

SAFE HARBOR – Nicole Shevins

- Good afternoon. Thank you for joining our conference call to discuss our results for the second quarter of Fiscal year 2022, ended September 30, 2021. 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](https://www.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 outstanding quarter, highlighted by Net Bookings of \$985 million, which greatly exceeded our expectations and increased 3% over last year. We experienced consistently strong engagement trends across our key franchises, underscoring the durability of our offerings and the deep relationships that we have established with new, existing, and returning players. We believe that we can maintain these favorable engagement patterns as we continue to deliver the highest quality entertainment experiences that are driven by our teams' passion and commitment to creativity and innovation.
- We have been taking key actions to execute on our long-term strategic vision.
 - We continue to enhance and diversify our pipeline across an array of platforms, business models, and genres.

- To support this, we are investing in our infrastructure and making key hires, ranging from senior talent at our labels to the addition of more than 350 new developers during the second quarter.
 - We are pleased with the progress of T2 Mobile Games, which is helping us leverage our teams' expertise across our enterprise. Additionally, Nordeus has already reached key integration milestones.
 - We continue to build upon our ESG efforts, and we hope to share more in the coming months.
- Given our strong confidence in our Company, we opportunistically repurchased 1.26 million shares of our stock during the second quarter for approximately \$200 million, with an average share price of \$158.67. This marks the first time in over two years that we repurchased our stock, underscoring the deep value that we observed in our share price. In November, our Board of Directors authorized an additional 7.4 million shares that the Company is permitted to repurchase, resulting in 10 million shares remaining available for repurchase as of the date of the additional authorization.
 - Turning to our second quarter results, our better-than-expected performance was driven primarily by *Borderlands 3*, *NBA 2K*, and *Grand Theft Auto V* and *Grand Theft Auto Online*.
 - On September 10th, 2K and Visual Concepts successfully launched *NBA 2K22*, with more players hitting the digital hardwood in its first month than any prior release of the game. The title enjoyed outstanding initial success, with over 5 million units sold-in to-date. Players are deeply engaged, and we are experiencing growth in Daily Active Users and Daily Games Played Per User compared to *NBA 2K21* in the same period.
 - For the quarter, the *NBA 2K* series delivered exceptional results that were significantly above our expectations. *NBA 2K22* experienced growth in recurrent consumer spending, as well as a 4% increase in total in-game purchasers, and a 58% increase in new user spending. I'd like to congratulate the teams at 2K and Visual Concepts for once again delivering such a stellar basketball experience. We see a meaningful opportunity to grow the franchise further over the next few years as we provide engaging and frequent content updates throughout the game.
 - Sales of *Grand Theft Auto V* continued to exceed our expectations, and to date, the title has sold-in more than 155 million units worldwide.
 - During the period, Rockstar Games launched another major update for *Grand Theft Auto Online*'s evolving world. The *Los Santos Tuners* update brought a renewed focus to the underground street racing scene and introduced a host of innovative and highly requested features, including the LS Car Meet – a shared social space where players can get together to modify, test and race their cars, get tattoos, and more. *Los Santos Tuners* also added 17 highly customizable vehicles; a

purchasable auto workshop; new robbery Contracts and street races; and the ability to add music in a new way through collectible media sticks.

- Recurrent consumer spending increased 33% and active player audience increased 11%, representing the strongest second quarter on record for both metrics. The success of *Los Santos Tuners* demonstrates Rockstar's ability both to anticipate the needs of its players and to respond to player feedback with an ongoing stream of high-quality and engaging content.
- During the quarter, *Red Dead Redemption 2* also significantly outperformed our expectations, and to date, has sold-in more than 39 million units worldwide.
- Momentum continued in *Red Dead Online* with the introduction of the *Blood Money* update in July, which introduced a series of new criminal-themed opportunities; complex new missions, including the game's first train robbery; and *The Quick Draw Club* – a series of four distinct, rapid-fire passes featuring criminal-themed unlockable rewards, bonuses, and more. As a result of the *Blood Money* update, as well as the influx of new players attributable to the standalone version of *Red Dead Online*, we experienced a 26% increase in active players and a 29% increase in new online player acquisition. Recurrent consumer spending for the series was also notably above expectations.
- In August, Private Division expanded their portfolio with the physical release of *Hades* for PlayStation and Xbox platforms. The title continues to earn positive praise from the gaming community and is currently Metacritic's highest-rated game for the PlayStation 5 and Xbox Series X. In September, the label released *Murder on Eridanos*, the final expansion for *The Outer Worlds*, for the Nintendo Switch. We are pleased that *The Outer Worlds* continues to grow its audience and to date, the title has sold-in over 4 million units. Also in September, Private Division launched *Kerbal Space Program Enhanced Edition* for Gen 9 consoles, taking advantage of the latest performance and visual enhancements to provide players an exciting new way to experience this beloved space flight simulation game.
- During the quarter, recurrent consumer spending rose 7%, which was significantly ahead of our expectations of an 11% decline and accounted for 69% of Net Bookings. As I mentioned earlier, our consumer engagement trends were consistently strong, even as people resumed more normal socialization patterns and as schools and workplaces began to reopen. We are very optimistic about our continued ability to keep players engaged and to capitalize further on our massive audience size. For the period, *NBA 2K* and *Grand Theft Auto Online* were the largest contributors to recurrent consumer spending. Many of our free-to-play offerings were also notable drivers:
 - *Top Eleven* exceeded our expectations, driven by strong seasonal LiveOps and features, optimized marketing activities and enhanced user quality;
 - *Dragon City* and *Monster Legends* performed well, thanks to strong LiveOps, new updates and feature releases, and increased marketing investments;

