



Activision Blizzard Announces First-Quarter 2019 Financial Results

May 2, 2019

Better-Than-Expected Q1 Results

SANTA MONICA, Calif.--(BUSINESS WIRE)--May 2, 2019-- Activision Blizzard, Inc. (Nasdaq: ATVI) today announced first-quarter 2019 results.

"We started the year with strong operating discipline and exceeded our prior outlook for the first quarter. We are increasing investment in our biggest franchises to better deliver against our growth potential, and I am pleased with our progress," said Bobby Kotick, Chief Executive Officer of Activision Blizzard. "We're continuing to enhance our leadership position in esports. The second season of the Overwatch League™ has seen strong growth in viewership, and we're seeing enthusiastic demand for our professional, city-based Call of Duty® league franchises. We have already sold the first five Call of Duty teams in Atlanta, Dallas, New York, Paris and Toronto to owners who recognize the scale of the opportunity from their partnerships with us on the Overwatch League."

Financial Metrics

(in millions, except EPS)	Q1		
	2019	Prior Outlook*	2018
GAAP Net Revenues	\$1,825	\$1,715	\$1,965
<i>Impact of GAAP deferrals^A</i>	<i>(\$567)</i>	<i>(\$540)</i>	<i>(\$581)</i>
GAAP EPS	\$0.58	\$0.39	\$0.65
Non-GAAP EPS	\$0.78	\$0.63	\$0.78
<i>Impact of GAAP deferrals^A</i>	<i>(\$0.47)</i>	<i>(\$0.43)</i>	<i>(\$0.40)</i>

* Prior outlook was provided by the company on February 12, 2019 in its earnings release.

For the quarter ended March 31, 2019, Activision Blizzard's net revenues presented in accordance with GAAP were \$1.83 billion, as compared with \$1.97 billion for the first quarter of 2018. GAAP net revenues from digital channels were \$1.39 billion. GAAP operating margin was 31%. GAAP earnings per diluted share were \$0.58, as compared with \$0.65 for the first quarter of 2018.

For the quarter ended March 31, 2019, on a non-GAAP basis, Activision Blizzard's operating margin was 41% and earnings per diluted share were \$0.78, as compared with \$0.78 for the first quarter of 2018.

For the quarter ended March 31, 2019, operating cash flow was \$450 million. For the trailing twelve-month period, operating cash flow was \$1.71 billion.

Please refer to the tables at the back of this press release for a reconciliation of the company's GAAP and non-GAAP results.

Operating Metrics

For the quarter ended March 31, 2019, Activision Blizzard's net bookings^B were \$1.26 billion, compared with \$1.38 billion for the first quarter of 2018. Net bookings^B from digital channels were \$1.07 billion, as compared with \$1.21 billion for the first quarter of 2018.

Selected Business Highlights

Activision Blizzard outperformed our first quarter outlook. Over the last three months, the Company made progress against the plan outlined in our February earnings call to reinforce the foundation for future growth. The Company is increasing development for our biggest, internally-owned franchises, for both upfront releases and in-game content, as well as investing in platform expansion on PC and mobile and new geographies. We are also seeing strong momentum in our esports and in-game advertising initiatives. While we expect all the work underway to bear fruit in the future, the Company remains focused on delivering in the near-term, reporting first quarter net revenues, net bookings^B and EPS ahead of our prior outlook.

Audience Reach

- Activision Blizzard had 345 million Monthly Active Users (MAUs)^C in the quarter, with 41 million at Activision, 32 million at Blizzard, and 272 million at King.
- King MAUs^C were up sequentially for the second quarter in a row driven by the **Candy Crush™** franchise where MAUs^C again grew quarter-over-quarter and year-over-year. **CandyCrush Friends Saga™** continues to attract both former and new players to the franchise.
- **Sekiro™: Shadows Die Twice** launched in March to 90-plus Metacritic scores. The game sold-through more than two million copies worldwide in less than 10 days.

Deep Engagement

- For each of Activision, Blizzard, and King, daily time spent per user increased year-over-year. For the Company overall, average time spent was approximately 50 minutes.
- Daily time spent per player across the **Candy Crush** franchise reached a new high, driving the King network to a record of 38 minutes.
- **Call of Duty: Black Ops 4s** core player base remains highly engaged, with total hours played and daily time spent per player growing double-digits versus **Call of Duty: WWII**.
- The Company's professional **Call of Duty** city-based league is off to a strong start, selling its first five franchise teams. In Atlanta, Dallas, New York, Paris and Toronto, we are partnering with existing **Overwatch League** team owners who have first-hand experience of our esports strategy and capabilities and recognize the scale of the opportunity for a global Call of Duty league.
- The second season of the **Overwatch League** commenced in February to sell-out crowds at the Blizzard Arena. Viewership hours for the second season to date are over 30% higher than in the first season.

