



ACTIVISION®

BLIZZARD®

THIRD QUARTER 2018 RESULTS

NOVEMBER 8, 2018

SAFE HARBOR DISCLOSURE

Please review our SEC filings on Form 10-K and Form 10-Q

The statements contained herein that are not historical facts are forward-looking statements, including, but not limited to, statements about: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those related to releases of products and services; (3) statements of future financial or operating performance, including the impact of tax items thereon; and (4) statements of assumptions underlying such statements. The company generally uses words such as “outlook,” “forecast,” “will,” “could,” “should,” “would,” “to be,” “plan,” “plans,” “believes,” “may,” “might,” “expects,” “intends,” “intends as,” “anticipates,” “estimate,” “future,” “positioned,” “potential,” “project,” “remain,” “scheduled,” “set to,” “subject to,” “upcoming,” and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risks, reflect management’s current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict.

The company cautions that a number of important factors could cause Activision Blizzard's actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements. Such factors include, but are not limited to: sales levels of Activision Blizzard’s titles, products and services; concentration of revenue among a small number of titles; Activision Blizzard’s ability to predict consumer preferences, including interest in specific genres and modes, and preferences among platforms; the continued growth in the scope and complexity of our business, including the diversion of management time and attention to issues relating to the operations of our newly acquired or started businesses and the potential impact of our expansion into new businesses on our existing businesses; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; counterparty risks relating to customers, licensees, licensors and manufacturers; maintenance of relationships with key personnel, customers, financing providers, licensees, licensors, manufacturers, vendors, and third-party developers, including the ability to attract, retain and motivate key personnel and developers that can create high-quality titles, products and services; changing business models within the video game industry, including digital delivery of content and the increased prevalence of free-to-play games; product delays or defects; competition, including from other forms of entertainment; rapid changes in technology and industry standards; possible declines in software pricing; product returns and price protection; the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion; the seasonal and cyclical nature of the interactive entertainment market; the outcome of current or future tax disputes; litigation risks and associated costs; protection of proprietary rights; potential data breaches and other cybersecurity risks; shifts in consumer spending trends; capital market risks; the impact of applicable laws, rules and regulations, including changes in those laws, rules and regulations; domestic and international economic, financial and political conditions and policies; tax rates and foreign exchange rates; the impact of the current macroeconomic environment; and the other factors identified in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

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

USE OF NON-GAAP MEASURES

As a supplement to our financial measures presented in accordance with Generally Accepted Accounting Principles (“GAAP”), Activision Blizzard presents certain non-GAAP measures of financial performance. These non-GAAP financial measures are not intended to be considered in isolation from, as a substitute for, or as more important than, the financial information prepared and presented in accordance with GAAP. In addition, these non-GAAP measures have limitations in that they do not reflect all of the items associated with the company’s results of operations as determined in accordance with GAAP.

Activision Blizzard provides net income (loss), earnings (loss) per share and operating margin data and guidance both including (in accordance with GAAP) and excluding (non-GAAP) certain items. When relevant, the company also provides constant FX information to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency rate fluctuations. In addition, Activision Blizzard provides EBITDA (defined as GAAP net income (loss) before interest (income) expense, income taxes, depreciation and amortization) and adjusted EBITDA (defined as non-GAAP operating margin (see non-GAAP financial measure below) before depreciation). The non-GAAP financial measures exclude the following items, as applicable in any given reporting period and our outlook:

- expenses related to stock-based compensation;
- the amortization of intangibles from purchase price accounting;
- fees and other expenses related to the King acquisition, inclusive of related debt financings, and refinancing of long-term debt, including penalties and the write off of unamortized discount and deferred financing costs;
- restructuring charges;
- other non-cash charges from reclassification of certain cumulative translation adjustments into earnings as required by GAAP;
- the income tax adjustments associated with any of the above items (tax impact on non-GAAP pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income under ASC 740, which employs an annual effective tax rate method to the results); and
- significant discrete tax-related items, including amounts related to changes in tax laws (including the Tax Cuts and Jobs Act enacted in December 2017), amounts related to the potential or final resolution of tax positions, and other unusual or unique tax-related items and activities.

