

**ACTIVISION**<sup>®</sup>

**BLIZZARD**<sup>®</sup>

## Third Quarter 2015 Results

November 3, 2015

# Safe Harbor Disclosure

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

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The statements contained in this presentation 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 product releases; (3) statements of future financial or operating performance; 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 risk, reflect management's current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially.

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; increasing concentration of revenue among a small number of titles; Activision Blizzard's ability to predict consumer preferences, including interest in specific genres and preferences among hardware platforms; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; adoption rate and availability of new hardware (including peripherals) and related software, particularly during the console transitions; 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 develop key personnel and developers that can create high quality titles; changing business models, including digital delivery of content and the increased prevalence of free-to-play games; product delays or defects; competition, including from used games and 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; litigation risks and associated costs; protection of proprietary rights; shifts in consumer spending trends; capital market risks; applicable 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 Activision Blizzard's most recent annual report on Form 10-K.

The forward-looking statements in this presentation are based on information available to the Company as of the date of this presentation and, while believed to be true when made, may ultimately prove to be incorrect. The Company may change its intention, belief or expectation, at any time and without notice, based upon any changes in such factors, in the Company's assumptions or otherwise. The Company undertakes no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the original date of this presentation, November 3, 2015, or to reflect the occurrence of unanticipated events.

# Large Engaged Communities Drive Our Performance

Better-than-expected Q3 results, raising 2015 revenues and EPS outlook

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**Strong results & momentum on our upcoming launches lead us to raise outlook once again:**

- Project year-over-year non-GAAP revenues and EPS growth at constant currency, achieving a record EPS for the year

**Successfully transitioning business to year-round engagement model, growing audience base & play time:**

- Our Q3 MAUs<sup>3</sup> have grown 27% Y/Y and time spent with our franchises has grown by 23% Y/Y
- During Q3, our players again logged nearly 3.5B hours of gameplay with our franchises, not including time spent spectating

**Strategic investments in new franchises, platforms, and geographies continue to pay off and along with growing engagement and earned player investment, set the stage for growth ahead.**

**Acquisition of King Digital Entertainment presents additional opportunities for growth ahead**

<sup>1</sup> Non-GAAP information; reconciliation tables in the appendix of the earnings release dated November 2, 2015, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>2</sup> Actual at constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.

<sup>3</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

# Focus on Enduring Franchises and Engaged Communities

Diversity across genres, demographic reach, platforms & business models

New innovation and regular content updates to drive engagement and monetization

Core Franchises

New Opportunities

ACTIVISION®



New IP Opportunities

BILZZARD®



# Activision Publishing Highlights

Record Q3 non-GAAP<sup>1</sup> operating income grew 52% Y/Y at constant FX<sup>2</sup> with MAUs<sup>3</sup> up 17% Y/Y

## CALL OF DUTY

- Q3 and YTD non-GAAP<sup>1</sup> revenues up double digit % Y/Y
- Advanced Warfare sell-in up significantly Y/Y vs. Ghosts
- Strong community engagement with season pass, DLC, and Supply Drops
- Strong momentum ahead of Black Ops 3 launch on November 6, including Black Ops 2 MAUs<sup>3</sup> growth Q/Q again to ~12M

## D E S T I N Y



- The Taken King expansion launched in September with record day-one PS4 downloads and more players than the original game launch
- ~25 million registered users, with daily players playing well over 3 hours each day
- New personalization content available for in-game purchase

## SKYLANDERS



- Remains #1 toys-to-life franchise worldwide year-to-date<sup>4</sup>
- Skylanders SuperChargers launched September 20, one of most engaging Skylanders games ever, with more toys per player than last year
- Platform expansion with this year's title on iOS devices and Apple TV
- Skylanders Battlecast, a free-to-play mobile card game, expected to launch in 2016

## GUITAR HERO LIVE



- Strong early reception from fans and critics
- Per player engagement standing at nearly 2 hours per day

<sup>1</sup> Non-GAAP information; reconciliation tables in the appendix of the earnings release dated November 2, 2015, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>2</sup> Actual at constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.

<sup>3</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

<sup>4</sup> NPD and GfK Chart-Track, including toys and accessories.

# Blizzard Entertainment Highlights

Q3 MAUs<sup>1</sup> up 50% Y/Y



- Key update released in the quarter which helped maintain stabilize subscriber-base
- Announcement of next expansion, World of Warcraft: Legion, well-received by players; more news at BlizzCon
- Highest quarterly revenues driven by The Grand Tournament and 77% growth in engagement
- Localized Japanese version recently launched – easier access for existing and new Japanese players
- Eternal Conflict, a series of Diablo-themed updates brought in more players in Q3
- Winners of regional championships to face off at BlizzCon to compete in world championships
- Diablo III has sold-through over 2 million units in China
- Post launch updates reflect strong commitment to game & community, bringing in new players
- Final chapter of StarCraft II, Legacy of the Void, expected to be released on November 10
- Pre-purchases ahead of prior expansion levels
- Standalone product; previous games not required
- Brand-new Blizzard IP; 6-vs.-6 online multiplayer team-based shooter
- Entered beta on October 27, with >7 million players signed-up, excluding China
- Culmination of Road to BlizzCon eSports tournaments: global champions for World of Warcraft, Hearthstone: Heroes of Warcraft, Heroes of the Storm, and StarCraft II being crowned

<sup>1</sup> MAUs defined as number of individuals who played a particular game in a given month averaged across the number of months in a respective period. Refer to definition included in press release for additional details.

