



Q2 Fiscal 2023 Conference Call

SAFE HARBOR – Nicole Shevins

- Good afternoon. Thank you for joining our conference call to discuss our results for the second quarter of Fiscal Year 2023, ended September 30, 2022. Today's call will be led by Strauss Zelnick, Take-Two's Chairman and Chief Executive Officer, Karl Slatoff, our President, and Lainie Goldstein, our Chief Financial Officer. We will be available to answer your questions during the Q&A session following our prepared remarks.
- Before we begin, I'd like to remind everyone that statements made during this call that are not historical facts are considered forward-looking statements under federal securities laws. These forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to us. We have no obligation to update these forward-looking statements. Actual operating results may vary significantly from these forward-looking statements based on a variety of factors. These important factors are described in our filings with the SEC, including the Company's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, including the risks summarized in the section entitled "Risk Factors." I'd also like to note that, unless otherwise stated, all numbers we will be discussing today are GAAP and all comparisons are year-over-year. Additional details regarding our actual results and outlook are contained in our press release, including the items that our management uses internally to adjust our GAAP financial results in order to evaluate our operating performance. Our press release also contains a reconciliation of any Non-GAAP financial measure to the most comparable GAAP measure. In addition, we have posted to our website a slide deck that visually presents our results and financial outlook. Our press release and filings with the SEC may be obtained from our website at take2games.com.
- And now, I'll turn the call over to Strauss.

Strauss Zelnick

- Thanks, Nicole. Good afternoon and thank you for joining us today.
- I'm pleased to report that we delivered another consecutive quarter of solid results, with Net Bookings of \$1.5 billion. We experienced healthy player engagement, driven by exciting new game releases, post-launch content updates, and bold beats for many of our mobile offerings, even as consumers continued to navigate the effects of various macroeconomic and geopolitical factors.
- We made excellent progress with our integration of Zynga, and we remain highly optimistic about the vast, long-term growth potential for the mobile industry, which is expected to reach over \$160 billion in gross bookings within the next four years. Some of our key achievements in the period include:

- We successfully reached our 100-Day integration milestone at the end of August.
 - Zynga’s President, Frank Gibeau, and his leadership team have evaluated our mobile portfolio, including existing games and titles in development, and they have identified numerous opportunities to enhance our performance. These initiatives include reorganizing several teams; sharing development tools, resources, and best practices across our mobile studios; conceptualizing new bold beats; and leveraging Zynga’s highly valuable publishing platform, which is now even stronger following the recent acquisition of Storemaven. We are also starting to expand our direct-to-consumer efforts more meaningfully across our mobile portfolio further to enhance profitability.
 - We remain committed to delivering \$500 million of annual Net Bookings opportunities over time. The Zynga team has been working with our other labels to explore potential creative projects. As part of this process, we have identified certain underrepresented genres in our mobile portfolio that we believe we can pursue more aggressively over time.
 - Our efforts to deliver cost synergies are tracking extremely well, and we are now confident that we can achieve over \$100 million of annual savings within the first two years post-close.
 - I’d like to thank Frank, his leadership team, and all of our new colleagues at Zynga once again for helping to make our combination happen so seamlessly. We are thrilled to have Zynga as part of our Take-Two family.
- Turning to our second quarter results, our Net Bookings performance was within our guidance range, led by *Grand Theft Auto V*, which exceeded our expectations, and to date, has sold-in more than 170 million units worldwide.
 - Starting July 26, *Grand Theft Auto Online* launched its latest major update, *The Criminal Enterprises*, introducing expanded gameplay across the Criminal Careers of Executives, Bikers, Nightclub Owners, and Gunrunners, as well as the opportunity to work with federal agents to uncover a criminal conspiracy in the new Operation Paper Trail series of Contact Missions. The update also featured a range of new vehicles, and more, including the new Community Series, showcasing some of the most fun and unique experiences created by players across the globe.
 - This major update also delivered a host of overall improvements to the gameplay experience, including increased payouts across a wide array of activities and several other player-requested features. *The Criminal Enterprises* was very well received, and we have seen millions of players engaging with significant new features such as the ability to run Sell Missions in Private Lobbies, New Weapon Wheel Controls, and more. In addition, Rockstar Games *GTA+* subscription service continues to grow its members who enjoy a rotation of numerous exclusive in-game benefits, including vehicles, upgrades, and gear every month.
 - On September 9th, 2K and Visual Concepts successfully launched *NBA 2K23*, with the title earning an 80+ Metacritic rating at launch, and receiving praise for raising the bar on the top-selling sports title in the U.S. To date, *NBA 2K23* has sold-in nearly 5 million units, alongside significant growth in virtual currency sales and a higher average selling price compared to *NBA 2K22*. Player engagement has been very strong, with more than 2 million daily active users, and 4% growth in average days played. We believe that *NBA 2K23* will continue to grow its audience, as the title provides a year-round experience for its fervent community of players throughout the world. I'd like to congratulate the teams at 2K and Visual Concepts for once again delivering such a stellar basketball experience.