In the future, Activision Blizzard may also consider whether other items should also be excluded in calculating the non-GAAP financial measures used by the company. Management believes that the presentation of these non-GAAP financial measures provides investors with additional useful information to measure Activision Blizzard’s financial and operating performance. In particular, the measures facilitate comparison of operating performance between periods and help investors to better understand the operating results of Activision Blizzard by excluding certain items that may not be indicative of the company’s core business, operating results or future outlook. Additionally, we consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Internally, management uses these non-GAAP financial measures, along with others, in assessing the company’s operating results, and measuring compliance with the requirements of the company’s debt financing agreements, as well as in planning and forecasting.

Activision Blizzard’s non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and the terms non-GAAP net income, non-GAAP earnings per share, non-GAAP operating margin, and non-GAAP or adjusted EBITDA do not have a standardized meaning. Therefore, other companies may use the same or similarly named measures, but exclude different items, which may not provide investors a comparable view of Activision Blizzard’s performance in relation to other companies.

Management compensates for the limitations resulting from the exclusion of these items by considering the impact of the items separately and by considering Activision Blizzard’s GAAP, as well as non-GAAP, results and outlook, and by presenting the most comparable GAAP measures directly ahead of non-GAAP measures, and by providing a reconciliation that indicates and describes the adjustments made.

FOUR KEY GROWTH DRIVERS

Major Releases

- Activision launched *Call of Duty®: Black Ops 4*
- Blizzard released *World of Warcraft®: Battle for Azeroth™*
- King launched *Candy Crush Friends Saga™*

Live Operations

- \$4B+ in net bookings¹ from in-game content per year, representing the growing majority of our net bookings¹
- Offer some of the best value per hour in all of entertainment
- Continued improvement of our live operations model is one of our largest growth opportunities

Franchise Expansion onto Mobile

- Many top mobile games are based on IP originally created for console and PC
- *Hearthstone®* fanbase grew significantly upon its mobile launch
- Investing in mobile releases for Activision and Blizzard franchises
- Many more initiatives underway across the entire company

New Engagement Models

- Actively advancing how the *Overwatch League™* model and infrastructure will be applied to *Call of Duty®*, and other franchises
- King's ads business continues to exceed its plan, with net bookings¹ still relatively small but growing almost 50% sequentially






FOCUS ON REACH, ENGAGEMENT, INVESTMENT DRIVES VIRTUOUS CYCLE



AUDIENCE REACH

345M MAUs¹

	Activision	Blizzard	King
Q3 MAUs ¹	46M	37M	262M

Details:	
	<ul style="list-style-type: none"> • Candy Crush Saga™ MAUs¹ grew Y/Y • In October, King launched Candy Crush Friends Saga, building on five years of learnings in Candy Crush™ <ul style="list-style-type: none"> • The game has already reached the top of iPhone download charts in 93 countries • While still early, retention and monetization metrics are strong, and the game is on pace to drive meaningful growth for the franchise
	<ul style="list-style-type: none"> • World of Warcraft: Battle for Azeroth set a new day-one franchise record with more than 3.4 million units sold-through • World of Warcraft engagement grew strongly Q/Q, and the expansion saw strong participation in value-added services
	<ul style="list-style-type: none"> • Hearthstone continued to attract new players, surpassing 100M life-to-date registered players
	<ul style="list-style-type: none"> • Destiny MAUs¹ grew Q/Q and Y/Y, driven by the launch of Forsaken and reach initiatives for the base game
	<ul style="list-style-type: none"> • Activision MAUs¹ increased significantly in October following the launch of Call of Duty: Black Ops 4. • Black Ops 4 versus Black Ops III (the highest-grossing game in the franchise) in the first three weeks after launch: <ul style="list-style-type: none"> • Units sold-through were higher; PC units sold-through were over 3x higher • Total active users were 16% higher • Hours played were 20%+ higher

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.