Player Investment

- Activision Blizzard delivered approximately \$800 million of in-game net bookings^B in the first quarter.
- For the twenty-second quarter in a row, King had two of the top-10 highest grossing titles in the U.S. mobile app stores.¹

Company Outlook

(in millions, except EPS)	GAAP	Non-GAAP	Impact of GAAP
	Outlook	Outlook	deferrals ^A
CY 2019			
Net Revenues	\$6,025	\$6,025	\$275
EPS	\$1.18	\$1.85	\$0.25
Fully Diluted Shares	774	774	
Q2 2019			
Net Revenues	\$1,315	\$1,315	(\$165)
EPS	\$0.21	\$0.35	(\$0.12)
Fully Diluted Shares	771	771	

Net bookings^B are expected to be \$6.30 billion for 2019 and \$1.15 billion for the second quarter of 2019.

Currency Assumptions for 2019 Outlook:

- \$1.19 USD/Euro for current outlook (vs. average of \$1.12 for 2018, \$1.12 for 2017, and \$1.11 for 2016); and
- \$1.33 USD/British Pound Sterling for current outlook (vs. average of \$1.30 for 2018, \$1.30 for 2017 and \$1.36 for 2016).
- Note: Our financial guidance includes the forecasted impact of our FX hedging program.

Capital Allocation

The Board of Directors declared a cash dividend of \$0.37 per common share, payable on May 9, 2019 to shareholders of record at the close of business on March 28, 2019, which represents a 9% increase from 2018.

Conference Call

Today at 4:30 p.m. EDT, Activision Blizzard's management will host a conference call and webcast to discuss the company's results for the quarter ended March 31, 2019 and management's outlook for the remainder of the calendar year. The company welcomes all members of the financial and media communities and other interested parties to visit <https://investor.activision.com> to listen to the conference call via live Webcast or to listen to the call live by dialing into 888-394-8218 in the U.S. with passcode 8315973. A replay of the call will also be available after the call's conclusion and archived for one year at <https://investor.activision.com/events.cfm>.

About Activision Blizzard

Activision Blizzard, Inc., a member of the Fortune 500 and S&P 500, is a leading standalone interactive entertainment company. We delight hundreds of millions of monthly active users around the world through franchises including Activision's Call of Duty®, Spyro™, and Crash™; Blizzard Entertainment's World of Warcraft®, Overwatch®, Hearthstone®, Diablo®, StarCraft®, and Heroes of the Storm®, and King's Candy Crush™, Bubble Witch™, and Farm Heroes™. The company is one of the Fortune "100 Best Companies To Work For®." Headquartered in Santa Monica, California, Activision Blizzard has operations throughout the world. More information about Activision Blizzard and its products can be found on the company's website, www.activisionblizzard.com.

¹ U.S. ranking for Apple App Store and Google Play Store combined, per App Annie Intelligence for first quarter of 2019.

^A Net effect of accounting treatment from revenue deferrals on certain of our online-enabled products. Since certain of our games are hosted online or include significant online functionality that represents a separate performance obligation, we defer the transaction price allocable to the online functionality from the sale

of these games and recognize the attributable revenues over the relevant estimated service periods, which are generally less than a year. The related cost of revenues is deferred and recognized as an expense as the related revenues are recognized. Impact from changes in deferrals refers to the net effect from revenue deferrals accounting treatment for the purposes of revenues, along with, for the purposes of EPS, the related cost of revenues deferrals treatment and the related tax impacts. Internally, management excludes the impact of this change in deferred revenues and related cost of revenues when evaluating the company's operating performance, when planning, forecasting and analyzing future periods, and when assessing the performance of its management team. Management believes this is appropriate because doing so enables an analysis of performance based on the timing of actual transactions with our customers. In addition, management believes excluding the change in deferred revenues and the related cost of revenues provides a much more timely indication of trends in our operating results.

^BNet 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.

^CMonthly Active User ("MAU") Definition: 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.

Non-GAAP Financial 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 stock-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.

