



# First Quarter 2014 Results

May 6, 2014

# 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 about the impact of the recently consummated transactions involving the repurchase of shares from Vivendi, S.A., and the debt financing related thereto. The company generally uses words such as “outlook,” “will,” “could,” “should,” “would,” “might,” “remains,” “to be,” “plans,” “believes,” “may,” “expects,” “intends as,” “anticipates,” “estimate,” “future,” “plan,” “positioned,” “potential,” “project,” “scheduled,” “set to,” “subject to,” “upcoming” and similar expressions to identify forward-looking statements. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties.

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 such forward looking statements. Such factors include, but are not limited to, sales levels of Activision Blizzard's titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the macroeconomic environment, Activision Blizzard's ability to predict consumer preferences, including interest in specific genres such as first-person action, massively multiplayer online games, and “toys to life” and preferences among competing hardware platforms, the seasonal and cyclical nature of interactive entertainment, changing business models, including digital delivery of content, competition, including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, particularly during the ongoing console transition, rapid changes in technology and industry standards, the current regulatory environment, litigation risks and associated costs, protection of proprietary rights, maintenance of relationships with key personnel, customers, financing providers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, the identification of suitable future acquisition opportunities, and potential challenges associated with geographic expansion, capital market risks, the possibility that expected benefits related to the recently completed transactions with Vivendi may not materialize as expected, the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt, and the other factors identified in the risk factors section 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, May 6, 2014, or to reflect the occurrence of unanticipated events.

# Q1 2014 Highlights

Better-than-expected results; raising 2014 revenue and EPS outlook

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## Better-than-expected Q1 financial results:

- GAAP: \$1,111M revenues, 38% operating income, \$0.40 EPS
- Non-GAAP<sup>1</sup>: \$772M revenues, record 31% operating income, record \$0.19 EPS
- Record \$527M or 68% of non-GAAP revenues from digital channels
- Operating cash flow: \$136M; free cash flow: \$99M
- \$4.3B cash and investments with >\$800M held domestically as of March 31, 2014

## Capital allocation:

- Repaid \$375M of term loan in February
- Planning to pay \$0.20 dividend per share, approximately \$143M total payment, May 14<sup>th</sup>

## Strong product performance:

- Diablo III Reaper of Souls: #1 PC title in Q1 in North America and Europe combined<sup>2</sup>
- Hearthstone launched on PC and ended Q1 with over 10M users<sup>3</sup>
- World of Warcraft, #1 subscription-based MMORPG<sup>4</sup>, ended Q1 with approximately 7.6 million subscribers
- Call of Duty Ghosts: #1 title LTD on PS4 and Xbox One in North America and Europe combined<sup>2</sup>
- Skylanders SWAP Force: #1 title in Q1 in North America and Europe combined, including toys & accessories<sup>2</sup>

## Expecting growth and record 2014 non-GAAP EPS driven by six games:

- Activision Publishing: Destiny, Skylanders TRAP TEAM, Call of Duty: Advanced Warfare
- Blizzard Entertainment: Hearthstone, Diablo III: Reaper of Souls and World of Warcraft: Warlords of Draenor

# Better-than-Expected Q1 2014 Results

Q1 non-GAAP<sup>2</sup> records: revenues from digital channels, operating margin, EPS

	Q1 2013		Prior Q1 2014 Outlook <sup>1</sup>		Q1 2014 Actual	
	GAAP	Non-GAAP <sup>2</sup>	GAAP	Non-GAAP <sup>2</sup>	GAAP	Non-GAAP <sup>2</sup>
<b>Net Revenues</b>	<b>\$1,324M</b>	<b>\$804M</b>	<b>\$885M</b>	<b>\$675M</b>	<b>\$1,111M</b>	<b>\$772M</b>
Digital Revenues	\$377M	\$429M			\$379M	\$527M
Operating Margin	44%	31%	22%	21%	38%	31%
Operating Income	\$587M	\$247M			\$427M	\$240M
<b>EPS</b>	<b>\$0.40</b>	<b>\$0.17</b>	<b>\$0.15</b>	<b>\$0.09</b>	<b>\$0.40</b>	<b>\$0.19</b>
Weighted-average shares outstanding:						
Diluted shares	1,120M	1,120M			720M	720M
Participating securities	26M	26M			17M	17M
Total share count for EPS <sup>3</sup>	1,146M	1,146M	745M	745M	737M	737M

<sup>1</sup> Prior outlook provided on Feb. 6, 2014.

<sup>2</sup> Non-GAAP reconciliation tables are in the appendix of the earnings releases dated May 8, 2013, Feb 6, 2014 and May 6, 2014, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com)

<sup>3</sup> Fully diluted weighted average shares outstanding includes participating securities based on average share price.

Our Q1 GAAP results were higher-than-anticipated due to better-than-expected operating performance in an amount about equal to our non-GAAP over performance and a recently identified forecast miscalculation with regard to deferred revenue recognition in our previous GAAP outlook, which accounted for the balance of the GAAP over delivery.