DEEP ENGAGEMENT AND PLAYER INVESTMENT

Deep Engagement: continue to add new ways for fans to show their passion for our great franchises including esports, linear content and social connections



- Players spent a record 52 minutes per day in Activision, Blizzard, and King games in the quarter
- Viewership of our games was up significantly this quarter
- In the month of October, Activision Blizzard had seven of the top 20 most viewed games on the industry's largest streaming platform¹, including *Black Ops 4* where viewership continues to break franchise records



- The **Overwatch League** continues to build on the success of its inaugural season with the announcement of the sale of another six teams in September, again at substantially higher valuations than team prices in the first season
- These latest sales take the league to 20 total teams, with nine of these teams outside the U.S.



- In November, **BlizzCon**® drew over 40,000 fans in person with millions more livestreaming from around the world
- Announcements included new content for every franchise and *Diablo® Immortal™* for mobile

Player Investment: continue to innovate in how additional content is offered, to drive strong engagement and commercial performance



- Delivered \$1B in-game net bookings in Q3 and a record \$3B year-to-date



- King was the biggest contributor to in-game net bookings
- This quarter, King had two of the top-10 highest-grossing titles in the U.S. mobile app stores for the twentieth quarter in a row, and *Candy Crush Saga* was again #1²
- King's ads business continues to exceed its plan, with net bookings still relatively small but growing almost 50% sequentially



- We continue to innovate in new content to drive strong engagement and in-game net bookings in *Call of Duty*

¹ GITHYP.com for most watched games by total viewers, for the one month period ended November 1, 2018.


² U.S. ranking for Apple App Store and Google Play Store combined, per App Annie Intelligence for third quarter of 2018.

THIRD QUARTER 2018 SEGMENT RESULTS


Q3 Segment Net Revenues:

Q3 Segment Operating Income:

Key Highlights:

	
	\$397M
	\$112M <i>28% operating margin</i>
	<ul style="list-style-type: none"> Key revenues contributors included <i>Call of Duty</i> in-game performance and <i>Destiny 2: Forsaken</i>, though the latter underperformed expectations Operating income was lower Y/Y vs. the prior year's quarter that included <i>Destiny 2's</i> full game launch and continued benefits from <i>Call of Duty: Black Ops III Zombies Chronicle</i>, and <i>Crash Bandicoot™ N. Sane Trilogy</i>

	
	\$635M
	\$189M <i>30% operating margin</i>
	<ul style="list-style-type: none"> Revenues grew 20% Y/Y, driven by <i>World of Warcraft</i> and the <i>Battle for Azeroth</i> expansion, which offset lower revenues for <i>Overwatch & Hearthstone</i>, with the latter facing a tough comp Operating income grew 13% Y/Y as revenue growth offset investments in strategic initiatives, including the <i>Overwatch League</i>, other esports activities, Battle.Net, and franchise incubation across multiple platforms

	
	\$506M
	\$184M <i>36% operating margin</i>
	<ul style="list-style-type: none"> Revenues and operating income down 4% and 12% Y/Y respectively, against a particularly strong quarter last year with no partner network challenges The business started Q3 from a lower revenue base due to the partner network challenges in Q2 but saw strong engagement and increasing monetization trends through the quarter

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 8, 2018, which is available on www.activisionblizzard.com.

