



ACTIVISION | BLIZZARD

SECOND QUARTER 2021 RESULTS

AUGUST 2021

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 or services and restructuring activities; (3) statements of future financial or operating performance, including the impact of tax items thereon; and (4) statements of assumptions underlying such statements. Activision Blizzard, Inc. generally uses words such as “outlook,” “forecast,” “will,” “could,” “should,” “would,” “to be,” “plan,” “aims,” “believes,” “may,” “might,” “expects,” “intends,” “seeks,” “anticipates,” “estimate,” “future,” “positioned,” “potential,” “project,” “remain,” “scheduled,” “set to,” “subject to,” “upcoming,” and the negative version of these words and other similar words and 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.

We caution that a number of important factors, many of which are beyond our control, could cause our 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: the ongoing global impact of a novel strain of coronavirus which emerged in December 2019 (“COVID-19”) (including, without limitation, the potential for significant short- and long-term global unemployment and economic weakness and a resulting impact on global discretionary spending; potential strain on the retailers, distributors and manufacturers who sell our physical products to customers and the platform providers on whose networks and consoles certain of our games are available; effects on our ability to release our content in a timely manner; effects on the operations of our professional esports leagues; the impact of large-scale intervention by the Federal Reserve and other

central banks around the world, including the impact on interest rates; increased demand for our games due to stay-at-home orders and curtailment of other forms of entertainment, which may not be sustained; and volatility in foreign exchange rates); our ability to consistently deliver popular, high-quality titles in a timely manner, which has been made more difficult as a result of the COVID-19 pandemic; competition; concentration of revenue among a small number of franchises; our ability to satisfy the expectations of consumers with respect to our brands, games, services, and/or business practices; our ability to attract, retain and motivate skilled personnel; rapid changes in technology and industry standards; increasing importance of revenues derived from digital distribution channels; risks associated with the retail sales business model; the continued growth in the scope and complexity of our business; substantial influence of third-party platform providers over our products and costs; success and availability of video game consoles manufactured by third parties, including our ability to predict the consoles that will be most successful in the marketplace and develop commercially-successful products for those consoles; risks associated with the free-to-play business model, including dependence on a relatively small number of consumers for a significant portion of revenues and profits from any given game; our ability to realize the expected benefits of, and effectively implement and manage, our restructuring actions; difficulties in integrating acquired businesses or otherwise realizing the anticipated benefits of strategic transactions; the seasonality in the sale of our products; risks relating to behavior of our distributors, retailers, development, and licensing partners, or other affiliated third parties that may harm our brands or business operations; risks associated with our use of open source software; risks and uncertainties of conducting business outside the United States (the “U.S.”); risks associated with undisclosed content or features that may result in consumers’ refusal to buy or retailers’ refusal to sell our products; risks associated with objectionable consumer or other third party-created content; reliance on servers and networks to distribute and operate our games and our proprietary

online gaming service; potential data breaches and other cybersecurity risks; significant disruption during our live events; risks related to the impacts of catastrophic events, including the susceptibility of the location of our headquarters to earthquakes; provisions in our corporate documents that may make it more difficult for any person to acquire control of our company; risks and costs associated with legal proceedings, including the impact of the complaint filed by the California Department of Fair Employment and Housing alleging violations of the California Fair Employment and Housing Act and the California Equal Pay Act; intellectual property claims; increasing regulation in key territories; regulation relating to the Internet, including potential harm from laws impacting “net neutrality”; regulation concerning data privacy; scrutiny regarding the appropriateness of our games’ content, including ratings assigned by third parties; changes in tax rates or exposure to additional tax liabilities, as well as the outcome of current or future tax disputes; fluctuations in currency exchange rates; impacts of changes in financial accounting standards; insolvency or business failure of any of our business partners, which has been magnified as a result of the COVID-19 pandemic; risks associated with our reliance on discretionary spending; 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, 2020.

The forward-looking statements contained herein are based on information available to Activision Blizzard, Inc. as of the date of this filing 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 U.S. 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 share-based compensation;
- the amortization of intangibles from purchase price accounting;

- fees and other expenses related to acquisitions, including related debt financings, and refinancing of long-term debt, including penalties and the write off of unamortized discount and deferred financing costs;
- restructuring and related 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, 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.

