world. We did maintain a lot of good momentum in the third quarter driven really by the frequency of updates and the quality of those updates most importantly, and it's resonated really well with the community. And the good sign for us is that momentum has continued now already into the fourth quarter.

In October, we had our big one-year anniversary event, and I guess one metric I can give you would suggest we're off to a very strong start. The first week of that event has been the strongest first week that we've seen in terms of gross bookings, and so that's a really nice positive and continued momentum that we're seeing.

Now in terms of future growth, we do still see strong potential for Call of Duty Mobile. China, obviously, we believe can become a significant contributor to our overall franchise revenues. And we talked about how the title's been approved and now it's in final testing. So again, we expect to see it soon and hope to see it soon, but we think it can have a great impact in the region.

And it's really not just China. For example, Mexico and Brazil are top-five markets for us in terms of both installs and revenue, and so we see a big opportunity to further expand geographically in other markets through mobile, through increased marketing and accessibility initiatives over the coming quarters.

Now, we also see a big opportunity to further connect the mobile experience to what's happening on console and PC, and to your point, that includes Warzone. As you know, Warzone for us is a very important strategic initiative. I just don't have any announcements that we're going to share today on it, but certainly, Warzone is an important piece for us across the franchise.

Now, overall, we're really happy with our progress on mobile for Call of Duty. And we're going to continue to invest in talent and capabilities to bring the best possible Call of Duty experiences to the mobile platform. And with these opportunities on mobile that we're talking about right now and I think with the momentum we're seeing on the franchise across console and PC and across everything we have going on, we do believe Call of Duty's really well-positioned for growth next year and well into the future. Thank you.

Christopher Hickey

Senior Vice President of Investor Relations, Activision Blizzard, Inc.

A

Thanks, Mike.

Operator: The next question comes from Alex Giaimo from Jefferies. Please go ahead.

Alex Giaimo

Analyst, Jefferies LLC

Q

Thanks for the question. Just within the King segment, hoping you can just provide some additional color around how you're thinking about IDSA and the potential impact to both the advertising business as well as user acquisition?

And then maybe just from a high level, if you can talk through any incremental content or initiatives that can drive further growth within that segment? Thank you.

Humam Sakhnini

President of King, Activision Blizzard, Inc.

A

Hey, Alex. Thanks for the question. This is Humam. Let me take your second question first. I'll provide context on how we're thinking about the business overall, and then kind of the IDSA changes in context of that.

So as you can see from Q3 results, we have some great momentum in the King business across both in-app purchases and also advertising. So looking ahead, we expect that momentum to deliver growth for us next year. And as you noted from earlier, we also will add to that new launch with Crash Bandicoot: On the Run!

But let me start with the in-app business and the dynamics there. Our initiatives to broaden the player base are delivering clearly some really good results for us and are laying great foundations for growth for the future. And for Candy in particular, we see quite a few opportunities ahead of us including clearly a lot of innovation around competitors and collaborators social features that are driving franchise growth and engagement.

To give you just one example, in the United Kingdom recently we ran Candy All-Stars, and that was Candy's first-ever competitive tournament which was limited in the United Kingdom. And we saw some really terrific results

across reach, engagement, and player investment. And so the team is really thinking about exploring even more initiatives to build on for this success.

So when you think about IDSA in that context and our ability on user acquisition, premium new players, I'd point out that at the scale of the King network and Candy's strong brand recognition, we drive a significant majority of our installs organically, so many of our competitors are typically much more reliant on aggressive paid user acquisition than we are. So while we will see how this plays out, we think that we ultimately will see less impact in IDSA's change here on these acquisition piece of the King segment.

Now, on the advertising side, that's also been performing quite well, driven by really strong execution. And we've really been evangelizing our brand-safe platform. And we've introduced, as you've heard in previous calls, a number of really great product innovations there, like sponsorships which we have been delivering for us.

So when IDSA comes into that context, there may be some short-term volatility in advertising industry as a whole, but we really believe that the investments in our own direct sales and our own tech have really positioned us for future growth next year as part of that.

So with that, I add on as well that next year is a year of launch for us around Crash Bandicoot: On the Run!, which will launch in the spring and we would expect that to contribute to King's top and bottom line.

Again, going with an iconic franchise from the really deep catalog of IP at Activision Blizzard, it enables us to benefits from brand recognition.

So in that really good momentum right now and I feel really, really good about our growth prospects for the business in each one of these areas and how they carry forward into next year, and kind of the context of the IDSA changes is part of that. Thank you.

Christopher Hickey

Senior Vice President of Investor Relations, Activision Blizzard, Inc.

A

Yeah, thanks, Alex. Operator, we have time for one last question, please?

Operator: Next question is from Mario Lu from Barclays. Please go ahead.

Mario Lu

Analyst, Barclays Capital, Inc.

Q

Hey. Thanks for taking the questions. I have two. One that's more longer-term, and one on 2021. So you made a number of significant changes as an organization in the past couple years, with the company itself and changes and improvements in late 2018 to doubling down on franchises, like, Call of Duty by expanding it to new platforms, introducing new features like cross-platform play. But the new-gen consoles coming out in a couple weeks, how do you envision the business evolving in the next 5 to 10 years, and how Activision as a company benefit from those trends?

And then just real quickly, Dennis, you mentioned that the successful execution in 2021 will allow you to build on your new 2020 outlook. Just wanted to clarify, does that mean potential year-on-year growth in terms of either the top or bottom line next year, or am I just reading too much into it? Thanks.

Robert A. Kotick

Chief Executive Officer & Director, Activision Blizzard, Inc.

A

Hey, Mario. It's Bobby. Why don't I take the longer-term outlook? So I think when you look at this year, and particularly the multiple touchpoints of opportunity that we're realizing on franchises like Call of Duty, those same opportunities exist for us on all of our franchises as well as the new potential franchises that we have in development. And this is my now 31st year of doing this. I don't recall a time where I've seen more opportunity for growth and margin expansion in all the time that I've been doing this.

The challenge for us is going to be, one, prioritizing opportunity, and then two, making sure that we have the right talent aligned with those opportunities. But when I look at the success that we're experiencing now and then I think about the opportunities we have over the next few years, including next year, we have more momentum going into the next few years than I can remember in a long time, and a lot of the changes that we've made over the last few years are really starting to pay dividends.

So from a long-term perspective, I think more platforms, more opportunities to deliver interactive entertainment experiences, increasing engagement that we're seeing, from our games becoming increasingly social, the shift to more frequent delivery of content, the flexibility that we have in player investment models, I haven't seen as much opportunity ever. And so the challenge for us is going to be make sure we prioritize them effectively and have the right people in place to take advantage of them.

But if you're asking about long-term outlook, I don't think it's ever been better.

Dennis M. Durkin

Chief Financial Officer and President of Emerging Businesses, Activision Blizzard, Inc.

A

And then just turning to the second part of your question, I think what you heard sprinkled through J., Rob, Humam and each of the major franchises is a lot of opportunity for growth, building on Bobby's comment both in the near-term and in the long-term. And I think you heard that right in terms of the specific comment in my section regarding our segment operating results and being able to grow off of that base, that guidance base which we've given for 2021.

So we feel like we have a real opportunity to do that with great execution. So we've got great momentum in our biggest franchise and we think that'll bode well as we head into 2021 and beyond, so.

Dennis M. Durkin

Chief Financial Officer and President of Emerging Businesses, Activision Blizzard, Inc.

Well, we know everyone had a lot of other companies reporting tonight, so we appreciate you spending time with us this afternoon, and we look forward to talking to many of you over the coming weeks. But thanks for your time and attention today. We really appreciate it.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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