

# Activision Blizzard

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# Overview

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# Brief Summary: ATVI

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- Activision Blizzard is a video game company that has three primary segments – Activision, Blizzard, and King Digital
- Activision and Blizzard merged in 2008 with Activision's merger with Vivendi Games in a \$18.9bn estimated deal
- Activision Blizzard acquired King Digital in February 2016 for \$5.9bn, 2 years after KING went public
- The company's stock ticker is "ATVI" and they have 6 key gaming franchises: Call of Duty, World of Warcraft, Hearthstone, Overwatch, Diablo, and Candy Crush.
- ATVI has 390 million MAU (monthly active users) – 249m King / 111m Activision / 30m Blizzard
- Over the last 12 months: \$8.1bn net bookings, \$6.7bn from digital and \$2.7bn of EBITDA (excl. SBC)
- The games are played on different platforms, depending on the game: **~35%** of revenue from consoles (mostly Call of Duty on PlayStation, Xbox, Nintendo), **~35%** from mobile (Candy Crush, COD), **~25%** from PC (World of Warcraft, Overwatch, Hearthstone), and **~5%** from other (Call of Duty / Overwatch Leagues)
- The gaming industry has been in growth mode for ~10 years+, but most of this has come from smartphone penetration and mobile gaming growth (*which is now 48% of industry revenues, up from ~10% a decade ago*)
- Digital revenues (purchasing games digitally versus going to a store and buying the physical disc/cartridge) is a tailwind for video game publishers/developers as they keep more of the revenue vs. sharing with physical storefronts like GameStop, Wal-Mart, Target, etc. 90% of ATVI's revenues are digital, up from mid-70% in 2018.
- Digital mix increasing is helping margins expand; ATVI EBITDA margin now low-40% as of Q3/2020 versus ~30% in 2017.
- ATVI has transitioned over the last 2 years to a "franchise model" – focusing resources on key gaming franchises and releasing less video games/yr. than historical figures. This should improve the stickiness of the player, which should help engagement, in-game revenues, and support more stability in their financials going forward.

# Brief Summary: ATVI

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- ATVI revenues ebb-and-flow historically based on its pipeline of video game releases and the success of those games; the stock seems to move also based on this as well.
- Sell-side is very focused on the near-term pipeline of releases (Overwatch 2, Diablo, the next Call of Duty) – and while this is important for near term earnings – this may come across more “transactionally focused” than ATVI really is. In other words, by becoming more of a franchise model and building more tools around the franchises, I would suspect less lumpiness (still some, yes, due to releases) than in the past
- For example – In the last few years Call of Duty has gone from a game which releases primarily on hardware consoles only to:
  - Going from almost \$0 in 2019 to >\$350m in revenues in mobile with the creation of the Call of Duty: Mobile game (released 10/1/2019)
  - Creating a free-to-play battle royale game – Warzone (released 3/10/2020) – which drives more engagement and encouraging players to purchase the COD game – Modern Warfare
  - The inaugural season of “Call of Duty League” – been called the “NFL of competitive gaming” with 12 teams from 4 countries
  - Focusing more on incremental upgrades throughout the year to drive continued engagement in players
- From Q3/2020 call
  - The number of players in the community for Call of Duty > 3x a year ago
  - Hours players were 7x a year prior
  - Call of Duty has over \$3bn in net bookings in the last year
  - Modern Warfare first year sales were the highest in COD history, with > 2/3 of units sold digitally
  - Console and PC in-game net bookings are 4x a year ago
- Talks of “franchise” fatigue is a risk, as Call of Duty is going on its 18<sup>th</sup> year as a franchise. Despite strong metrics, critic and user ratings have been in decline. Expectations are often very high and at times this leads to disappointment.

# ATVI: Snapshot

Activision Blizzard, Inc.