Commitment to a Safe Working Environment

WE HAVE BEEN TAKING THE FOLLOWING IMMEDIATE ACTIONS



1. We have asked Jennifer Oneal and Mike Ybarra to assume responsibility for development and operational accountability for Blizzard.
2. We will continue to investigate each and every claim and complaint that we receive. When we learn of shortcomings, we will take decisive action. To strengthen our capabilities in this area we will be adding additional staff and resources.
3. We will terminate any manager or leader found to have impeded the integrity of our processes for evaluating claims and imposing appropriate consequences.
4. We will be adding resources to ensure and enhance our consideration of diverse candidate slates for all open positions.
5. We have heard the input from employee and player communities that some of our in-game content is inappropriate. We will be actively reviewing that content and removing it, as appropriate.

Executing Against Our Three Strategic Pillars

OUR STRATEGIC GROWTH DRIVERS

EXPAND AUDIENCE
REACH

DEEPEN
ENGAGEMENT

INCREASE PLAYER
INVESTMENT

OUR SECOND QUARTER RESULTS EXCEEDED OUR PRIOR OUTLOOK¹

Activision Blizzard exceeded its prior outlook¹ for the second quarter, benefiting from strong execution from by creative and commercial teams in delivering compelling experiences and in-game content to our deeply engaged communities.

Our increased investment in our largest franchises over the last two years has significantly expanded the financial scale of our three largest franchises – **Call of Duty**[®], **World of Warcraft**[®], and **Candy Crush**[™]. This work continued to deliver strong results in the second quarter, even as countries continued to reopen from lockdowns due to the pandemic.

CALL OF DUTY



¹ Prior outlook provided May 4, 2021.

Activision

Activision delivered another strong quarter, contributing to record first half segment revenue and segment operating income. Activision had 127M MAUs.

CALL OF DUTY

- The **Call of Duty** ecosystem sustained reach, engagement, and player investment well above levels seen prior to the introduction of free-to-play experiences across console, PC, and mobile.

CALL OF DUTY BLACK OPS COLD WAR

- Q2 franchise MAUs were consistent versus the year ago quarter, and over three times higher than Q2 2019. Hours played in the franchise in Q2 were higher than for the entirety of 2019.
- Conversion from **Warzone**[™] again drove strong premium sales at multiples of the level typically seen in Q2 prior to 2020.

CALL OF DUTY WARZONE

- Console and PC in-game net bookings were similar to that seen in Q1, and approximately four times the level of Q2 2019.

CALL OF DUTY MOBILE

- **Call of Duty Mobile** net bookings grew double-digit percentages Y/Y and Q/Q, driven by strong execution in seasonal content in the West and the recent launch of the game in China.
- **Call of Duty Mobile** is on track to exceed \$1 billion in consumer spending for the year.

Blizzard

Blizzard's launch of **Burning Crusade™ Classic** in June marked the start of what is intended to be a very significant 18-month period for content releases. **Blizzard had 26 million MAUs.**



- **World of Warcraft** net bookings again grew a double-digit percentage Y/Y, driven by the launch of **Burning Crusade Classic**. Subscriber numbers and hours played were higher following the release.
- **World of Warcraft** remains on track for much stronger engagement this year than is typical outside of a modern expansion year.



- The latest expansion of the **Hearthstone®** franchise, **Forged in the Barrens™**, delivered expansion-over-expansion net bookings growth for a second consecutive release following its March launch.
- With the latest expansion, **United in Stormwind™**, launching today, and **Mercenaries™**, a new mode in the popular role-playing genre planned for the coming months, we expect the financial performance of **Hearthstone** to strengthen in the second half of the year.



- The highly anticipated **Diablo® II: Resurrected™** will launch on PC and console on September 23.
- On mobile, **Diablo Immortal™** continued to progress well through testing, receiving excellent feedback for its gameplay. The team is pursuing additional opportunities to make the title even more engaging for a wider audience, with the launch now slated for first half of 2022.



- Blizzard continues to make strong progress on **Diablo® 4** and is allocating substantial resources to creating exciting in-game content to drive engagement over multiple years.



