

CALL OF DUTY

WORLD
WARCRRAFT

HEARTHSTONE

OVERWATCH

DIABLO

STARCRRAFT

Candy
Crush

Bubble
Witch

FARM
HEROES



ACTIVISION® | BLIZZARD®

THIRD QUARTER 2019 RESULTS

NOVEMBER 7, 2019

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 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. 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.

We caution that a number of important factors 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: our ability to consistently deliver popular, high-quality titles in a timely manner; our ability to satisfy the expectations of consumers with respect to our brands, games, services, and/or business practices; concentration of revenue among a small number of titles; 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 newly acquired or started businesses and the potential impact of our expansion into new businesses on our existing businesses; our ability to realize the expected financial and operational benefits of, and effectively manage, our recently announced restructuring plans; increasing importance of revenues derived from digital distribution channels; risks associated with the retail sales business model; substantial influence of third-party platform providers over our products and costs; success and availability of video game consoles manufactured by third parties; 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; risks and costs associated with legal proceedings; changes in tax rates or exposure to additional tax liabilities, as well as the outcome of current or future tax disputes; rapid changes in technology and industry standards; competition, including from other forms of entertainment; our ability to sell products at assumed pricing levels; our ability to attract, retain, and motivate skilled personnel; reliance on external developers for development of some of our software products; 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; intellectual property claims; piracy and unauthorized copying of our products; risks and uncertainties of conducting business outside the U.S.; fluctuations in currency exchange rates; increasing regulation of our business, products, and distribution in key territories; compliance with continually evolving laws and regulations concerning data privacy; potential data breaches and other cybersecurity risks; 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, 2018.

The forward-looking statements herein 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 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 the King acquisition, 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 (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.

THIRD QUARTER 2019 RESULTS

Better-than-expected Q3 financial results:

- Q3 GAAP revenues of \$1.28B versus guidance of \$1.11B
- Q3 GAAP EPS of \$0.26 versus guidance of \$0.05
- Q3 non-GAAP EPS of \$0.38 versus guidance of \$0.20
- Q3 net bookings¹ of \$1.21B versus guidance of \$1.10B

Key highlights:

- Q3 upside was driven by better-than-expected performance from **Call of Duty**® in-game and **World of Warcraft**®, as well as favorable cost timing
- Strong momentum has continued into Q4, with successful launches for **Call of Duty**®: **Mobile** and **Modern Warfare** and the announcement of the most robust slate of content ever at BlizzCon
- We are intent on building on this momentum as we invest this quarter to maximize the potential of our franchises in 2020 and beyond

PROGRESS AGAINST OUR PLAN

Across our biggest franchises, we have expanded our development teams and resources so that we can accelerate the delivery of content in our pipeline and execute against our four long-term strategic pillars.

Delivering a consistent cadence of **major new content releases**

World of Warcraft® Classic added record number of subscription plans¹ in Q3

Blizzard announced the next **World of Warcraft** expansion, and sequels to **Overwatch®** and **Diablo®**

Exceptional **Call of Duty®: Modern Warfare** launch

Improving **live operations capabilities**

World of Warcraft Classic sustaining strong engagement into Q4

Call of Duty®: BO4 in-game momentum continued, and community response to **Call of Duty: MW** in-game content plans was positive

Blizzard announced **Hearthstone®**'s next expansion and Battlegrounds auto-battler mode

Extending acclaimed console and PC franchises to **mobile**

Call of Duty: Mobile is one of the top mobile launches in history

Early success points to significant potential for our core franchises on mobile, building on King's ongoing leadership

Adding **new engagement models** to our franchises

King's advertising business nearly doubled Y/Y in Q3

The Overwatch League™'s second season saw over 30% growth in U.S. AMA²

Call of Duty League's inaugural season launches in late January 2020

ACTIVISION

Monthly Active Users¹ of 36M



- In Q3, reach and net bookings from in-game items for **Call of Duty: Black Ops 4** grew sharply versus **Call of Duty®: WWII**



- In October, the launch of **Call of Duty: Mobile** significantly increased reach for the franchise
- 100M+ downloads in the first month, reaching the top of the mobile app download charts in 150+ countries and regions², with a 4.9-star rating in the U.S. iOS store²
- Monetization trends for battle pass and first seasonal event have been strong



- **Call of Duty: Modern Warfare** launched on October 25 and in its first week:
 - Sell-through units grew at a high-teen percentage versus **Call of Duty: Black Ops 4**
 - Console sell-through grew strongly and PC grew over 50% Y/Y

BLIZZARD

Monthly Active Users¹ of 33M



- In Q3, **World of Warcraft Classic** drove the biggest quarterly increase to subscription plans² in franchise history, in both the West and East
- Reach in October remained well above pre-**Classic** levels, with deep engagement across both **Classic** and modern **World of Warcraft**
- At BlizzCon, Blizzard unveiled the next expansion, **Shadowlands**, set to launch in 2020



- Blizzard has announced the **Descent of Dragons**TM expansion, set for release in Q4 2019, and the new Battlegrounds auto-battler mode, which enters open beta on November 12, 2019



- In Q3, **Overwatch**'s engagement benefited from the introduction of the game's latest hero and well-received gameplay adjustments
- Overwatch League Season Two concluded with a sell-out crowd of over 11,000 fans watching the Grand Finals at the Wells Fargo Center in Philadelphia. Season Two AMA grew 18% Y/Y³
- Last week Blizzard revealed **Overwatch**[®] 2, the next major installment for the franchise



- Blizzard also announced **Diablo**[®] IV, the highly-anticipated sequel to the genre-defining franchise

KING

Monthly Active Users¹ of 247M



- **Candy Crush™** franchise mobile reach grew Y/Y, driven by **Candy Crush Friends Saga™**
- **Candy Crush** was once again the top-grossing franchise in U.S. app stores²



- King's advertising business:
 - Continued to grow profitably, with net bookings³ almost doubling Y/Y
 - Is on track to exceed \$100M in net bookings in 2019

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

² Per App Annie Intelligence for respective regions, app stores, and periods.

