



# Fourth Quarter 2017 Results

February 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 preferences among platforms; the diversion of management time and attention to issues relating to the operations of our acquired or newly started businesses; the amount of our debt and the limitations imposed by the covenants in the agreements governing our debt; the adoption rate and availability of new hardware (including peripherals) and related software; 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, products and services; risks relating to the expansion into new businesses, including the potential impact on our existing businesses; 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; shifts in consumer spending trends; capital market risks; the impact of 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 our Annual Report on Form 10-K for the year ended December 31, 2016.

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

# Use of Non-GAAP Measures

---

As a supplement to our financial measures presented in accordance with 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.

# Better-Than-Expected and Record Performance

## Executing on growth opportunities

---

### A record quarter and a record year in 2017:

- Record Net Bookings<sup>1</sup> of \$2.6B for the quarter and \$7.2B for the year
- Record total revenues and in-game revenues for the quarter and year
- GAAP EPS of \$0.36 for the year, which would have been a record \$1.39 when adjusted to exclude significant discrete tax-related items
- Record Non-GAAP<sup>2</sup> EPS of \$2.21 for the year, above initial February outlook of \$1.70
- Record operating cash flow of \$2.2B for the year

### Achieved important milestones that demonstrate the enduring nature of our franchises:

- Activision celebrated strong **Call of Duty**<sup>®</sup> momentum and their best operating income year ever
- Blizzard delivered their highest operating income in a year with no major game release
- King returned to growth with the **Candy Crush**<sup>™</sup> franchise stronger than ever

### Executing on key growth initiatives:

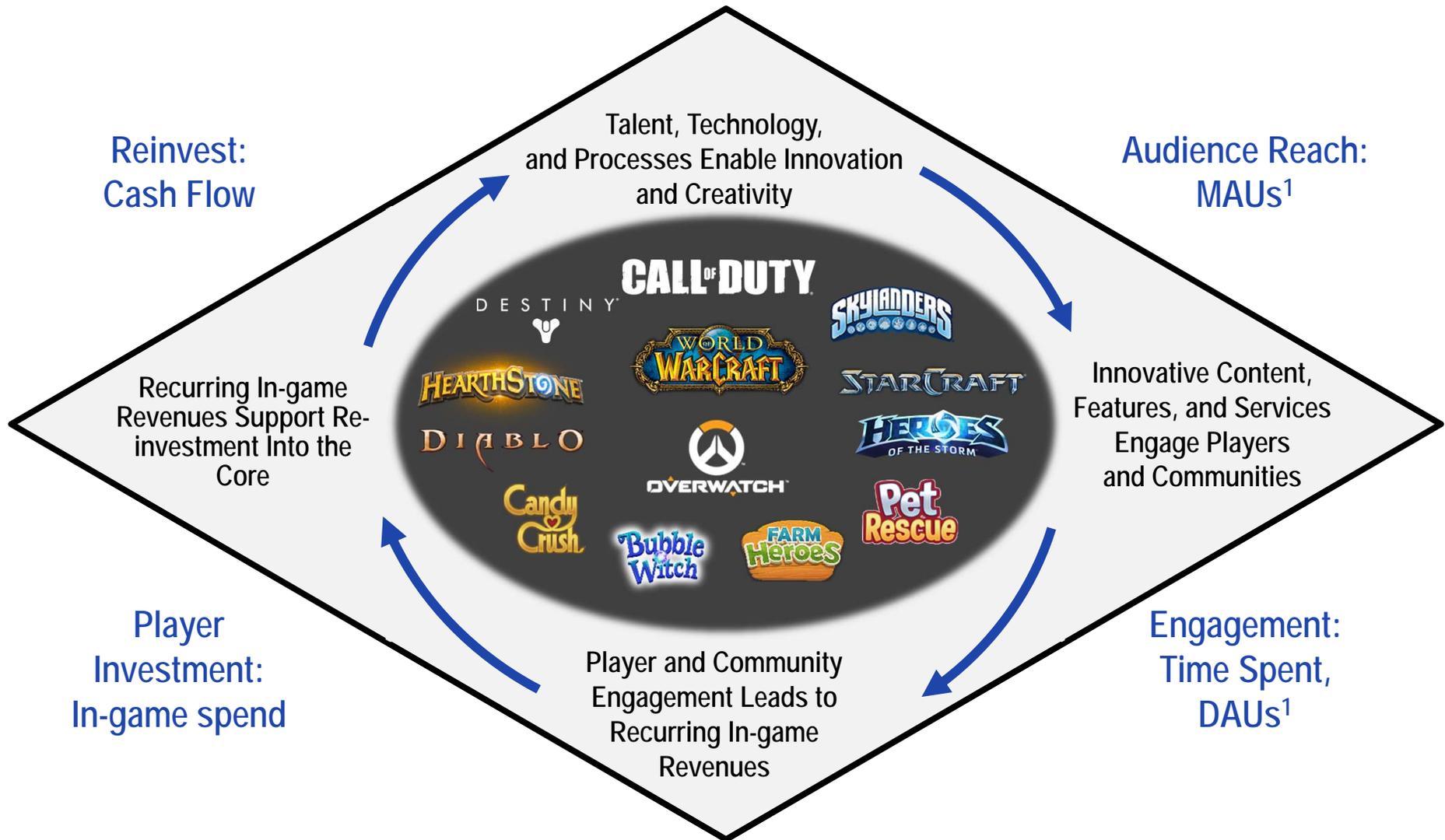
- 2017 was also an important year in which we prepared for our future growth initiatives, including with launch of the **Overwatch League**<sup>™</sup>
- Growth of new opportunities across advertising, consumer products, cinematic productions, and esports support one another and help drive engagement back into franchises