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- *Two Dots* achieved its highest-ever Net Bookings since our acquisition, which we attribute to new in-game events, such as scavenger hunts and curated seasonal content;
 - *WWE SuperCard* has now been downloaded more than 24 million times and remains 2K's highest grossing mobile game;
 - *NBA 2K Online* in China outperformed our expectations and remains the #1 online PC sports game in the region with nearly 55 million registered users. We continue to monitor the regulatory environment. It bears noting that China represented 3% of our Net Bookings in Fiscal Year 2021. While we remain optimistic about China and will pursue further opportunities there, we believe that our exposure to the region will remain limited in the context of our growing Net Bookings.
- Turning to our guidance, as a result of our second quarter outperformance, along with our updated forecast for the balance of the year, we are raising our outlook for Fiscal Year 2022, and we now expect to achieve Net Bookings of \$3.3 to \$3.4 billion. Lainie will provide more details shortly.
 - With the strongest multi-year pipeline in our Company's history, we continue to believe that we will achieve sequential growth in Net Bookings in Fiscal 2023 and establish new record levels of operating results over the next few years.
 - Our focus on bringing new intellectual properties to market will help us diversify our portfolio further and build lasting franchises that we believe will enhance our financial profile for years to come. At the same time, our teams are hard at work developing sequels to many of our beloved franchises that we know our consumers will be eager to play.
 - As we execute on our strategic vision and maintain our commitment to an outstanding and collaborative culture, we believe that we will significantly grow our operations and drive long-term shareholder value.
 - I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- I'd like to thank our teams for all their contributions, as well as their continued passion and dedication to our business. Our unique and collaborative culture continues to be a key driver of our success.
- I'll now discuss our recent releases:

- On October 1st, 2K and Hangar 13 launched the *Mafia III: Definitive Edition* for Stadia. Previously released on other platforms, the *Definitive Edition* offers many additional features and post-launch content that has since been incorporated into the game. We're pleased to continue our support for Stadia and expand the *Mafia* franchise to new audiences.
- On October 11th, Nordeus released *Top Eleven 2022* on iOS and Android, the latest installment of the world's most successful soccer management game. *Top Eleven 2022* delivers significant updates to the gameplay and soccer management experience, pitting aspiring soccer managers against one another in League, Cup, and Friendly Matches. *Top Eleven 2022* also provides a significant new layer of depth to player development via the Playstyles feature, which helps to enhance the soccer fantasy that *Top Eleven* has been providing to fans for more than a decade.
- On October 14th, 2K and HB Studios launched the *PGA TOUR 2K21 Baller Edition*, which includes the base game, all previously released DLC courses and game modes, an assortment of Adidas apparel and gear, and the *Golden Touch Pack* that features a gold putter and driver. In addition, *PGA TOUR 2K21* offers new multiplayer courses each month, designed by a group of international content creators. We're thrilled that the community continues to grow, with the title selling-in over 2.5 million units to-date.
- On October 19th, 2K launched *NBA 2K22 Arcade Edition* for Apple Arcade, building on the success of its predecessor, which continues to be listed as one of the platform's top games with an average of 4.6 out of 5 stars across more than 85,000 ratings. *NBA 2K22 Arcade Edition* expands the franchise's addressable market with new modes and features, including The Association, MyCOURT, and more.
- Rockstar Games continued to provide an array of free content for their vast and growing online communities. To celebrate Halloween, *Grand Theft Auto Online* added a series of random events to shock and surprise players, including driverless phantom killer cars, superhuman Slashers, UFO's, and more, including bonuses on Alien Survival modes, and a new Arcade game. Players will also be able to experience an all-new adventure in *Grand Theft Auto Online* later this year as they help some well-known contacts and familiar faces, with many more surprises yet to be revealed.
- I'll now discuss details on our upcoming announced offerings for this year:
 - Rockstar Games will digitally launch *Grand Theft Auto: The Trilogy – The Definitive Edition* this November 11th for PlayStation 5, PlayStation 4, Xbox Series X/S, Xbox One, Nintendo Switch, and the Rockstar Games Launcher for PC. *The Definitive Edition* will feature across-the-board upgrades for all three games, including graphical improvements and modern controls, while still

maintaining the classic and distinct aesthetic of the original games. *Grand Theft Auto: The Trilogy – The Definitive Edition* will launch physically for consoles on December 7th and will release for iOS and Android devices in the first half of calendar 2022. As part of the celebration of the recent 20th anniversary, *Grand Theft Auto III* fans can also collect an array of special commemorative gear in *Grand Theft Auto Online* throughout a series of upcoming events this Fall.