Cautionary Note Regarding Forward-looking Statements: 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 in this press release are based on information available to the company at this time and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

(Tables to Follow)

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)

	Three Months Ended March 31,	
	2019	2018
Net revenues		
Product sales	\$ 656	\$ 720
Subscription, licensing, and other revenues ¹	1,169	1,245
Total net revenues	1,825	1,965
Costs and expenses		
Cost of revenues—product sales:		
Product costs	152	162
Software royalties, amortization, and intellectual property licenses	111	146
Cost of revenues—subscription, licensing, and other:		
Game operations and distribution costs	239	270
Software royalties, amortization, and intellectual property licenses	61	84
Product development	249	259
Sales and marketing	207	251
General and administrative	179	198
Restructuring and related costs	57	—
Total costs and expenses	1,255	1,370
Operating income	570	595
Interest and other expense (income), net	3	28
Income before income tax expense	567	567
Income tax expense	120	67
Net income	\$ 447	\$ 500
Basic earnings per common share	\$ 0.58	\$ 0.66
Weighted average common shares outstanding	764	759
Diluted earnings per common share	\$ 0.58	\$ 0.65
Weighted average common shares outstanding assuming dilution	770	770

¹ Subscription, licensing, and other revenues represent revenues from World of Warcraft subscriptions, licensing royalties from our products and franchises, downloadable content, microtransactions, and other miscellaneous revenues.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Amounts in millions)**

	March 31, 2019 ¹	December 31, 2018 ²
Assets		
Current assets		
Cash and cash equivalents	\$ 4,696	\$ 4,225
Accounts receivable, net	594	1,035
Inventories, net	45	43
Software development	184	264
Other current assets	518	539
Total current assets	6,037	6,106
Software development	80	65
Property and equipment, net	264	282
Deferred income taxes, net	373	458
Other assets	751	482
Intangible assets, net	680	735
Goodwill	9,763	9,762
Total assets	\$ 17,948	\$ 17,890
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 166	\$ 253
Deferred revenues	931	1,493
Accrued expenses and other liabilities	1,198	896
Total current liabilities	2,295	2,642
Long-term debt, net	2,672	2,671
Deferred income taxes, net	22	18
Other liabilities	1,363	1,167
Total liabilities	6,352	6,498
Shareholders' equity		
Common stock	—	—
Additional paid-in capital	11,004	10,963
Treasury stock	(5,563) (5,563
Retained earnings	6,757	6,593
Accumulated other comprehensive loss	(602) (601
Total shareholders' equity	11,596	11,392
Total liabilities and shareholders' equity	\$ 17,948	\$ 17,890

¹ We adopted a new lease accounting standard in the first quarter of 2019. The new lease accounting standard increased our "Other assets," "Accrued expenses and other liabilities," and "Other liabilities" as of March 31, 2019. Refer to our Form 10-Q for the three months ended March 31, 2019 for additional information.

² During the three months ended March 31, 2019, we identified an amount which should have been recorded in the fourth quarter of 2018 to reduce income tax expense by \$35 million. We will revise our 2018 financial statements to correct this matter in our Annual Report on Form 10-K for the year ending December 31, 2019. Our balance sheet as of December 31, 2018, as presented above has been revised to reflect the correction. Refer to our Form 10-Q for the three months ended March 31, 2019, for additional information.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES****(Amounts in millions, except per share data)**

Three Months Ended March 31, 2019	Net Revenues	Cost of Revenues - Product Sales: Product Costs	Cost of Revenues - Product Sales: Software Royalties and Amortization	Cost of Revenues - Subs/Lic /Other: Game Operations and Distribution Costs	Cost of Revenues - Subs/Lic /Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Restructuring and related costs	Total Costs and Expenses
GAAP Measurement	\$ 1,825	\$ 152	\$ 111	\$ 239	\$ 61	\$ 249	\$ 207	\$ 179	\$ 57	\$ 1,255
Share-based compensation ¹	—	—	(10)	—	—	(20)	(4)	(29)	—	(63)
Amortization of intangible assets ²	—	—	—	—	(53)	—	—	(1)	—	(54)
Restructuring and related costs ³	—	—	—	—	—	—	—	—	(57)	(57)
Non-GAAP Measurement	\$ 1,825	\$ 152	\$ 101	\$ 239	\$ 8	\$ 229	\$ 203	\$ 149	\$ —	\$ 1,081
Net effect of deferred revenues and related cost of revenues ⁴	\$ (567)	\$ (53)	\$ (66)	\$ (6)	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ (126)

	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share
GAAP Measurement	\$ 570	\$ 447	\$ 0.58	\$ 0.58
Share-based compensation ¹	63	63	0.08	0.08
Amortization of intangible assets ²	54	54	0.07	0.07
Restructuring and related costs ³	57	57	0.07	0.07
Income tax impacts from items above ⁵	—	(18)	(0.02)	(0.02)
Non-GAAP Measurement	\$ 744	\$ 603	\$ 0.79	\$ 0.78
Net effect of deferred revenues and related cost of revenues ⁴	\$ (441)	\$ (361)	\$ (0.47)	\$ (0.47)

¹ Includes expenses related to share-based compensation.