THIRD QUARTER 2018 RESULTS

Better-than-expected Q3 performance

	Q3 2017 Actual			Prior Q3 2018 Outlook ¹			Q3 2018 Actual		
	GAAP	Non-GAAP ²	Impact of GAAP deferrals	GAAP	Non-GAAP ²	Impact of GAAP deferrals	GAAP	Non-GAAP ²	Impact of GAAP deferrals
Net Revenues	\$1,618M	\$1,618M	\$284M	\$1,490M	\$1,490M	\$125M	\$1,512M	\$1,512M	\$146M
Digital Revenues %	84%	84%					84%	84%	
Operating Income	\$257M	\$493M	\$132M				\$265M	\$403M	\$89M
Operating Margin	16%	30%		14%	25%	3 pp	18%	27%	
Interest Expense, Net ³	\$37M	\$36M		\$62M	\$20M		\$53M	\$13M	
EPS	\$0.25	\$0.47	\$0.13	\$0.16	\$0.37	\$0.10	\$0.34	\$0.42	\$0.10
Total share count for EPS	766M	766M		772M	772M		771M	771M	
Operating Cash Flow – Q3 / TTM ⁴	\$379M / \$1,914M						\$253M / \$1,949M		
Free Cash Flow ⁵ – Q3 / TTM ⁴	\$345M / \$1,791M						\$217M / \$1,783M		
Net Bookings (operating metric)	\$1,902M			\$1,615M			\$1,658M		

¹ Prior outlook provided August 2, 2018.

² Non-GAAP reconciliations are in the earnings releases dated November 2, 2017, August 2, 2018, and November 8, 2018, which are available on www.activisionblizzard.com.

³ GAAP Interest Expense, Net includes a \$40M loss on extinguishment of debt for the three months ended September 30, 2018.

⁴ Trailing Twelve Months represents the sum of four prior quarters.

⁵ Free Cash Flow represents Operating Cash Flow minus Capital Expenditure.

BALANCE SHEET AS OF SEPTEMBER 30, 2018

Q3 adjusted EBITDA of \$438M

	9/30/2017	6/30/2018	9/30/2018
Cash and investments	\$3.67M	\$4.98B	\$3.43B
Term loans	\$0.99B	\$0.99B	-
Notes ¹	\$3.45B	\$3.45B	\$2.70B
Gross Debt	\$4.44B	\$4.44B	\$2.70B
Net Debt²	\$0.77B	-	-
Net Cash³	-	\$0.54B	\$0.73B
Adjusted TTM EBITDA⁴	\$2,630M	\$2,477M	\$2,389M
Gross Debt / Adj. TTM EBITDA ⁴	1.7x	1.8x	1.1x
Net Debt ² / Adj. TTM EBITDA ⁴	0.3x	NA	NA

¹ As of 9/30/18, includes notes for the maturity dates of 2021, 2022, 2026, 2027, and 2047.

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

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

⁴ Adjusted TTM EBITDA, for any given date, is calculated as non-GAAP operating income plus depreciation for the trailing 12 months.

FINANCIAL OUTLOOK AS OF NOVEMBER 8, 2018

	Q4 2018			2018		
	GAAP	Non-GAAP ¹	Impact of GAAP Deferrals ²	GAAP	Non-GAAP ¹	Impact of GAAP Deferrals ²
Net Revenues	\$2,236M	\$2,236M	\$812M	\$7,355M	\$7,355M	\$120M
Product Costs, Game Ops & Distribution	23%	23%		23%	23%	
Operating Expenses, Incl. SW Amort ³	55%	47%		53%	44%	
Operating Margin⁴	21%	29%	12 pp	24%	33%	1 pp
Interest Expense, Net	\$6M	\$5M		\$113M	\$70M	
Tax Rate	28%	23%		9%	18%	
EPS	\$0.43	\$0.64	\$0.63	\$1.94	\$2.46	\$0.12
Fully Diluted Weighted Avg. Shares ⁵	776M	776M		772M	772M	
Net Bookings (operating metric)	\$3,048M			\$7,475M		

Currency Assumptions for Current 2018 Outlook:

- \$1.20 USD/Euro (vs. \$1.12 avg. for 2017 & \$1.11 avg. for 2016)
- \$1.34 USD/GBP (vs. \$1.30 avg. for 2017 & \$1.36 avg. for 2016)
- Note: Our financial guidance includes the forecasted impact of our FX hedging program

¹ Non-GAAP reconciliations are in the earnings release dated November 8, 2018, which is available on www.activisionblizzard.com.

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

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

⁴ May not recalculate due to rounding.

⁵ Including fully diluted shares based on average share price.



ACTIVISION®

BLIZZARD®

Q&A

NOVEMBER 8, 2018