<sup>1</sup> Net bookings is an operating metric that is defined as the net amount of products and services sold digitally or sold-in physically in the period, and includes license fees, merchandise, and publisher incentives, among others.

<sup>2</sup> Non-GAAP reconciliations are in the earnings release dated February 8, 2018, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

# Strategic Focus on Franchises

We relentlessly focus on building reach, engagement, and player investment



<sup>1</sup> Monthly Active Users (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. Daily Active Users (DAUs) defined and calculated the same as MAUs, but on a daily basis.

# Audience Reach

385M MAUs<sup>1</sup> in the quarter across the company, up from 384M last quarter

	Activision	Blizzard	King
Q4 MAUs <sup>1</sup>	55M	40M	290M

## Details:



- Candy Crush franchise grew MAUs<sup>1</sup> Q/Q while driving increased engagement with higher DAUs<sup>1</sup> and time spent per player



- Call of Duty: WWII was the top grossing console game worldwide in 2017, making the franchise number one globally, a mantle we've held for 8 of the last 9 years<sup>2</sup>
- Set new franchise milestone with the biggest launch quarter sell-through on current-generation consoles – higher than Black Ops III
- Set a Sony PlayStation milestone with the biggest day 1 digital release ever<sup>3</sup>



- Destiny 2 was the 2<sup>nd</sup>-highest grossing console game in N.A in 2017<sup>2</sup>
- Added critically acclaimed PC version with distribution on Blizzard's Battle.net
- The attach rate on Destiny 2's first expansion was higher than Destiny 1's
- Roadmap to address player feedback



- Activision's Crash Bandicoot™ N. Sane Trilogy was the number-one-selling remastered collection in PS4 history<sup>2</sup>



- 6<sup>th</sup> quarter in a row of 40M+ MAUs<sup>1</sup>, driven by Overwatch® and Hearthstone®

<sup>1</sup> 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. Daily Active Users (DAUs) defined and calculated the same as MAUs, but on a daily basis. <sup>2</sup> Based on data from the NPD Group, GfK, GSD and internal estimates. <sup>3</sup> Based on blog.us.playstation.com.