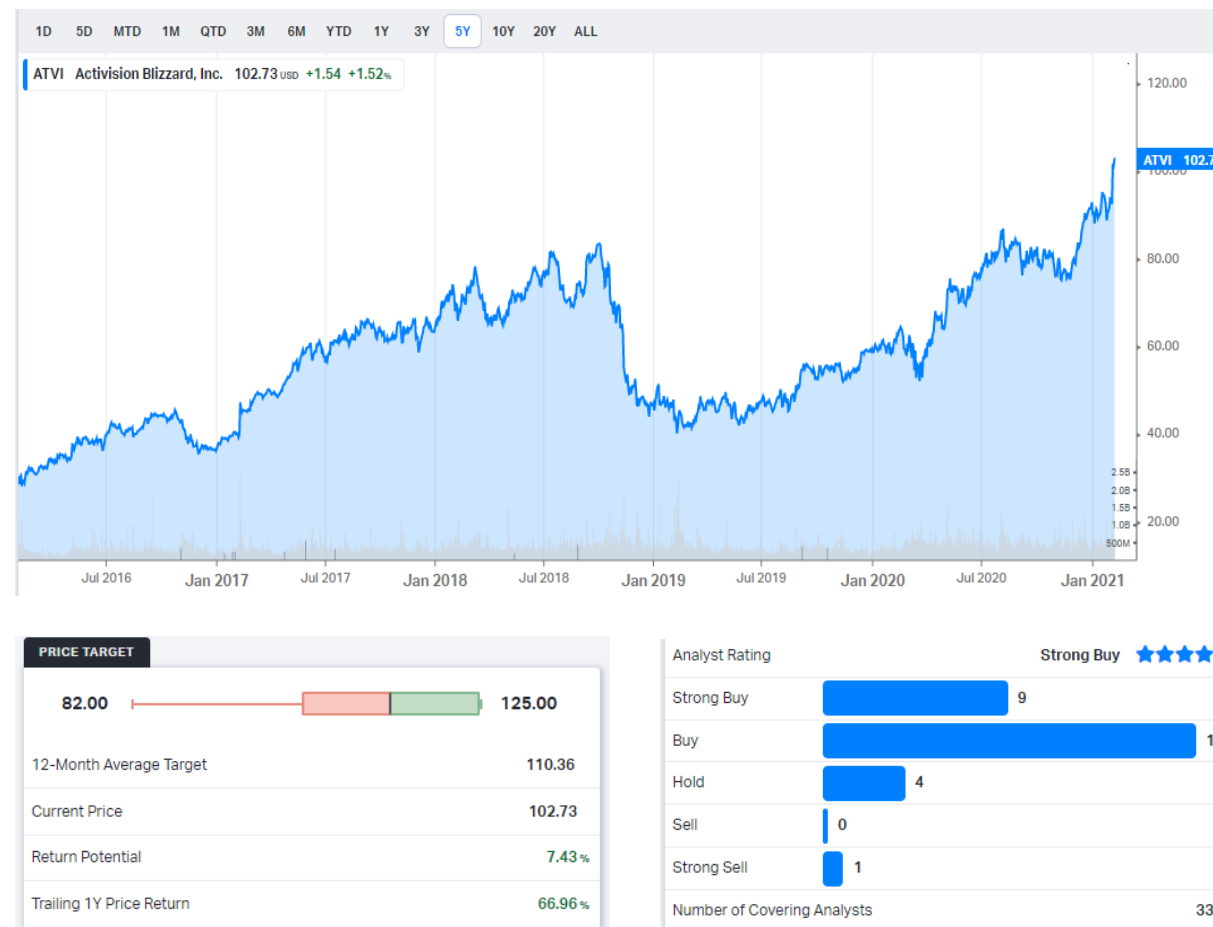
ATVI

Stock Price	\$ 102.73	
Diluted S/O	784	(uses est. Q1 2021 FDSO)
Market Capitalization	\$ 80,540	
Cash & Equivalents	\$ 8,647	
ST Debt	\$ -	
LT Debt	\$ 3,605	
Enterprise Value	\$ 75,498	