- The franchise’s momentum extends beyond the core console experience, with *NBA 2K22 Arcade Edition* for Apple Arcade remaining the #1 game on the platform, and our recent launch of *NBA 2K23 Arcade Edition* offering many new features and improvements. Furthermore, *NBA 2K Online* in China continues to be the #1 PC online sports game in the country with nearly 59 million registered users.
- *Red Dead Redemption 2* is continuing to impress, with sell-in of more than 46 million units worldwide to-date and more active players in this second quarter than we have seen for the comparable period in previous years.
- 2K supported *WWE 2K22* and *Tiny Tina’s Wonderlands* with the final downloadable content packs for each title, which were made available individually and as part of the games’ Season Passes.
- During the quarter, recurrent consumer spending rose 76% and accounted for 80% of Net Bookings.
- Zynga continued to experience strong engagement amongst its active players, and we believe that we are maintaining our market share globally.
- Our mobile business delivered mid-teens growth in advertising bookings on a year-over-year basis, outperforming the broader industry.
- At the same time, in-app purchases continued to be under some pressure due to current macroeconomic conditions.
- Some key highlights of our mobile offerings during the quarter include:
 - The Rollic business remained very strong and exceeded our plan. Notably, Rollic surpassed 2 billion lifetime downloads worldwide and has now launched 19 titles that have reached the #1 or #2 most downloaded game position in the U.S. App Store.
 - Several of Zynga’s titles celebrated milestones, including the 2nd anniversary of *Harry Potter: Puzzles and Spells*; the 10th anniversary of *Farmville*; and the 15th anniversary of *Zynga Poker*. Each of these anniversaries was supported with an array of in-game events and unique content offerings.
 - Zynga unveiled several high-profile brand integrations, including Socialpoint’s partnership with AMC Network’s *The Walking Dead* in *Dragon City* and *Monster Legends*; CSR2’s debut of Pagani’s new multi-million-dollar Utopia hypercar; and *Game of Thrones Slots* Casino launched a new in-game event, *Week of the Dragon*, in conjunction with HBO’s new hit fantasy series, *House of the Dragon*.
- Turning to our outlook, we now expect to deliver Net Bookings of \$5.4 to \$5.5 billion in Fiscal 2023. Our reduced forecast reflects shifts in our pipeline, fluctuations in FX rates, and a more cautious view of the current macroeconomic backdrop, particularly in mobile. Lainie will provide more detail on our outlook shortly.
- Despite these headwinds and their effect on our guidance for the year, we remain highly confident in our diverse and extensive development pipeline that we expect will deliver us sequential growth and record performance over the next several years. Take-Two has a proven strategy and consistent track record of success, driven by our core tenets: we aspire to be the most creative, the most innovative, and the most efficient entertainment company in the world. As we strive to capitalize on the numerous opportunities ahead of us, we are committed to creating significant long-term value for our shareholders.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- I'd like to begin by thanking our teams for delivering another strong quarter, which reflects our ability to captivate and engage audiences consistently by delivering the highest quality entertainment experiences across all platforms.
- I'll now discuss our recent releases.
- On October 14th, 2K and HB Studios launched *PGA TOUR 2K23*, the latest entry in our golf simulation franchise, to positive community sentiment and great critical acclaim, including GameSpot calling the title "*The best simulation golf game ever made*". *PGA TOUR 2K23* features golf icon and all-time sports great, Tiger Woods, and celebrates his legacy by introducing him as both a playable in-game pro and an Executive Director who advised the game's development team. The game features several new additions and improvements, including an enhanced roster of male and female pros; the ability to play as NBA legends Michael Jordan and Steph Curry; a Topgolf mode; a deeper array of personalization options and gear; licensed courses and the ability to design original courses; and multiplayer offerings. HB Studios will continue to support the game with additional pros and courses, as well as seasonal updates and the Clubhouse Pass.
- On October 21st, 2K and Gearbox Software released *New Tales from the Borderlands*, a choice-based, narrative adventure game that is a successor to the beloved Telltale Games title. The franchise has always been an incredible canvas for storytelling and we are pleased to add this new offering to the portfolio.
- On November 2nd, Private Division and Roll7 released *Finding the Flowzone*, the second and final DLC expansion for the critically acclaimed skateboarding action-platformer, *OlliOlli World*. The release has received praise from critics including Eurogamer who commended *Finding the Flowzone* as a "fond goodbye to this magnificent game," and stating that the expansion "is completely rad."
- Now, I will discuss our announced offerings for the balance of Fiscal 2023 and beyond.
 - On December 2nd, 2K and Firaxis Games will launch *Marvel's Midnight Suns* on Windows PC, Xbox Series X|S, and PlayStation 5. The Xbox One, PlayStation 4, and Nintendo Switch versions will follow at a later date. In support of the upcoming launch, 2K has produced five short videos that are being released weekly on Marvel Entertainment's YouTube channel, which provides the backstory of how the game's lead character, Lilith, became the Mother of Demons, and how Super Heroes like Blade, Magik, Ghost Rider and Nico Minoru came together to form the young core of the Midnight Suns.
 - During the fourth quarter, 2K and Visual Concepts will launch *WWE 2K23*. Building upon the success of *2K22*, which had nearly 450 million matches played and 10 million hours of game content viewed on Twitch, fans can look forward to the series once again redefining interactive entertainment within the squared circle. We are grateful to have such a supportive and collaborative partnership with WWE, and 2K will have more to share about *WWE 2K23* in the coming months.