# Deep Engagement

Achieved time spent per day of 50+ mins for the second quarter in a row

## Details:



- For Activision, Blizzard, and King overall, daily time spent per user was over 50 minutes for the second quarter in a row, in line with some of the most engaging online connected platforms in the world
- In 2017, Activision Blizzard had seven of the top 20 games on Twitch. The next closest publisher had just two, demonstrating the broad appeal of our franchises<sup>1</sup>



- The inaugural season of the **Overwatch League** started on January 10 with 12 world-class team owners from across the globe, multiple league and team-level sponsors, a premium viewing experience, and a robust distribution strategy
- In its first week, the **Overwatch League** reached more than 10 million unique viewers across the world with an average audience of more than 280,000 on a per minute basis



- The **Call of Duty World League**, which kicked off in December, has sold out each of its World League Global Open events. The launch event in Dallas had more than double the viewership hours of last year's launch event

<sup>1</sup> GITHYP.com for most watched games by total viewers in 2017

# Providing More Opportunity for Player Investment

Delivered record Q4 of over \$1B of in-game net bookings & annual record of \$4B+

## Details:



- Activision had some of the top selling downloadable content offerings in 2017, including **Zombies Chronicles** for **Call of Duty: Black Ops III**, which was the number one add-on offering in the year on the Sony PlayStation in North America, released in year two after the game launched
- Player investment in virtual goods and services surpassed DLC in 2017 for **Call of Duty** and **Destiny**



- In 2017, King increased its average net bookings per paying user by a double-digit percentage Y/Y
- King had two of the top-10 highest-grossing titles in the U.S. mobile app stores for the seventeenth quarter in a row, with **Candy Crush Saga™** and **Candy Crush Soda Saga™** at #1 and #2, respectively this quarter. This is the first time the **Candy Crush** franchise held the top-2 grossing spots<sup>1</sup>
- **Candy Crush** franchise grew consumer spend sequentially for the 4th quarter in a row

<sup>1</sup> Publisher ranking for U.S. Apple App Store and Google Play Store per App Annie Intelligence for Q4 2017

# Fourth Quarter and 2017 Segment Results

Ongoing pipeline of content, services, and features led to over-performance

			
Q4 Segment Net Revenues:	\$1,337M	\$599M	\$516M
Q4 Segment Operating Income:	\$634M 47%	\$160M 27%	\$162M 31%
2017 Segment Net Revenues:	\$2,628M	\$2,139M	\$1,998M
2017 Segment Operating Income:	\$1,005M 38%	\$712M 33%	\$700M 35%
Key Highlights:	<ul style="list-style-type: none"> <li>Record annual segment OI of \$1B+ and operating margin of 38%+, driven by <b>Call of Duty: WWII</b>, <b>Destiny 2</b>, and <b>Crash Bandicoot N. Sane Trilogy</b></li> <li>Q4 segment revenues increased 16% year-over-year, and OI increased 32% in the same period</li> </ul>	<ul style="list-style-type: none"> <li>Record annual segment revenues and OI for a year with no major game release as Blizzard delivered continuous content across franchises including <b>Overwatch</b>, <b>Hearthstone</b>, and <b>World of Warcraft</b><sup>®</sup></li> </ul>	<ul style="list-style-type: none"> <li>Annual segment revenues and operating income up 7% and 12%, respectively, on a pro-forma basis including the 2016 pre-acquisition period for King on the strength of <b>Candy Crush</b> and focus on improvements in engagement &amp; player investment</li> </ul>

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 February 8, 2018, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

# Fourth Quarter 2017 Results

Record quarterly revenues; Adjusted to exclude significant discrete tax-related items, GAAP EPS would have been 27 cents, ahead of guidance by 17 cents

	Q4 2016 Actual			Prior Q4 2017 Outlook <sup>1</sup>			Q4 2017 Actual		
	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals
Net Revenues	\$2,014M	\$2,014M	\$438M	\$1,700M	\$1,700M	\$635M	\$2,043M	\$2,043M	\$597M
Digital Revenues %	72%	72%					70%	70%	
Operating Income	\$425M	\$681M	\$238M				\$221M	\$511M	\$441M
Operating Margin	21%	34%		9%	24%		11%	25%	
Interest Expense from Debt <sup>3</sup>	\$126M	\$41M		\$41M	\$41M		\$42M	\$41M	
EPS	\$0.33	\$0.65	\$0.27	\$0.10	\$0.36	\$0.46	(\$0.77)	\$0.49	\$0.45
Total share count for EPS <sup>4</sup>	758M	758M		769M	769M		757M	769M	
Operating Cash Flow	\$859M						\$1,158M		
Free Cash Flow <sup>5</sup>	\$822M						\$1,089M		
Net Bookings (operating metric)	\$2,452M						\$2,640M, up, 8% Y/Y		