# Balance Sheet Highlights: \$73M Net Debt<sup>1</sup>

Net debt near zero after repaying \$375M of debt in Q1

	12/31/13	3/31/14
<b>Cash and investments</b>	<b>\$4.45B</b>	<b>\$4.3B<sup>3</sup></b>
Cash and investments per share <sup>2</sup>	Approx. \$5.82	Approx. \$5.65
\$250M revolving facility	---	---
7-year secured bank loans	\$2.49B	\$2.12B
8-year notes (5.625%)	\$1.50B	\$1.50B
10-year notes (6.125%)	\$0.75B	\$0.75B
<b>Gross Debt</b>	<b>\$4.74B</b>	<b>\$4.37B</b>
<b>Net Debt</b>	<b>\$0.29B</b>	<b>\$0.07B</b>
<b>Adjusted EBITDA<sup>4</sup></b>		<b>\$1,428M</b>
Secured Debt / Adj. EBITDA <sup>4</sup>		1.5x
Gross Debt / Adj. EBITDA <sup>4</sup>		3.1x
Net Debt <sup>4</sup> / Adj. EBITDA <sup>4</sup>		0.05x

<sup>1</sup> Net debt is defined as gross debt less cash and cash equivalents, short-term investments and long-term investments.

<sup>2</sup> Based on fully diluted shares outstanding of 765M and 760M as of December 31, 2013 and March 31, 2014, respectively. Includes outstanding common shares, restricted stock rights and all outstanding options to acquire shares of common stock as of each of the respective dates.

<sup>3</sup> Includes \$0.8B of domestic cash and investments.

<sup>4</sup> Adjusted EBITDA is calculated as non-GAAP operating income plus depreciation for the trailing twelve months ended Mar. 31, 2014.

# 2014 Financial Outlook, as of May 6, 2014

Increasing our 2014 revenue and EPS outlook

	Q2 2014		2014	
	GAAP	Non-GAAP*	GAAP	Non-GAAP*
<b>Net Revenues</b>	<b>\$910M</b>	<b>\$600M</b>	<b>\$4,220M</b>	<b>\$4,675M</b>
COGS (Prod/Online)	26%	26%	23%	25%
Op Ex, incl. Royalties	45%	63%	52%	43%
<b>Operating Margin**</b>	<b>29%</b>	<b>10%</b>	<b>25%</b>	<b>32%</b>
Interest Expense	\$52M	\$52M	\$210M	\$210M
Tax Rate	22%	37%	22%	25%
<b>EPS**</b>	<b>\$0.22</b>	<b>\$0.01</b>	<b>\$0.89</b>	<b>\$1.27</b>
Fully Diluted Weighted Avg. Shares***	745M	745M	750M	750M

\* Non-GAAP information reconciliation tables in the appendix of the earnings release dated May 6, 2014, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

\*\* May not foot due to rounding.

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



The increase in our GAAP outlook for 2014 is a result of our actual Q1 GAAP performance (which was higher than our prior Q1 GAAP outlook for the reasons cited at the bottom of slide #4), as well as our current expectations for the remainder of the year.

# Activision Publishing

Planning three big franchises in 2014: Destiny, Skylanders and Call of Duty

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- Developed by Bungie, the creators of the Halo franchise, which has sold 50M games on Xbox & Xbox 360<sup>1</sup>
- Tracking to record pre-orders for a new IP<sup>2</sup>
- Beta in July, launch on Sept. 9, 2014 on Xbox & PlayStation

2



- #3 franchise in NA and Europe combined in 2013<sup>3</sup>
- SWAP Force, #1 game in Q1 2014 in NA and Europe combined<sup>3</sup>
- Skylanders TRAP TEAM from Toys-for-Bob to launch Oct. 5, 2014

3



- #1 franchise in North America for fifth year in a row in 2013 per NPD
- Ghosts #1 LTD on PS4 and Xbox One<sup>4</sup>
- Advanced Warfare: all-new game to launch Nov. 4, 2014

## Call of Duty Online in development for China

<sup>1</sup> Source: NPD, GfK Chart-Track.

<sup>2</sup> Activision Blizzard internal estimates.

<sup>3</sup> Including toys and accessories. Source: NPD, GfK Chart-Track and Activision Blizzard internal estimates.

<sup>4</sup> Source: NPD, GfK Chart-Track.





To Launch September 9, 2014



To Launch October 5, 2014



To Launch November 4, 2014



# Blizzard Entertainment Highlights

Record Q1 results; BlizzCon coming in November

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Launched March 25, 2014 on Windows and Mac  
Over 2.7M sold through in first week – top selling PC game of 2014\*  
Content updates and console versions in development

Ended Q1 with approximately 7.6 million subscribers  
Fifth expansion, Warlords of Draenor, expected to launch 2H 2014  
Over 1M pre-sales to date, alpha test coming soon

New free-to-play digital collectible card game for Windows, Mac, and iPad  
Launched March 11 on PC, and April 16 on iPad  
Over 10M registered; more content and platforms coming in 2014

New free-to-play online hero brawler for PC  
Currently in limited technical alpha testing

# Use of Non-GAAP Measures

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. 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 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
- the amortization of intangibles from purchase price accounting; 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 March 31, 2014, please refer to the Company's earnings release dated May 6, 2014, which is available on our website, [www.activisionblizzard.com](http://www.activisionblizzard.com).



# First Quarter 2014 Results: Q&A

May 6, 2014