² Reflects amortization of intangible assets from purchase price accounting.

³ Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

⁴ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online-enabled products, including the effects of taxes.

⁵ Reflects the income tax impact associated with 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.

The GAAP and non-GAAP earnings per share information is presented as calculated. The sum of these measures, as presented, may differ due to the impact of rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

RECONCILIATION OF GAAP NET INCOME TO NON-GAAP MEASURES

(Amounts in millions, except per share data)

Three Months Ended March 31, 2018	Net Revenues	Cost of Revenues - Product Sales: Product Costs	Cost of Revenues - Product Sales: Software Royalties and Amortization	Cost of Revenues - Subs/Lic /Other: Game Operations and Distribution Costs	Cost of Revenues - Subs/Lic /Other: Software Royalties and Amortization	Product Development	Sales and Marketing	General and Administrative	Total Costs and Expenses
GAAP Measurement	\$ 1,965	\$ 162	\$ 146	\$ 270	\$ 84	\$ 259	\$ 251	\$ 198	\$ 1,370
Share-based compensation ¹	—	—	(4)	—	—	(15)	(4)	(30)	(53)
Amortization of intangible assets ²	—	—	—	—	(73)	—	(44)	(2)	(119)
Non-GAAP Measurement	\$ 1,965	\$ 162	\$ 142	\$ 270	\$ 11	\$ 244	\$ 203	\$ 166	\$ 1,198
Net effect of deferred revenues and related cost of revenues ³	\$ (581)	\$ (75)	\$ (120)	\$ (5)	\$ (8)	\$ —	\$ —	\$ —	\$ (208)
	Operating Income	Net Income	Basic Earnings per Share	Diluted Earnings per Share					
GAAP Measurement	\$ 595	\$ 500	\$ 0.66	\$ 0.65					
Share-based compensation ¹	53	53	0.07	0.07					
Amortization of intangible assets ²	119	119	0.16	0.15					
Income tax impacts from items above ⁴	—	(68)	(0.09)	(0.09)					
Non-GAAP Measurement	\$ 767	\$ 604	\$ 0.80	\$ 0.78					
Net effect of deferred revenues and related cost of revenues ³	\$ (373)	\$ (309)	\$ (0.41)	\$ (0.40)					

¹ Includes expenses related to share-based compensation.

² Reflects amortization of intangible assets from purchase price accounting.

³ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online-enabled products, including the effects of taxes.

⁴ Reflects the income tax impact associated with 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.

The GAAP and non-GAAP earnings per share information is presented as calculated. The sum of these measures, as presented, may differ due to the impact of

rounding.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

OPERATING SEGMENTS INFORMATION

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

Three Months Ended:	March 31, 2019				\$ Increase / (Decrease)			
	Activision	Blizzard	King	Total	Activision	Blizzard	King	Total
Segment Net Revenues								
Net revenues from external customers	\$ 317	\$ 339	\$ 529	\$ 1,185	\$ 5	\$ (140)	\$ (5)	\$ (140)
Intersegment net revenues ¹	—	5	—	5	—	4	—	4
Segment net revenues	\$ 317	\$ 344	\$ 529	\$ 1,190	\$ 5	\$ (136)	\$ (5)	\$ (136)
Segment operating income	\$ 73	\$ 55	\$ 178	\$ 306	\$ (19)	\$ (67)	\$ (13)	\$ (99)
Operating Margin				25.7 %				

	March 31, 2018			
	Activision	Blizzard	King	Total
Segment Net Revenues				
Net revenues from external customers	\$ 312	\$ 479	\$ 534	\$ 1,325
Intersegment net revenues ¹	—	1	—	1
Segment net revenues	\$ 312	\$ 480	\$ 534	\$ 1,326
Segment operating income	\$ 92	\$ 122	\$ 191	\$ 405
Operating Margin				30.5 %

¹ Intersegment revenues reflect licensing and service fees charged between segments.