	TTM		2021 est	
TTM EBITDA	\$ 3,025	25.0 x	\$ 3,410	22.1 x
TTM EBITDA - CapEx	\$ 2,947	25.6 x	\$ 3,310	22.8 x
EPS**	\$ 2.82	36.4 x	\$ 3.20	32.1 x
Net Bookings	\$ 8,420	9.0 x	\$ 8,450	8.9 x
Revenue	\$ 8,086	9.3 x	\$ 8,520	8.9 x
EBIT (non-GAAP)	\$ 3,145	24.0 x	\$ 3,200	23.6 x
FCF (OCF - CapEx - SBC)	\$ 1,956	41.2 x	\$ 2,000	40.3 x

\* est. mix between ATVI outlook at sell-side forecasts

\*\* excludes SBC which ATVI includes in its non-GAAP EPS numbers



# Overview: ATVI Segments

## Activision Blizzard Inc.

### Activision

- Primary IP:
  - **Call of Duty** - #1 franchise globally in sales, 10 of last 11 years
  - **Crash Bandicoot**
  - **Spyro**
- **111m MAU** (~70% coming from Call of Duty: Mobile since Q4/2019 launch)
- \$3.7bn in revenues
  - Mid-40% mix of entire company revs
  - High-40%/Low-50% EBIT margin, highest of all 3 business segments
- >80% of revenues are digital, up from high-50% mix, due to the release of COD: Mobile
- 70% of revenues (prior to deferrals) come from console sales
  - PC – mid-teens % mix of sales
  - However – due to COD: Mobile, mobile revenues are ~13% of segment sales, up from <1% prior to COD launch and *growing quickly*

### Blizzard

- Primary IP:
  - **World of Warcraft**
  - **Overwatch**
  - **Hearthstone**
- **30m MAU** – has been in decline since mid-40s in 2017, fairly stable in low-30m MAU since early 2019
- \$1.9bn in revenues
  - Mid-20% mix of entire company revs & declining
  - Mid-30% EBIT margin and improving due to positive mix of IP released + more digital revenues as a mix
- >90% of revenues are digital, up from low-80% mix in mid-2019
- >80% of sales are on the PC
  - World of Warcraft does not offer PlayStation, Xbox games, only on PC

### King

- Primary IP:
  - **Candy Crush**
- Acquired in 2016 for \$5.9bn Equity Value
  - At the time announced, had >500m MAU
  - As of Q3/2020 – cut in half!
- **249m MAU**
- \$2.1bn in revenues
  - Mid/high-20% mix of entire company revs
  - High-30% EBIT margin
- 100% of revenues are digital
- >95% of revenues (prior to deferrals) come from mobile sales / 5% from PC
  - Candy Crush is a game designed specifically for mobile



# BlizzCon: “*The Berkshire Hathaway Event for Gamers*”

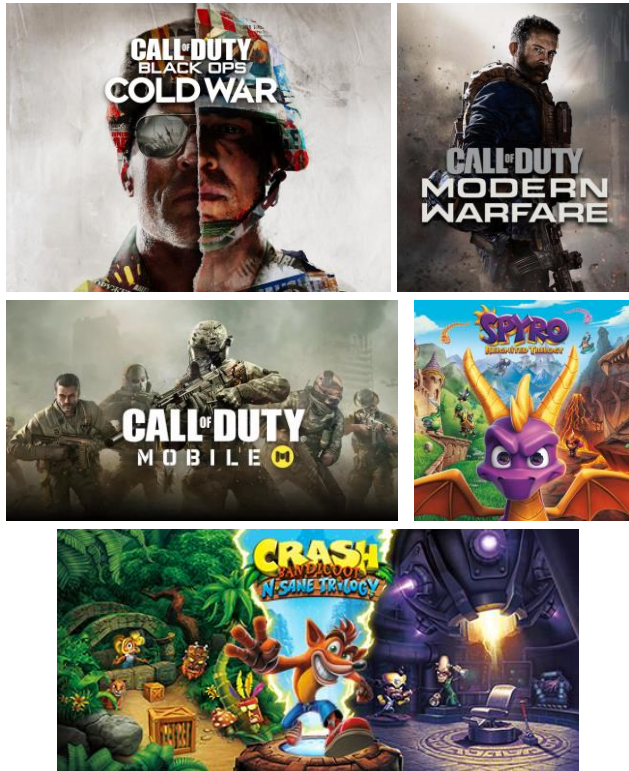


Estimated 40,000 people attend per year, same as the BRK event held in May each year.