- **Overwatch® 2** development passed an important internal milestone in recent weeks. After a great response to the recent community update, the team is looking forward to revealing more of the game in the coming months as they approach the later stages of production.

King

King achieved record segment revenues and segment operating income, with ongoing Y/Y growth in payers and investment per payer. King had 255M MAUs.



- King segment revenue grew 15% year-over-year to a new record, with segment operating income growing even faster.
 - Advertising revenues grew Q/Q and doubled Y/Y. King's ongoing initiatives to enhance its ad platform, work with more demand partners and reach more categories of advertisers drove year-over-year growth in both volume and pricing, with broad-based strength across geographies.
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- The business saw ongoing year-over-year growth in franchise payers and investment per payer, with **Candy Crush** once again the highest grossing game franchise in the United States app stores¹.
 - Building on successful initiatives to broaden its payer base over the last two years, King has been accelerating the delivery of compelling seasonal content, and in Q2, reached a monthly cadence within **Candy Crush Saga™**, its largest title.
 - The team is planning an innovative slate of seasonal events and live operations for the second half of the year, including tie-ins with brands that value the association with our premium network, positioning the franchise for ongoing momentum in its in-game business.
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¹ Based on App Annie Intelligence.

Second Quarter 2021 Results

| | Q2 2020 Actual | | | Prior Q2 2021 Outlook ¹ | | | Q2 2021 Actual | | |
|-------------------------------------|----------------|-----------------------|---------------------------------------|------------------------------------|-----------------------|---------------------------------------|----------------|-----------------------|---------------------------------------|
| | GAAP | Non-GAAP ¹ | Impact of GAAP Deferrals ² | GAAP | Non-GAAP ¹ | Impact of GAAP Deferrals ² | GAAP | Non-GAAP ¹ | Impact of GAAP Deferrals ² |
| Net Revenue | \$1,932M | \$1,932M | \$146M | \$2,135M | \$2,135M | (\$285M) | \$2,296M | \$2,296M | (\$375M) |
| Digital Revenues % | 82% | 82% | | | | | 88% | 88% | |
| Operating Income | \$749M | \$811M | \$152M | | | | \$959M | \$1,017M | (\$276M) |
| Operating Margin | 39% | 42% | 4 pp | 39% | 42% | (4 pp) | 42% | 44% | (5 pp) |
| Interest and Other Expense (Income) | \$22M | \$22M | | \$28M | \$28M | | (\$43M) | (\$43M) | |
| EPS | \$0.75 | \$0.81 | \$0.16 | \$0.81 | \$0.91 | (\$0.21) | \$1.12 | \$1.20 | (\$0.29) |
| Fully Diluted Shares ³ | 776M | 776M | | 785M | 785M | | 783M | 783M | |
| Net Bookings | \$2,078M | | | \$1,850M | | | \$1,921M | | |
| In-Game Net Bookings | \$1,374M | | | | | | \$1,319M | | |

¹ Prior outlook provided May 4, 2021.

² Non-GAAP reconciliations are in the earnings releases dated August 4, 2020, May 4, 2021, and August 3, 2021, which are available on www.activisionblizzard.com.

³ Represents the weighted-average common shares outstanding plus dilutive common shares under the treasury stock method.

Balance Sheet and Cash Flow Highlights

We delivered Q2 operating cash flow of \$388M, lower Y/Y, reflecting operating results, working capital timing, and higher cash taxes. As previously announced, on May 6 we paid an annual dividend of \$0.47 per share, 15% higher Y/Y, for a total of \$365M.

| | Q2 2020 | Q1 2021 | Q2 2021 |
|-----------------------------------|----------------|----------------|----------------|
| Cash and Investments | \$6.46B | \$9.52B | \$9.64B |
| Gross Debt ¹ | \$2.70B | \$3.65B | \$3.65B |
| Net Cash² | \$3.76B | \$5.87B | \$5.99B |
| Operating Cash Flow | \$0.77B | | \$0.39B |
| Free Cash Flow³ | \$0.76B | | \$0.37B |

¹ As of June 30, 2021, includes notes with the maturity dates of 2026, 2027, 2030, 2047, and 2050.

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

³ Free Cash Flow represents Operating Cash Flow minus Capital Expenditure.