Our operating segments are consistent with the manner in which our operations are reviewed and managed by our Chief Executive Officer, who is our chief operating decision maker ("CODM"). The CODM reviews segment performance exclusive of: the impact of the change in deferred revenues and related cost of revenues with respect to certain of our online-enabled games; share-based compensation expense; amortization of intangible assets as a result of purchase price accounting; fees and other expenses (including legal fees, costs, expenses and accruals) related to acquisitions, associated integration activities, and financings; certain restructuring and related costs; and other non-cash charges. **See the following page for the reconciliation tables of segment revenues and operating income to consolidated net revenues and consolidated operating income.**

Our operating segments are also consistent with our internal organization structure, the way we assess operating performance and allocate resources, and the availability of separate financial information. We do not aggregate operating segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

OPERATING SEGMENTS INFORMATION

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

	Three Months Ended March 31,	
	2019	2018
Reconciliation to consolidated net revenues:		
Segment net revenues	\$ 1,190	\$ 1,326
Revenues from non-reportable segments ¹	73	59
Net effect from recognition (deferral) of deferred net revenues ²	567	581
Elimination of intersegment revenues ³	(5)	(1)
Consolidated net revenues	\$ 1,825	\$ 1,965

Reconciliation to consolidated income before income tax expense:

Segment operating income	\$ 306	\$ 405
Operating income (loss) from non-reportable segments ¹	(3)	(11)
Net effect from recognition (deferral) of deferred net revenues and related cost of revenues ²	441	373
Share-based compensation expense	(63)	(53)
Amortization of intangible assets	(54)	(119)
Restructuring and related costs ⁴	(57)	—
Consolidated operating income	570	595
Interest and other expense (income), net	3	28
Consolidated income before income tax expense	\$ 567	\$ 567

- ¹ Includes other income and expenses from operating segments managed outside the reportable segments, including our studios and distribution businesses. Also includes unallocated corporate income and expenses.
- ² Reflects the net effect from (deferral) of revenues and recognition of deferred revenues, along with related cost of revenues, on certain of our online-enabled products.
- ³ Intersegment revenues reflect licensing and service fees charged between segments.
- ⁴ Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

NET REVENUES BY DISTRIBUTION CHANNEL

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

	Three Months Ended						\$ Increase (Decrease)	% Increase (Decrease)
	March 31, 2019		March 31, 2018					
	Amount	% of Total ¹	Amount	% of Total ¹				
Net Revenues by Distribution Channel								
Digital online channels ²	\$ 1,393	76 %	\$ 1,463	74 %	\$ (70)	(5)%		
Retail channels	313	17	409	21	(96)	(23)		
Other ³	119	7	93	5	26	28		
Total consolidated net revenues	\$ 1,825	100 %	\$ 1,965	100 %	\$ (140)	(7)		
Change in deferred revenues⁴								
Digital online channels ²	\$ (328)		\$ (258)					
Retail channels	(233)		(330)					
Other ³	(6)		7					
Total changes in deferred revenues	\$ (567)		\$ (581)					

- ¹ The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.
- ² Net revenues from Digital online channels represent revenues from digitally-distributed subscriptions, downloadable content, microtransactions, and products, as well as licensing royalties.
- ³ Net revenues from Other include revenues from our studios and distribution businesses, as well as revenues from Major League Gaming and the Overwatch League.
- ⁴ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

NET REVENUES BY DISTRIBUTION CHANNEL - SUPPLEMENTAL INFORMATION

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

	Three Months Ended March 31, 2019					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues ⁴	Total
Net Revenues by Distribution Channel:						
Digital online channels ¹	\$ 466	\$ 406	\$ 526	\$ —	\$ (5)	\$ 1,393
Retail channels	297	16	—	—	—	313
Other ²	—	39	—	80	—	119
Total consolidated net revenues	\$ 763	\$ 461	\$ 526	\$ 80	\$ (5)	\$ 1,825
Change in deferred revenues ³ :						
Digital online channels ¹	\$ (217)	\$ (114)	\$ 3	\$ —	\$ —	\$ (328)
Retail channels	(229)	(4)	—	—	—	(233)
Other ²	—	1	—	(7)	—	(6)
Total change in deferred revenues	\$ (446)	\$ (117)	\$ 3	\$ (7)	\$ —	\$ (567)
Segment net revenues:						
Digital online channels ¹	\$ 249	\$ 292	\$ 529	\$ —	\$ (5)	\$ 1,065
Retail channels	68	12	—	—	—	80
Other ²	—	40	—	73	—	113
Total segment net revenues	\$ 317	\$ 344	\$ 529	\$ 73	\$ (5)	\$ 1,258

	Three Months Ended March 31, 2018					
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues ⁴	Total
Net Revenues by Distribution Channel:						
Digital online channels ¹	\$ 476	\$ 455	\$ 533	\$ —	\$ (1)	\$ 1,463
Retail channels	396	13	—	—	—	409
Other ²	—	40	—	53	—	93
Total consolidated net revenues	\$ 872	\$ 508	\$ 533	\$ 53	\$ (1)	\$ 1,965
Change in deferred revenues ³ :						
Digital online channels ¹	\$ (232)	\$ (27)	\$ 1	\$ —	\$ —	\$ (258)
Retail channels	(328)	(2)	—	—	—	(330)
Other ²	—	1	—	6	—	7
Total change in deferred revenues	\$ (560)	\$ (28)	\$ 1	\$ 6	\$ —	\$ (581)
Segment net revenues:						
Digital online channels ¹	\$ 244	\$ 428	\$ 534	\$ —	\$ (1)	\$ 1,205
Retail channels	68	11	—	—	—	79
Other ²	—	41	—	59	—	100
Total segment net revenues	\$ 312	\$ 480	\$ 534	\$ 59	\$ (1)	\$ 1,384