# Overview: *Franchises / IP*

## Activision



## Activision Blizzard Inc.

## Blizzard

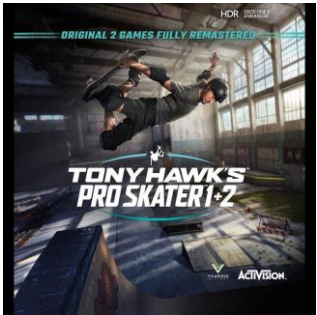


## King



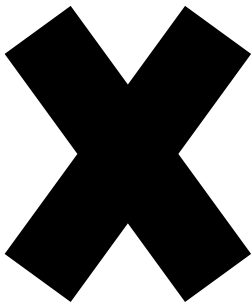
# Overview: Legacy *Franchises* / IP

Activision

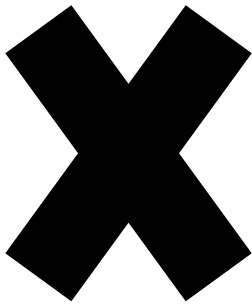


Activision Blizzard Inc.

Blizzard



King



# Overview: *Player Engagement Initiatives*

Activision



Activision Blizzard Inc.

Blizzard



King

# Overview: *Platform Revenue*

## Activision



\$3.7bn revenues



~ \$500m revenues



\$350m+ revenues

## Activision Blizzard Inc.

## Blizzard



\$1.5bn revenues



~\$140m revenues



\$120m revenues

## King Digital



~\$2bn revenues

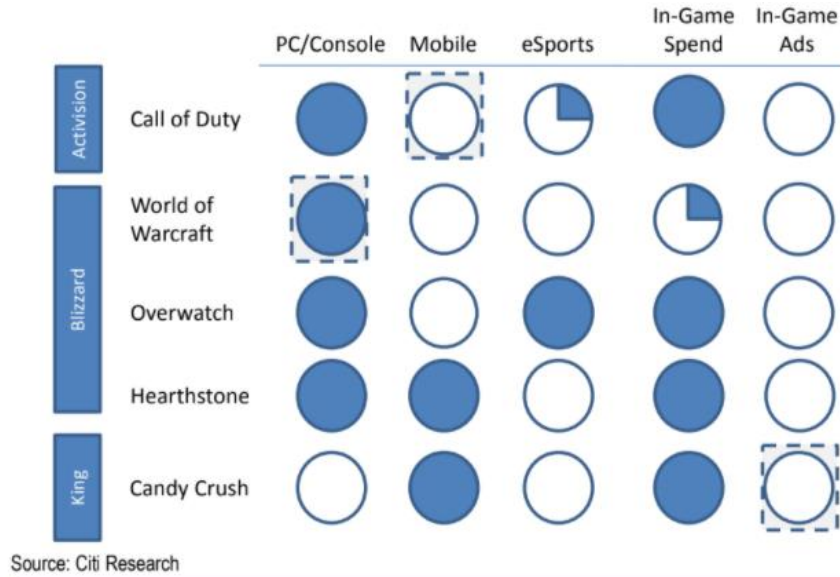


~\$100m revenues