Note: GAAP EPS includes incremental expense (\$1.03 per share for the fourth quarter) due to the impact of significant discrete tax-related items, including amounts related to changes in tax laws (including a reasonable estimate for the impact of the Tax Cuts and Jobs Act enacted in December 2017, as provided for in accordance with Securities and Exchange Commission guidance), and amounts related to the potential or final resolution of tax positions, and/or other unusual or unique tax-related items and activities. Activision Blizzard will provide additional information relating to these items in our Form 10-K for the year ending December 31, 2017.

<sup>1</sup> Prior outlook provided November 2, 2017. <sup>2</sup> Non-GAAP reconciliations are in the earnings releases dated November 2, 2017 and February 8, 2018, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com). <sup>3</sup> Gross interest expense, including an \$82M loss on extinguishment of debt recognized in Q4 2016 GAAP actual results. <sup>4</sup> Fully diluted weighted average shares outstanding includes options and participating securities based on average share price. <sup>5</sup> Free Cash Flow represents Operating Cash Flow minus Capital Expenditure.

# Record 2017 Results

Record revenues, digital revenues, non-GAAP EPS, cash flow; Adjusted to exclude significant discrete tax-related items, GAAP EPS would have been a record \$1.39

	2016 Actual			Prior 2017 Outlook <sup>1</sup>			2017 Actual		
	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals	GAAP	Non-GAAP <sup>2</sup>	Impact of GAAP deferrals
Net Revenues	\$6,608M	\$6,608M	(\$9M)	\$6,675M	\$6,675M	\$175M	\$7,017M	\$7,017M	\$139M
Digital Revenues %	74%	74%					78%	78%	
Operating Income	\$1,412M	\$2,324M	\$10M				\$1,309M	\$2,327M	\$71M
Operating Margin	21%	35%		19%	33%		19%	33%	
Interest Expense from Debt <sup>3</sup>	\$310M	\$210M		\$174M	\$156M		\$174M	\$156M	
EPS	\$1.28	\$2.18	\$0.02	\$1.22	\$2.08	\$0.08	\$0.36	\$2.21	\$0.07
Total share count for EPS <sup>4</sup>	757M	757M		767M	767M		766M	766M	
Operating Cash Flow		\$2,155M						\$2,213M	
Free Cash Flow <sup>5</sup>		\$2,019M						\$2,058M	
Net Bookings (operating metric)		\$6,599M						\$7,156M, up, 8% Y/Y	

Note: GAAP EPS includes incremental expense (\$1.04 per share for 2017) due to the impact of significant discrete tax-related items, including amounts related to changes in tax laws (including a reasonable estimate for the impact of the Tax Cuts and Jobs Act enacted in December 2017, as provided for in accordance with Securities and Exchange Commission guidance), and amounts related to the potential or final resolution of tax positions, and/or other unusual or unique tax-related items and activities. Activision Blizzard will provide additional information relating to these items in our Form 10-K for the year ending December 31, 2017.

<sup>1</sup> Prior outlook provided November 2, 2017. <sup>2</sup> Non-GAAP reconciliations are in the earnings releases dated November 2, 2017 and February 8, 2018, which are available on [www.activisionblizzard.com](http://www.activisionblizzard.com).

<sup>3</sup> Gross interest expense, including an \$92M and \$12M loss on extinguishment of debt recognized in 2016 and 2017 GAAP actual results, respectively. <sup>4</sup> Fully diluted weighted average shares outstanding includes options and participating securities based on average share price. <sup>5</sup> Free Cash Flow represents Operating Cash Flow minus Capital Expenditure.