¹ Net revenues from Digital online channels represent revenues from digitally-distributed subscriptions, downloadable content, microtransactions, and products, as well as licensing royalties.

² Net revenues from Other include revenues from our studios and distribution businesses, as well as revenues from Major League Gaming and the Overwatch League.

³ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

⁴ Intersegment revenues reflect licensing and service fees charged between segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

NET REVENUES BY PLATFORM

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

	Three Months Ended					
	March 31, 2019		March 31, 2018		\$ Increase (Decrease)	% Increase (Decrease)
	Amount	% of Total ¹	Amount	% of Total ¹		
Net Revenues by Platform						
Console	\$ 677	37 %	\$ 817	42 %	\$ (140)	(17)%
PC	494	27	519	26	(25)	(5)
Mobile and ancillary ²	535	29	536	27	(1)	—
Other ³	119	7	93	5	26	28
Total consolidated net revenues	\$ 1,825	100 %	\$ 1,965	100 %	\$ (140)	(7)
Change in deferred revenues⁴						
Console	\$ (398)		\$ (510)			
PC	(149)		(69)			
Mobile and ancillary ²	(14)		(9)			
Other ³	(6)		7			
Total changes in deferred revenues	\$ (567)		\$ (581)			

- The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.
- Net revenues from Mobile and ancillary include revenues from mobile devices, as well as non-platform specific game related revenues, such as standalone sales of physical merchandise and accessories.
- Net revenues from Other include revenues from our studios and distribution businesses, as well as revenues from Major League Gaming and the Overwatch League.
- Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

NET REVENUES BY PLATFORM - SUPPLEMENTAL INFORMATION

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

	Three Months Ended March 31, 2019					Total
	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues ⁴	
Net Revenues by Platform:						
Console	\$ 635	\$ 42	\$ —	\$ —	\$ —	\$ 677
PC	124	342	33	—	(5)	494
Mobile and ancillary ¹	4	38	493	—	—	535
Other ²	—	39	—	80	—	119
Total consolidated net revenues	\$ 763	\$ 461	\$ 526	\$ 80	\$ (5)	\$ 1,825
Change in deferred revenues³:						
Console	\$ (386)	\$ (12)	\$ —	\$ —	\$ —	\$ (398)

PC	(59)	(90)	—	—	—	(149)
Mobile and ancillary ¹	(1)	(16)	3	—	—	(14)
Other ²	—	1	—	(7)	—	(6)
Total change in deferred revenues	\$ (446)	\$ (117)	\$ 3	\$ (7)	\$ —	\$ (567)

Segment net revenues:

Console	\$ 249	\$ 30	\$ —	\$ —	\$ —	\$ 279
PC	65	252	33	—	(5)	345
Mobile and ancillary ¹	3	22	496	—	—	521
Other ²	—	40	—	73	—	113
Total segment net revenues	\$ 317	\$ 344	\$ 529	\$ 73	\$ (5)	\$ 1,258

Three Months Ended March 31, 2018

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues ⁴	Total
Net Revenues by Platform:						
Console	\$ 769	\$ 48	\$ —	\$ —	\$ —	\$ 817
PC	99	378	43	—	(1)	519
Mobile and ancillary ¹	4	42	490	—	—	536
Other ²	—	40	—	53	—	93
Total consolidated net revenues	\$ 872	\$ 508	\$ 533	\$ 53	\$ (1)	\$ 1,965

Change in deferred revenues³:

Console	\$ (491)	\$ (19)	\$ —	\$ —	\$ —	\$ (510)
PC	(69)	—	—	—	—	(69)
Mobile and ancillary ¹	—	(10)	1	—	—	(9)
Other ²	—	1	—	6	—	7
Total change in deferred revenues	\$ (560)	\$ (28)	\$ 1	\$ 6	\$ —	\$ (581)

Segment net revenues:

Console	\$ 278	\$ 29	\$ —	\$ —	\$ —	\$ 307
PC	30	378	43	—	(1)	450
Mobile and ancillary ¹	4	32	491	—	—	527
Other ²	—	41	—	59	—	100
Total segment net revenues	\$ 312	\$ 480	\$ 534	\$ 59	\$ (1)	\$ 1,384

¹ Net revenues from Mobile and ancillary include revenues from mobile devices, as well as non-platform specific game related revenues, such as standalone sales of physical merchandise and accessories.