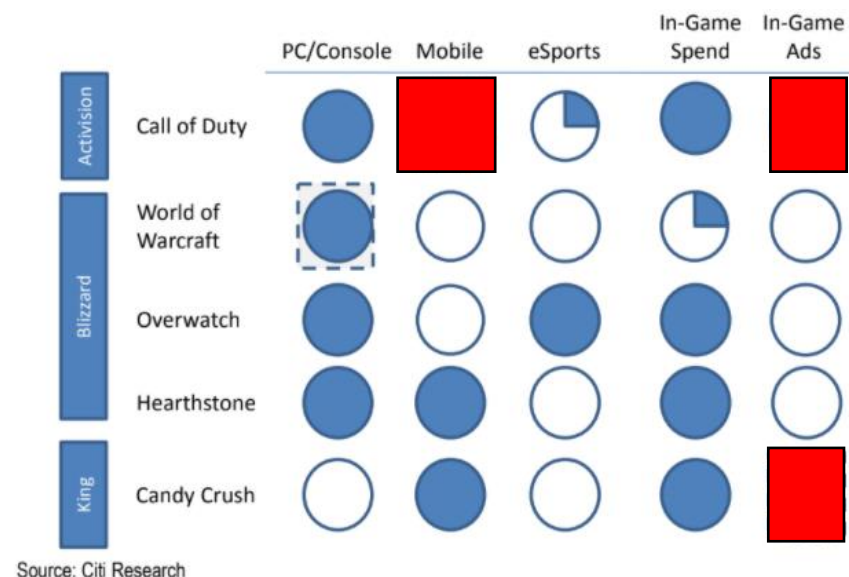


# Revenue Streams

- Based on a mid-2019 report from Citi on ATVI, it maps out the revenue streams for key titles
- Since this release:
  - COD has expanded to mobile, expanded eSports, and are working on in-game ads
  - Candy Crush is working on in-game advertising as well, north of \$150m revenue/year from \$0 a few years ago



June 2019 Citi Research



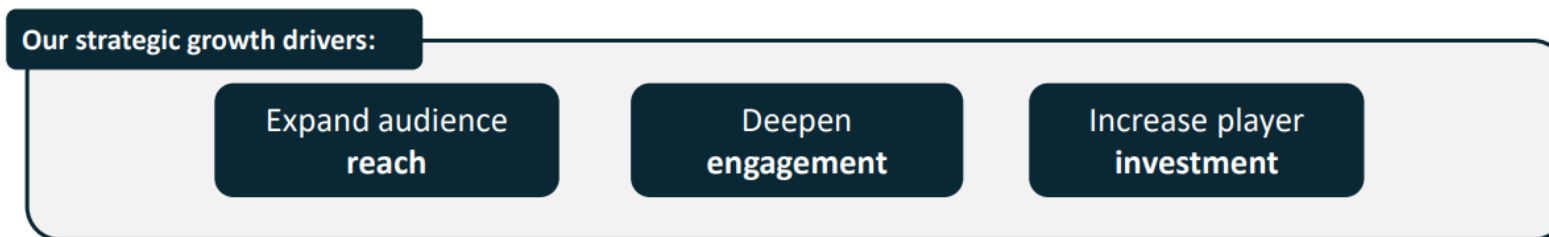
Current Monetization

# ATVI: Growth Pillars

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## EXECUTING AGAINST OUR THREE STRATEGIC GROWTH DRIVERS

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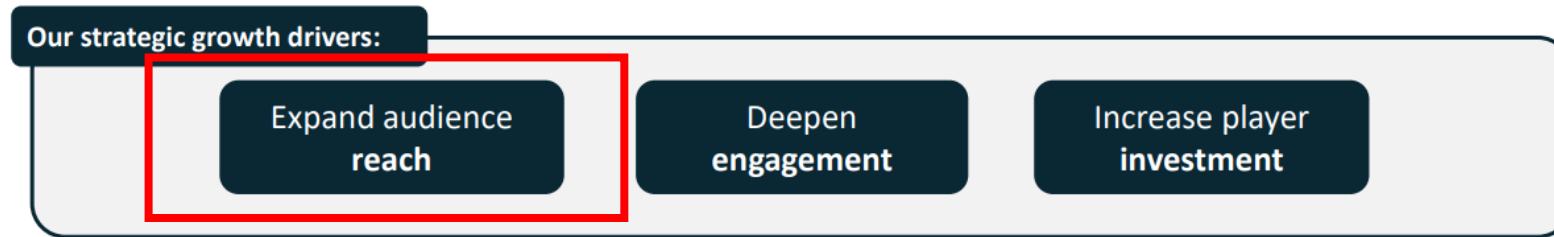
*Self-proclaimed options and priorities for ATVI's growth:*