# Better-than-Expected Q3 2015 Results

Q3 non-GAAP<sup>1</sup> Y/Y: strong digital growth driving results, 13% non-GAAP EPS growth at constant FX<sup>2</sup>

	Q3 2014 Actual		Prior Q3 2015 Outlook <sup>3</sup>		Q3 2015 Actual		Q3 Non-GAAP <sup>1</sup> Y/Y Growth	
	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>	Actual	Constant FX <sup>2</sup>
Net Revenues	\$753M	\$1,170M	\$875M	\$930M	\$990M	\$1,040M	-11%	-4%
Digital Revenues	\$504M	\$505M			\$629M	\$697M	38%	50%
Digital Revenues %	67%	43%			64%	67%		
Operating Income	\$8M	\$260M			\$196M	\$251M	-3%	15%
Operating Margin	1%	22%	15%	20%	20%	24%		
Interest Expense, Net	\$51M	\$51M	\$51M	\$51M	\$51M	\$51M		
Tax Rate	46%	17%	23%	25%	13%	21%		
EPS	(\$0.03)	\$0.23	\$0.08	\$0.14	\$0.17	\$0.21	-9%	13%
Weighted-avg shares outstanding:								
Diluted shares	718M	728M			739M	739M		
Participating securities	--	14M			8M	8M		
Total share count for EPS <sup>4</sup>	718M	742M	748M	748M	747M	747M		

<sup>1</sup> Non-GAAP reconciliations are in the appendices of the earnings releases dated November 4, 2014, August 4, 2015 and November 2, 2015, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com)

<sup>2</sup> Actual at constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.

<sup>3</sup> Prior outlook provided August 4, 2015.

<sup>4</sup> Fully diluted weighted average shares outstanding includes options and participating securities based on average share price. May not recalculate due to rounding.

# Better-than-Expected YTD 2015 Results

YTD non-GAAP<sup>1</sup> Y/Y: revenues up 5% and EPS up 35% at constant FX<sup>2</sup>

	YTD 2014 Actual		YTD 2015 Actual		YTD Non-GAAP <sup>1</sup> Y/Y Growth	
	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>	Actual	Constant FX <sup>2</sup>
Net Revenues	\$2,833M	\$2,600M	\$3,312M	\$2,503M	-4%	5%
Digital Revenues	\$1,358M	\$1,513M	\$1,772M	\$1,846M	22%	34%
Digital Revenues %	48%	58%	54%	74%		
Operating Income	\$745M	\$613M	\$1,070M	\$627M	2%	27%
Operating Margin	26%	24%	32%	25%		
Interest Expense, Net	\$152M	\$152M	\$151M	\$151M		
Tax Rate	20%	22%	20%	23%		
EPS	\$0.64	\$0.48	\$0.98	\$0.49	2%	35%
Weighted-avg shares outstanding:						
Diluted shares	725M	725M	736M	736M		
Participating securities	16M	16M	9M	9M		
Total share count for EPS <sup>3</sup>	741M	741M	745M	745M		

<sup>1</sup> Non-GAAP reconciliations are in the appendices of the earnings releases dated November 4, 2014, August 4, 2015 and November 2, 2015, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com)

<sup>2</sup> Actual at constant FX provides current period results converted into USD using the average exchange rates from the comparative prior periods rather than the actual exchange rates in effect during the respective current periods.

<sup>3</sup> Fully diluted weighted average shares outstanding includes options and participating securities based on average share price. May not recalculate due to rounding.



# Balance Sheet

Cash & investments of \$4.5B<sup>1</sup>

	9/30/14	6/30/15	9/30/15
Cash and investments	\$3.84B	\$4.53B	\$4.53B <sup>1</sup>
Cash and investments per share <sup>2</sup>	\$5.17	\$6.09	\$6.06
\$250M revolving facility	---	---	---
7-year term loan	\$2.12B	\$1.87B	\$1.87B
8-year notes due 2021 (5.625%)	\$1.50B	\$1.50B	\$1.50B
10-year notes due 2023 (6.125%)	\$0.75B	\$0.75B	\$0.75B
<b>Gross Debt</b>	<b>\$4.37B</b>	<b>\$4.12B</b>	<b>\$4.12B</b>
<b>Net Debt<sup>3</sup></b>	<b>\$0.53B</b>	<b>---</b>	<b>---</b>
<b>Net Cash<sup>4</sup></b>	<b>---</b>	<b>\$0.41B</b>	<b>\$0.41B</b>
<b>Adjusted TTM EBITDA<sup>5</sup></b>	<b>\$1,554M</b>	<b>\$1,631M</b>	<b>\$1,626M</b>
Secured Debt / Adj. TTM EBITDA <sup>5</sup>	1.4x	1.1x	1.1x
Gross Debt / Adj. TTM EBITDA <sup>5</sup>	2.8x	2.5x	2.5x
Net Debt <sup>3</sup> / Adj. TTM EBITDA <sup>5</sup>	0.3x	0.0x	0.0x