² Net revenues from Other include revenues from our studios and distribution businesses, as well as revenues from Major League Gaming and the Overwatch League.

³ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

⁴ Intersegment revenues reflect licensing and service fees charged between segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

NET REVENUES BY GEOGRAPHIC REGION

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

Three Months Ended		Three Months Ended		\$ Increase (Decrease)	% Increase (Decrease)
March 31, 2019	March 31, 2018	March 31, 2018	March 31, 2018		
Amount	% of Total ¹	Amount	% of Total ¹		

Net Revenues by Geographic Region

Americas	\$ 988	54	%	\$ 1,065	54	%	\$ (77)	(7)	%
EMEA ²	614	34		687	35		(73)	(11)	
Asia Pacific	223	12		213	11		10	5	
Total consolidated net revenues	\$ 1,825	100	%	\$ 1,965	100	%	\$ (140)	(7)	%

Change in deferred revenues³

Americas	\$ (318)		\$ (333)
EMEA ²	(200)		(200)
Asia Pacific	(49)		(48)
Total changes in deferred revenues	\$ (567)		\$ (581)

- ¹ The percentages of total are presented as calculated. Therefore, the sum of these percentages, as presented, may differ due to the impact of rounding.
- ² Net revenues from EMEA consist of the Europe, Middle East, and Africa geographic regions.
- ³ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES**NET REVENUES BY GEOGRAPHIC REGION - SUPPLEMENTAL INFORMATION**

For the Three Months Ended March 31, 2019 and 2018

(Amounts in millions)

Three Months Ended March 31, 2019

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues ³	Total
Net Revenues by Geographic Region:						
Americas	\$ 458	\$ 207	\$ 326	\$ —	\$ (3)	\$ 988
EMEA ¹	243	148	144	80	(1)	614
Asia Pacific	62	106	56	—	(1)	223
Total consolidated net revenues	\$ 763	\$ 461	\$ 526	\$ 80	\$ (5)	\$ 1,825
Change in deferred revenues ² :						
Americas	\$ (267)	\$ (54)	\$ 3	\$ —	\$ —	\$ (318)
EMEA ¹	(146)	(47)	—	(7)	—	(200)
Asia Pacific	(33)	(16)	—	—	—	(49)
Total change in deferred revenues	\$ (446)	\$ (117)	\$ 3	\$ (7)	\$ —	\$ (567)
Segment net revenues:						
Americas	\$ 191	\$ 153	\$ 329	\$ —	\$ (3)	\$ 670
EMEA ¹	97	101	144	73	(1)	414
Asia Pacific	29	90	56	—	(1)	174
Total segment net revenues	\$ 317	\$ 344	\$ 529	\$ 73	\$ (5)	\$ 1,258

Three Months Ended March 31, 2018

	Activision	Blizzard	King	Non-reportable segments	Elimination of intersegment revenues ³	Total
Net Revenues by Geographic Region:						
Americas	\$ 510	\$ 234	\$ 322	\$ —	\$ (1)	\$ 1,065
EMEA ¹	305	169	160	53	—	687
Asia Pacific	57	105	51	—	—	213
Total consolidated net revenues	\$ 872	\$ 508	\$ 533	\$ 53	\$ (1)	\$ 1,965

Change in deferred revenues ² :						
Americas	\$ (328)	\$ (6)	\$ 1	\$ —	\$ —	\$ (333)
EMEA ¹	(198)	(8)	—	6	—	(200)
Asia Pacific	(34)	(14)	—	—	—	(48)
Total change in deferred revenues	\$ (560)	\$ (28)	\$ 1	\$ 6	\$ —	\$ (581)

Segment net revenues:

Americas	\$ 182	\$ 228	\$ 323	\$ —	\$ (1)	\$ 732
EMEA ¹	107	161	160	59	—	487
Asia Pacific	23	91	51	—	—	165
Total segment net revenues	\$ 312	\$ 480	\$ 534	\$ 59	\$ (1)	\$ 1,384

¹ Net revenues from EMEA consist of the Europe, Middle East, and Africa geographic regions.

² Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

³ Intersegment revenues reflect licensing and service fees charged between segments.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

EBITDA and ADJUSTED EBITDA

For the Trailing Twelve Months Ended March 31, 2019

(Amounts in millions)

	June 30, 2018	September 30, 2018	December 31, 2018 ⁵	March 31, 2019	Trailing Twelve Months Ended March 31, 2019
GAAP Net Income	\$ 402	\$ 260	\$ 685	\$ 447	\$ 1,794
Interest and other expense (income), net	26	13	4	3	46
Loss on extinguishment of debt	—	40	—	—	40
Provision for income taxes ¹	6	(48)	5	120	83
Depreciation and amortization	112	118	124	87	441
EBITDA	546	383	818	657	2,404
Share-based compensation expense ²	57	55	43	63	218
Restructuring and related costs ³	—	—	10	57	67
Adjusted EBITDA	\$ 603	\$ 438	\$ 871	\$ 777	\$ 2,689
Change in deferred net revenues and related cost of revenues ⁴	\$ (182)	\$ 89	\$ 368	\$ (441)	\$ (166)

¹ Provision for income taxes for the three months ended June 30, 2018, September 30, 2018, and December 31, 2018, also include impacts from 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/or other unusual or unique tax-related items and activities.

² Includes expenses related to share-based compensation.

³ Reflects restructuring initiatives, primarily severance and other restructuring-related costs.

⁴ Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online-enabled products.

⁵ Includes a revision to our GAAP Net Income and Provision for income taxes for the three months ended December 31, 2018. Refer to our Form 10-Q for the three months ended March 31, 2019, for additional information.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

SUPPLEMENTAL CASH FLOW INFORMATION

(Amounts in millions)

	Three Months Ended				March 31, 2019	Year over Year % Increase (Decrease)
	March 31,	June 30,	September 30,	December 31,		
	2018	2018	2018	2018		
Cash Flow Data						
Operating Cash Flow	\$ 529	\$ 9	\$ 253	\$ 999	\$ 450	(15)%
Capital Expenditures	31	30	36	34	18	(42)
Non-GAAP Free Cash Flow ¹	498	(21)	217	965	432	(13)
Operating Cash Flow - TTM ²	2,331	2,075	1,949	1,790	1,711	(27)%
Capital Expenditures - TTM ²	165	164	166	131	118	(28)
Non-GAAP Free Cash Flow - TTM ²	\$ 2,166	\$ 1,911	\$ 1,783	\$ 1,659	\$ 1,593	(26)

¹ Non-GAAP free cash flow represents operating cash flow minus capital expenditures.

² TTM represents trailing twelve months. Operating Cash Flow for the three months ended June 30, 2017, three months ended September 30, 2017, and three months ended December 31, 2017, were \$265 million, \$379 million, and \$1,158 million, respectively. Capital Expenditures for the three months ended June 30, 2017, three months ended September 30, 2017, and three months ended December 31, 2017, were \$31 million, \$34 million, and \$69 million, respectively.

ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Outlook for the Three Months Ending June 30, 2019 and Year Ending December 31, 2019

GAAP to Non-GAAP Reconciliation

(Amounts in millions, except per share data)

	Outlook for the Three Months Ending June 30, 2019	Outlook for the Year Ending December 31, 2019
Net Revenues¹	\$ 1,315	\$ 6,025
Change in deferred revenues²	\$ (165)	\$ 275
Earnings Per Diluted Share (GAAP)	\$ 0.21	\$ 1.18
Excluding the impact of:		
Share-based compensation ³	0.07	0.30
Amortization of intangible assets ⁴	0.06	0.26
Restructuring and related costs ⁵	0.05	0.19
Income tax impacts from items above ⁶	(0.03)	(0.09)
Earnings Per Diluted Share (Non-GAAP)	\$ 0.35	\$ 1.85
Net effect of deferred net revenues and related cost of revenues on Earnings Per Diluted Share⁷	\$ (0.12)	\$ 0.25

¹ Net Revenues represents the revenue outlook for both GAAP and Non-GAAP as they are measured the same.

² Reflects the net effect from deferral of revenues and (recognition) of deferred revenues on certain of our online-enabled products.

- 3 Reflects expenses related to share-based compensation.
- 4 Reflects amortization of intangible assets from purchase price accounting, including intangible assets from the King Acquisition.
- 5 Reflects our restructuring initiatives, primarily severance, facilities, and other restructuring-related costs.
- 6 Reflects the income tax impacts associated with the above items. Due to the inherent uncertainties in share price and option exercise behavior, we do not generally forecast excess tax benefits or tax shortfalls.
- 7 Reflects the net effect from deferral of revenues and (recognition) of deferred revenues, along with related cost of revenues, on certain of our online-enabled products, including the effect of taxes.

The per share adjustments and the GAAP and Non-GAAP earnings per share information are presented as calculated. Therefore, the sum of these measures, as presented, may differ due to the impact of rounding.

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