1. Delivering strong, consistent cadence of major new content releases (Call of Duty, WoW, other major titles)
2. Driving live operations with ongoing in-game content, features and events (this drives engagement, minutes/hours played, and continual engagement until the next “release” or “upgrade”)
3. Expanding King’s industry-leading mobile success and extending the console and PC franchises to mobile (such as more COD, Crash Bandicoot, WoW?, Diablo)
4. Building new engagement models around franchises, including advertising, eSports, and consumer products (to fuel additional revenues, boost in-game bookings, and continued fandom towards subsequent major content releases)



# “Growth Drivers” – Expand Reach

## EXECUTING AGAINST OUR THREE STRATEGIC GROWTH DRIVERS



- Making Call of Duty Warzone as a free-to-play battle royale, driving a substantial amount of new players
- Call of Duty: Black Ops Cold War – pushing to sell more to PC, not just console
- Call of Duty: Mobile – another free game, which also opened to China December 2020 after 50m pre-registered
- Crash Bandicoot 4 – will be on Nintendo Switch in early 2021
- Crash Bandicoot – using King’s mobile strength and creating Crash “On the Run” March 2021 for mobile
- Eventually will have some WoW and other Call of Duty on mobile, and hopefully Diablo at some point....
- eSports leagues – despite Overwatch’s decline, Call of Duty is still steady and on the cusp of its 2<sup>nd</sup> season (2/1//2021)

# “Growth Drivers”

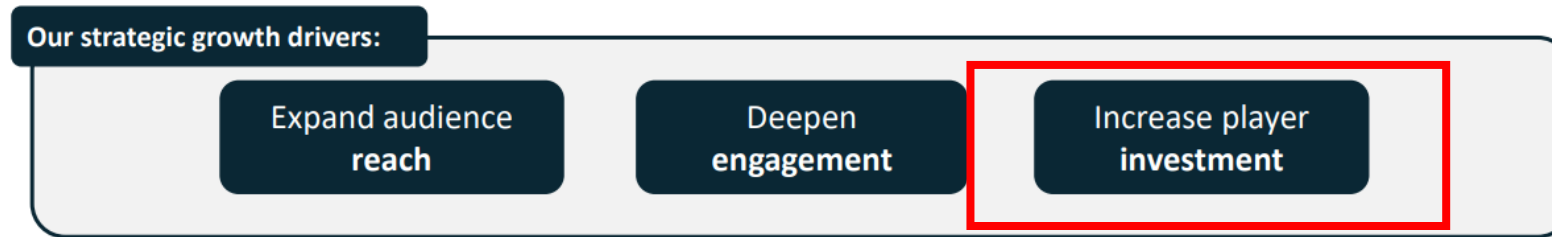
## EXECUTING AGAINST OUR THREE STRATEGIC GROWTH DRIVERS



- Call of Duty: Warzone, being free and battle royale game play, opened up the door for new players
- Warzone’s new players, also given its more of a team-based / social, fueled more engagement among players, in turn helping drive more unit sales of the ~ \$60 retail game “Modern Warfare”, and soon to help “Black Ops Cold War”
- Warzone can be integrated with both of those COD games, making it easier and more seamless to play
- COD: Mobile, as well as other COD titles, are constantly tweaking and updating, adding more options, weapons, etc. to keep things continually “fresh” for the players, which keeps engagement high versus no updates leading to complacency / low interest

# “Growth Drivers”

## EXECUTING AGAINST OUR THREE STRATEGIC GROWTH DRIVERS



- Historically Call of Duty financials are choppy and heavily dependent on release dates and the success of those game releases; newer initiatives should smooth out overall financials.
- Newer games on different platforms are offering increased monetization opportunities
  - Call of Duty: Mobile – RPG games have higher in-app purchases versus other game types, also working on in-game advertising
  - Candy Crush – Building on ~ \$200m advertising revenue, which is higher margin due to 0% app store platform commission versus 30% commission on in-app purchases
  - Warzone – free to play – goal is to increase engagement, eventually encourage players to purchase the full game for ~ \$60+ (console type depends)
  - Crash: On the Run! – free to play mobile – advertising based, leveraging King’s capabilities
  - World of Warcraft – subscription model based, possibly moving to mobile at some point?

# Conclusion

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- Thank you for reading this trial version deck on Activision Blizzard (ATVI)
- Comments / feedback /conversation is welcomed
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