# Balance Sheet

Ended the year with net cash position<sup>1</sup> of \$335M

	12/31/16	9/30/17	12/31/17
Cash and investments	\$3.27B	\$3.67B	\$4.78B
Term loans	\$2.69B	\$0.99B	\$0.99B
Notes <sup>2</sup>	\$2.25B	\$3.45B	\$3.45B
Gross Debt	\$4.94B	\$4.44B	\$4.44B
Net Debt <sup>3</sup>	\$1.67B	\$0.77B	-
<b>Adjusted TTM EBITDA<sup>4</sup></b>	<b>\$2,447M</b>	<b>\$2,630M</b>	<b>\$2,458M</b>
Gross Debt / Adj. TTM EBITDA <sup>4</sup>	2.0x	1.7x	1.8x
Net Debt <sup>2</sup> / Adj. TTM EBITDA <sup>4</sup>	0.7x	0.3x	NA

## 2018 Capital Allocation:

- Increasing 2018 dividend by 13% to \$0.34 per share
- Authorized further debt paydown
- \$1B stock repurchase authorization in effect until February 2019

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

<sup>2</sup> As of 12/31/17, includes notes for the maturity dates of 2021, 2022, 2023, 2026, 2027, and 2047.

<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> 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 February 8, 2018

Expect to grow w/ year-round engagement, in-game player investment, new initiatives

	Q1 2018		2018		Impact of GAAP Deferrals <sup>2</sup>	
	GAAP	Non-GAAP <sup>1</sup>	GAAP	Non-GAAP <sup>1</sup>	Q1 2018	2018
<b>Net Revenues</b>	\$1,820M	\$1,820M	\$7,350M	\$7,350M	(\$540M)	\$100M
COGS (Prod/Game Ops)	20%	20%	22%	22%		
Op Ex, incl. Royalties	53%	43%	53%	44%		
<b>Operating Margin<sup>3</sup></b>	27%	36%	25%	34%		
Interest Expense, Net <sup>4</sup>	\$30M	\$29M	\$136M	\$95M		
Tax Rate	20%	20%	20%	20%		
<b>EPS</b>	<b>\$0.47</b>	<b>\$0.65</b>	<b>\$1.78</b>	<b>\$2.45</b>	<b>(\$0.34)</b>	<b>\$0.05</b>
Fully Diluted Weighted Avg. Shares <sup>5</sup>	771M	771M	776M	776M		

Net Bookings (operating metric)

\$1,280M

\$7,450M

## Currency Assumptions for Current 2018 Outlook:

- \$1.20 USD/Euro (vs. \$1.12 avg. for 2017 & \$1.11 avg. for 2016)
- \$1.37 USD/GBP (vs. \$1.30 avg. for 2017 & \$1.36 avg. for 2016)
- Note: Our financial guidance includes the forecasted impact of the FX cash flow hedging program

<sup>1</sup> Non-GAAP reconciliations are in the earnings release dated February 8, 2018, which is available on [www.activisionblizzard.com](http://www.activisionblizzard.com). <sup>2</sup> Net effect of revenue deferral accounting treatment on certain of our online enabled products. <sup>3</sup> May not recalculate due to rounding. <sup>4</sup> Full year 2018 includes approximately \$40M of loss on extinguishments of debt for planned paydown activities. <sup>5</sup> Including fully diluted shares based on average share price.

# A Portfolio of Compelling Franchises

Eight \$1B+ franchises across our portfolio of primarily owned IP

## ACTIVISION®

Record annual segment operating income; 2 top grossing console games in NA and 2 of top-5 grossing worldwide<sup>1</sup>

## CALL OF DUTY

## DESTINY

## SKYLANDERS

## BILZARD® ENTERTAINMENT

Record annual segment revenues and operating income for a non-launch year

## WORLD OF WARCRAFT

## HEARTHSTONE

## OVERWATCH

## DIABLO

## STARCRRAFT

## HEROES OF THE STORM

## King

2 of top-10 highest-grossing titles in U.S. app stores for 17<sup>th</sup> quarter in a row, with Candy Crush franchise taking top-2 spots this quarter<sup>2</sup>

## Candy Crush

## Pet Rescue

## FARM HEROES

## Bubble Witch

<sup>1</sup> Based on data from the NPD Group, GfK, GSD, and internal estimates. <sup>2</sup> Publisher ranking for U.S. Apple App Store and Google Play Store per App Annie Intelligence for Q4 2017.



## Q&A

February 8, 2018