<sup>1</sup> Includes over \$0.87B of domestic cash and investments.

<sup>2</sup> Based on weighted average shares outstanding of 742M, 744M, and 747M for the quarters ending September 30, 2014, June 30, 2015, and September 30, 2015, respectively.

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

<sup>4</sup> Net cash is defined as cash and cash equivalents, short-term investments and long-term investments less gross debt.

<sup>5</sup> Adjusted TTM EBITDA is calculated as non-GAAP operating income plus depreciation for the trailing twelve months of respective periods end.

# Financial Outlook as of November 2, 2015

Raising 2015 non-GAAP\* revenues by \$50M to \$4.65B and EPS by \$0.01 to \$1.31

	Q4 2015		2015	
	GAAP	Non-GAAP*	GAAP	Non-GAAP*
Net Revenues	\$1,218M	\$2,148M	\$4,530M	\$4,650M
COGS (Prod/Online)	30%	25%	24%	24%
Op Ex, incl. Royalties	57%	35%	49%	44%
Operating Margin**	13%	40%	27%	32%
Interest Expense	\$51M	\$51M	\$201M	\$200M
Tax Rate	39%	24%	22%	24%
EPS**	\$0.09	\$0.82	\$1.07	\$1.31
Fully Diluted Weighted Avg. Shares***	753M	753M	750M	750M

## Currency Assumptions for Current 2015 Outlook:

- \$1.10 USD/Euro (vs. \$1.33 avg. for 2014)
- \$1.54 USD/GBP (vs. \$1.65 avg. for 2014)
- Note: Revenue and EPS increase if the Euro or GBP strengthen vs. USD

## Comparison of CY14 actual EPS to CY15 outlook EPS:

	Non-GAAP* EPS
CY14 Actuals	\$1.42
Slate / Operations	\$0.17
FX	(\$0.20)
Tax Rate & Share Count	(\$0.08)
<b>CY15 Outlook</b>	<b>\$1.31</b>

\* Non-GAAP information; reconciliation tables in the appendix of the earnings release dated November 2, 2015, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

\*\* May not recalculate due to rounding.

\*\*\* Including fully diluted shares and participating securities based on average share price.

# Use of Non-GAAP Measures

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As a supplement to our financial measures presented in accordance with 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 revenues, 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:

- the change in deferred net revenue and related cost of sales with respect to certain of the company's online-enabled games;
- expenses related to stock-based compensation;
- fees and other expenses (including legal fees, costs, expenses and accruals) related to the acquisition of 429 million shares of our common stock on October 11, 2013 from Vivendi, pursuant to the stock purchase agreement dated July 25, 2013 and the \$4.75 billion debt financings related thereto; and
- fees and other expenses related to the acquisition of King Digital Entertainment plc and the debt financings related thereto; and
- the income tax adjustments associated with any of the above items.

In the future, Activision Blizzard may also consider whether other significant non-recurring 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. Internally, management uses these non-GAAP financial measures 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 revenues, 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.

In addition to the reasons stated above, which are generally applicable to each of the items Activision Blizzard excludes from its non-GAAP financial measures, there are additional specific reasons why the company believes it is appropriate to exclude the change in deferred net revenue and related cost of sales with respect to certain of the company's online-enabled games.

Since Activision Blizzard has determined that some of our games' online functionality represents an essential component of gameplay and, as a result, a more-than-inconsequential separate deliverable, we recognize revenue attributed to these game titles over their estimated service periods, which may range from five months to a maximum of less than a year. The related cost of sales is deferred and recognized as the related revenues are recognized. Internally, management excludes the impact of this change in deferred net revenue and related cost of sales in its non-GAAP financial measures 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, which is consistent with the way the company is measured by investment analysts and industry data sources. In addition, excluding the change in deferred net revenue and the related cost of sales provides a much more timely indication of trends in our operating results.

For such reconciliation of GAAP to non-GAAP numbers and a description of what is excluded from each non-GAAP financial measure, and for more detailed information concerning the Company's financial results for the three months ended September 30, 2015, please refer to the Company's earnings release dated November 2, 2015, which is available on our website, [www.activisionblizzard.com](http://www.activisionblizzard.com).

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**Q&A**

November 3, 2015