- On February 24th, Private Division and Intercept Games will launch *Kerbal Space Program 2*, the sequel to the beloved rocket building sim, in Early Access for PC on Steam, Epic Games Store, and other digital storefronts. *KSP2* will bring an array of content at the launch of Early Access, making this the most visually impressive *KSP* game yet. The game will also feature improved tutorials and user onboarding to provide players with the necessary knowledge to excel at space flight. Built from the ground up, *KSP2* will also introduce the ability to customize and paint vehicles, leading to deeper personalization and expression in every build. Those that purchase *KSP2* in Early Access will help inform the future development of the game by providing feedback directly to Intercept Games leading up to the full launch of the title. We can't wait for the incredibly passionate *KSP* community to take flight in this new entry to the series.
- Throughout the balance of the fiscal year, Rockstar Games will continue to support *Grand Theft Auto Online* with additional major content updates, alongside popular annual seasonal-themed offerings and more.
- In mobile, Zynga's Rollic studio will continue to release a consistent cadence of titles, while the label's other studios remain hard at work on a variety of offerings, including several titles that are currently in soft launch and expected to release in Fiscal Year 2024.
- Turning to eSports, the *NBA 2K League* is currently gearing up for its sixth season, which will tip off in Spring 2023. Last month, the League announced a landmark agreement with Australia's National Basketball League to launch an expansion team, NBL Oz Gaming. Not only is this the first time an Australian professional sports league has joined a global esports league, but it also marks our third expansion team from outside of North America. We remain very excited about the continued growth and success of the *NBA 2K League*.
- In closing, we believe that Take-Two is home to the best talent in our industry across all segments of interactive entertainment. With an expanding portfolio of the most exciting and commercially successful owned intellectual property, and the ability to deliver consistently deeply engaging and captivating entertainment experiences to a broad array of audiences around the world, we believe that we are well-positioned to deliver long-term value for our shareholders.
- I'll now turn the call over to Lainie.

Lainie Goldstein

- Thanks Karl and good afternoon everyone.
- Today I'll discuss the key highlights from our second quarter before reviewing our guidance for fiscal year 2023 and our third quarter. Please note that our second quarter results include our combination with Zynga, which affects the comparability of our results relative to last year. Additional details regarding our actual results and outlook are contained in our press release.
- As Strauss mentioned, our combination with Zynga is tracking very well – from the progress we are making against our integration milestones; to the Net Bookings and cost synergy realization that we are working towards; and our highly complementary company cultures. We have great confidence that over the long-term, our portfolio is poised to benefit from the significant expected growth in mobile

gaming; the evolving player dynamics towards more immersive mobile content; and our massive combined scale, which will enable our teams to cross-promote titles and build stronger tools to connect with new users.