³ 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.

THIRD QUARTER 2019 SEGMENT RESULTS

			
Q3 Segment Net Revenues:	\$209M	\$394M	\$500M
Q3 Segment Operating Income:	\$26M 12% operating margin	\$74M 19% operating margin	\$194M 39% operating margin
Key Highlights:	<ul style="list-style-type: none"> Key contributors were Call of Duty Black Ops 4 in-game and upfront revenues and ongoing sales of Crash Team Racing: Nitro-Fueled Segment revenues lower Y/Y against a comparable that included the release of Destiny: Forsaken 	<ul style="list-style-type: none"> Strong World of Warcraft Classic performance in the quarter Segment revenues lower Y/Y against a comparable that included the World of Warcraft: Battle for Azeroth expansion 	<ul style="list-style-type: none"> Candy Crush franchise revenues grew Y/Y with the ads business almost doubling over the same period Segment revenues roughly flat Y/Y and Q/Q

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 November 7, 2019, which is available on www.activisionblizzard.com.

THIRD QUARTER 2019 RESULTS

	Q3 2018 Actual			Prior Q3 2019 Outlook ¹			Q3 2019 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	\$1,512M	\$1,512M	\$146M	\$1,105M	\$1,105M	(\$5M)	\$1,282M	\$1,282M	(\$68M)
Digital Revenues %	84%	84%					79%	79%	
Operating Income	\$265M	\$403M	\$89M				\$247M	\$352M	(\$53M)
Operating Margin	18%	27%		5%	18%	(1 pp)	19%	27%	
Interest and Other Expense (Income) ³	\$53M	\$13M		-	-		(\$2M)	(\$3M)	
EPS	\$0.34	\$0.42	\$0.10	\$0.05	\$0.20	-	\$0.26	\$0.38	(\$0.06)
Total Share Count for EPS	771M	771M		772M	772M		771M	771M	
Operating Cash Flow	\$253M						\$309M		
Free Cash Flow⁴	\$217M						\$275M		
Net Bookings (operating metric)⁵	\$1,658M			\$1,100M			\$1,214M		
In-Game Net Bookings (operating metric)⁶	\$1,032M						\$709M		

¹ Prior outlook provided August 8, 2019.

² Non-GAAP reconciliations are in the earnings releases dated November 8, 2018, August 8, 2019, and November 7, 2019, which are available on www.activisionblizzard.com.

³ For Q3 2018, GAAP includes a \$40M loss on extinguishment of debt.

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

⁵ 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.

⁶ 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.

BALANCE SHEET AS OF SEPTEMBER 30, 2019

Q3 adjusted EBITDA of \$381M

	9/30/2018	6/30/2019	9/30/2019
Cash and investments	\$3.43B	\$4.68B	\$4.95B
Term loans	-	-	-
Notes ¹	\$2.70B	\$2.70B	\$2.70B
Gross Debt	\$2.70B	\$2.70B	\$2.70B
Net Cash²	\$0.73B	\$1.98B	\$2.25B
Adjusted TTM EBITDA³	\$2,389M	\$2,561M	\$2,505M
Gross Debt / Adj. TTM EBITDA ³	1.1x	1.1x	1.1x

¹ As of September 30, 2019, includes notes for the maturity dates of 2021, 2022, 2026, 2027, and 2047.

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

³ Adjusted TTM EBITDA, for any given date, is calculated as non-GAAP operating income plus depreciation for the trailing twelve months.

FINANCIAL OUTLOOK AS OF NOVEMBER 7, 2019

	Q4 2019			2019		
	GAAP ¹	Non-GAAP ¹	Impact of GAAP Deferrals ²	GAAP ¹	Non-GAAP ¹	Impact of GAAP Deferrals ²
Net Revenues	\$1,812M	\$1,812M	\$834M	\$6,315M	\$6,315M	\$10M
Product Costs, Game Ops & Distribution	25%	25%		25%	25%	
Operating Expenses, Incl. SW Amort ³	56%	48%		51%	43%	
Operating Margin⁴	19%	27%	16 pp	24%	32%	-
Interest and Other Expense (Income)	\$3M	\$2M		(\$30M)	(\$32M)	
Tax Rate	33%	30%		21%	20%	
EPS	\$0.29	\$0.43	\$0.72	\$1.56	\$2.13	\$0.04
Fully Diluted Weighted Avg. Shares ⁵	774	774		772	772	
Net Bookings (operating metric)⁶	\$2,646M			\$6,325M		

Currency Assumptions for Current 2019 Outlook:

- \$1.15 USD/Euro (vs. \$1.12 avg. for 2018)
- \$1.23 USD/GBP (vs. \$1.30 avg. for 2018)
- Note: Our financial guidance includes the forecasted impact of our FX hedging program

¹ Non-GAAP reconciliations are in the earnings release dated November 7, 2019, which is available on www.activisionblizzard.com. For 2019, GAAP outlook includes restructuring charge of approximately \$42M for Q4 and approximately \$150M for the full year.

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.

⁶ 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.

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Q&A

NOVEMBER 7, 2019