Second Quarter 2021 Segment Results



Q2 Segment
Net Revenue

\$789M

\$433M

\$635M

Q2 Segment
Operating Income

\$363M
46% operating margin

\$141M
33% operating margin

\$248M
39% operating margin

Key Drivers

Activision’s strong Q2 results contributed to record 1H segment revenue and operating income. As expected, **Call of Duty** revenue on PC / console was lower Y/Y. **Call of Duty Mobile** grew strongly Y/Y to a new record. On a Q/Q basis, in-game revenue grew, driven by mobile, with PC / console broadly consistent.

World of Warcraft revenue grew double digits Y/Y, although Blizzard revenue fell Y/Y due to product timing for **Hearthstone** and lower **Overwatch League™** revenue. Operating margin of 33% reflects investment in product development against a rich content pipeline, as well as sales and marketing around the launch of **Burning Crusade Classic**

King achieved record segment revenue and operating income in Q2. Revenue increased 15% Y/Y, driven by double-digit percentage in-game growth for **Candy Crush** and **Farm Heroes™** franchises. Advertising revenue doubled Y/Y, with trailing four-quarter revenue now above \$300M.

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 and related costs, and other non-cash charges. Reconciliation of our segment results to our consolidated results is included in the earnings release dated August 3, 2021, which is available on www.activisionblizzard.com.

Financial Outlook as of August 3, 2021

In July 2021, the State of California filed a complaint against the Company alleging violations of the California Fair Employment and Housing Act and the California Equal Pay Act. The complaint was recently filed, and we are taking actions to address the concerns of employees and other key stakeholders and the adverse consequences to our business. If we experience prolonged periods of adverse publicity, significantly reduced productivity or other negative consequences relating to this matter, our business likely would be adversely impacted. We are carefully monitoring all aspects of our business for any such impacts.

| | Q3 2021 | | | 2021 | | |
|---|-----------------|-----------------------|---------------------------------------|-----------------|-----------------------|---------------------------------------|
| | GAAP | Non-GAAP ¹ | Impact of GAAP Deferrals ² | GAAP | Non-GAAP ¹ | Impact of GAAP Deferrals ² |
| Net Revenue | \$1,970M | \$1,970M | (\$120M) | \$8,515M | \$8,515M | \$135M |
| Product Costs, Game Ops & Distribution | 20% | 20% | | 18% | 18% | |
| Operating Expenses, Incl. SW Amort ³ | 45% | 41% | | 45% | 40% | |
| Operating Margin ⁴ | 35% | 39% | (2 pp) | 37% | 42% | 1 pp |
| Interest and Other Expense (Income) | \$31M | \$31M | | \$54M | \$52M | |
| Tax Rate | 22% | 20% | | 21% | 20% | |
| EPS | \$0.64 | \$0.75 | (\$0.10) | \$3.08 | \$3.54 | \$0.22 |
| Fully Diluted Shares ⁵ | 785M | 785M | | 785M | 785M | |
| Net Bookings (Operating Metric) | \$1,850M | | | \$8,650M | | |

¹ Non-GAAP reconciliations are in the earnings release dated August 3, 2021, 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 Represents the weighted-average common shares outstanding plus dilutive common shares under the treasury stock method.

Glossary of Operating Metrics

Monthly Active Users (“MAUs”) We monitor MAUs as a key measure of the overall size of our user base. MAUs are the number of individuals who accessed a particular game in a given month. We calculate average MAUs in a period by adding the total number of MAUs in each of the months in a given period and dividing that total by the number of months in the period. An individual who accesses two of our games would be counted as two users. In addition, due to technical limitations, for Activision and King, an individual who accesses the same game on two platforms or devices in the relevant period would be counted as two users. For Blizzard, an individual who accesses the same game on two platforms or devices in the relevant period would generally be counted as a single user. In certain instances, we rely on third parties to publish our games. In these instances, MAU data is based on information provided to us by those third parties, or, if final data is not available, reasonable estimates of MAUs for these third-party published games.

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 excluding the impact from deferrals.

In-game net bookings primarily includes the net amount of downloadable content and microtransactions sold during the period, and is equal to in-game net revenues excluding the impact from deferrals.



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Q&A SESSION

AUGUST 2021