- During the quarter, we identified additional cost savings opportunities, and we now feel confident that we can deliver over \$100 million of annual synergies within the first two years post-close. We are also evaluating other efficiencies across our core businesses, while ensuring that we have the appropriate resources to deliver on our significant growth prospects.
- Our second quarter results were solid, and we delivered Net Bookings of \$1.5 billion, which was within our prior guidance range. The movement in foreign currency exchange rates negatively affected our Net Bookings by approximately 1%. With consumers navigating ongoing macroeconomic uncertainties, we believe that our financial performance truly demonstrates the incredible quality of our games and the significant value that our interactive entertainment experiences provide to our players.
 - During the period, recurrent consumer spending rose 76% and accounted for 80% of Net Bookings. *NBA 2K* and Rollic's hyper-casual mobile portfolio outperformed our plans, while we experienced some softness across other parts of our portfolio as the interactive entertainment industry faced continued headwinds.
 - Digitally-delivered Net Bookings increased 62% and accounted for 94% of the total.
 - During the quarter, 73% of console game sales were delivered digitally, up from 65% last year.
- GAAP net revenue increased 62% to \$1.4 billion and cost of revenue increased 56% to \$714 million.
- Operating expenses increased by 144% to \$932 million, primarily driven by the addition of Zynga; and business acquisition and higher personnel costs; which was partly offset by lower console and PC marketing expenses.
- And, GAAP net loss was \$257 million, or \$1.54, which was impacted by \$320 million of amortization of acquired intangibles and \$37 million of business acquisition costs.
- Our management tax rate for the period was 18% as compared to 16% in the prior year as a result of our combination with Zynga.
- We ended the quarter with over \$1.3 billion of Cash and Short-Term Investments and \$3.3 billion of debt.
- Turning to our guidance, I'll begin with our full fiscal year expectations.
- As Strauss mentioned, we are revising our guidance, and we now expect to deliver Net Bookings of \$5.4 to \$5.5 billion. Approximately 70% of the downward revision reflects lowered expectations for our mobile business and shifts in our release slate, while the balance reflects an updated view for the rest of our portfolio, based on current business trends across the interactive entertainment industry. Our guidance reflects \$50 million of FX headwinds.

- The largest contributors to Net Bookings are expected to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Empires & Puzzles*, Rollic's hyper-casual mobile portfolio, *Toon Blast*, and *Red Dead Redemption 2* and *Red Dead Online*.
 - We expect the Net Bookings breakdown from our labels to be 45% Zynga (which includes our former T2 mobile titles), 36% 2K, 18% Rockstar Games, and 1% Private Division.
 - We forecast our geographic Net Bookings split to be about 60% United States and 40% International.
- We now expect recurrent consumer spending to grow by approximately 90% and represent 77% of total Net Bookings.
 - Our digitally-delivered Net Bookings are expected to grow by approximately 70% and represent 96% of the total.
 - Our forecast assumes that 75% of console game sales will be delivered-digitally, up from 68% last year.
 - We expect to generate more than \$650 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow and we expect to deploy approximately \$150 million for capital expenditures.
 - We expect GAAP net revenue to range from \$5.41 to \$5.51 billion and cost of revenue to range from \$2.61 to \$2.64 billion, which includes approximately \$694 million of amortization of acquired intangibles.
 - Total operating expenses are expected to range from \$3.4 to \$3.42 billion as compared to \$1.5 billion last year. This increase reflects the inclusion of Zynga; business acquisition costs; and higher personnel, marketing, and IT expenses; which we anticipate will be slightly offset by our expected cost synergies. In light of the current economic backdrop, we continue to monitor our costs prudently to find potential areas of savings this year, while being mindful of the resources we need to support our robust multi-year release schedule.
 - And, we expect a GAAP net loss ranging from \$631 to \$674 million, or \$3.95 to \$4.22 per share, which assumes a basic share count of 159.8 million shares. Our revised forecast includes an increase in amortization for intangible assets acquired from Zynga based on updated valuation estimates.
 - We expect our management tax rate to be 18% throughout the year.
 - Now, moving to our guidance for the fiscal third quarter:
 - We project Net bookings to range from \$1.41 to \$1.46 billion, compared to \$866 million in the third quarter last year.
 - The largest contributors to Net Bookings are expected to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Empires and Puzzles*, Rollic's hyper-casual mobile portfolio, and *Toon Blast*.
 - We project recurrent consumer spending to grow approximately 125% and digitally-delivered Net Bookings to increase approximately 80%.
 - Our forecast assumes that 72% of console game sales will be delivered digitally, up from 63% last year.

- We expect GAAP net revenue to range from \$1.43 to \$1.48 billion and cost of revenue to range from \$690 to \$710 million, which includes approximately \$198 million of amortization of acquired intangibles.
- Operating expenses are expected to range from \$897 to \$907 million. At the midpoint, this represents a 126% increase over last year. This increase reflects the inclusion of Zynga; business acquisition costs; and higher marketing, which we believe will be slightly offset by the realization of some of our anticipated cost synergies and cost savings efforts.
- And, GAAP net loss is expected to range from \$142 to \$160 million, or \$0.85 to \$0.95 per share, which assumes a basic share count of 167.7 million shares.
- In closing, we continue to focus on our execution against an uncertain economic backdrop, and we are highly optimistic about our future growth trajectory. Our long-term development pipeline is stronger than ever, and we are excited to deliver high-profile sequels and engaging new properties that have the potential to enhance our financial profile even further. At the same time, we are confident in our ability to create significant shareholder value as we continue our integration of Zynga by collaborating on new creative projects, leveraging our combined scale, unlocking greater potential from their mobile platform, and entering new business models and geographies.
- Thank you. I'll now turn the call back to Strauss.

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