- On November 12th, 2K and Gearbox Software will release limited quantities of *Borderlands 3 Ultimate Edition* physically for PlayStation 5 and Xbox Series X. Avid Vault Hunters and newcomers alike are sure to enjoy this quintessential *Borderlands 3* experience, featuring the award-winning base game plus all six content add-ons and the full collection of bonus cosmetic packs. The *Ultimate Edition* is optimized to take full advantage of the Gen 9 hardware's processing power, enabling gameplay at up to 60 frames-per-second in 4K resolution during single-player and online co-op.
- *OlliOlli World*, the skateboarding action-platformer developed by Roll7, launches this winter in the fourth quarter of Fiscal 2022 on PlayStation 4 and 5, Xbox One, Xbox Series X|S, PC and Nintendo Switch.
- On March 25th, 2K and Gearbox Software will launch an exciting new entry from the *Borderlands* universe - *Tiny Tina's Wonderlands*. In September, the team unveiled the game's brand-new mechanics and all-star celebrity cast, including Will Arnett, Ashly Burch, Andy Samberg, and Wanda Sykes. Fans' reaction to the first look at gameplay was extremely positive, reflecting the growing excitement for this fantasy-fueled take on the popular looter-shooter genre.
- In addition, 2K and Visual Concepts remain hard at work on *WWE 2K22*, which will be released in March. Our partners at WWE have done amazing things with their brand, resulting in a passionate and deeply engaged community, and they're providing tremendous support to maximize our campaign through all their platforms, including social media, digital, programming, talent, in-arena and more. Visual Concepts is gearing up for a major reveal of the game's key features in January, which we look forward to sharing with fans, followed by the biggest *WWE 2K* launch to date.
- Rockstar Games is thrilled to launch the expanded and enhanced versions of *Grand Theft Auto V* and *Grand Theft Online - Standalone* for Gen-9 consoles in March. Players will enjoy a range of technical and graphical improvements across the entire experience including performance enhancements for select vehicles in *Grand Theft Auto Online*, and much more. Rockstar Games will have more details to share about these eagerly anticipated launches in the coming months.
- As we noted in our earnings release, *Marvel's Midnight Suns* from Firaxis Games is now expected to be released in the second half of calendar 2022 during our

Fiscal year 2023. While we don't take delays lightly, we know that our proven success has been rooted firmly in our "player-first" approach and unwavering commitment to delivering the highest quality entertainment experiences. We believe it is far better to provide the extra time needed for a product – especially a new IP – to reach its full potential and drive long-term success as a permanent franchise in our industry-leading portfolio. As gaming platforms continue to evolve, technological advancements allow us to design experiences that are more immersive and engaging than ever before. While this has enabled us to significantly grow our franchises over time, game development has become more complex, especially with many of our colleagues still working remotely.

- We continue to evaluate and optimize our game creation processes to enhance the ways that our teams collaborate, share best practices, and leverage technologies and expertise.
- Turning to eSports, the *NBA 2K League* concluded its fourth season attracting more than 18 million unique viewers and over 2 million hours of games watched on Twitch. During the playoffs and finals, nearly 4 million unique viewers tuned in as Wizards District Gaming won their second consecutive championship. In addition, the *League* hosted their inaugural All-Star Game held at Brooklyn Steel in New York. As part of the *League's* continued global expansion, Mexico's DUX Gaming will launch a team this Spring, marking the 24th team and the first to participate from Latin America. We are thrilled to see the *League* continue to grow both its audience and global presence.
- In closing, we have a strong foundation for success that has helped us curate a portfolio of highly engaging franchises that transcend console and player generations. As we continue to harness and enhance our competitive advantages – our incredible creative talent, best-in-class marketing and technology, and strong balance sheet – we will introduce new entertainment experiences that we believe have vast commercial potential, and the ability to drive long-term engagement and recurrent consumer spending. We also expect to continue to attract the very best creators who share in our vision to set new benchmarks and captivate audiences throughout the world.

I'll now turn the call over to Lainie.

Lainie Goldstein

- Thanks Karl and good afternoon everyone.
- Today I'll discuss our second quarter results and then review our financial outlook for Fiscal Year 2022 and the third quarter. Please note that additional details regarding our actual results and outlook are contained in our press release.

- As Strauss mentioned, our business fundamentals remain exceptionally strong across our key franchises.
- Net Bookings were 985 million dollars, which was significantly above our guidance of 815 to 865 million dollars and up 3% as compared to last year. Our outperformance was primarily driven by *Borderlands 3*, *NBA 2K*, and *Grand Theft Auto V* and *Grand Theft Auto Online*.
 - During the period, overall engagement was outstanding, with recurrent consumer spending increasing 7%, compared to our outlook of an 11% decline and accounting for 69% of total Net Bookings. Our outperformance was primarily driven by *NBA 2K*.
 - Digitally-delivered Net Bookings increased 9%, compared to our outlook of a 5% decline, and accounted for 89% of the total. This result was better than our outlook primarily due to the outperformance of recurrent consumer spending.
 - During the quarter, 65% of console game sales were delivered digitally, up from 57% last year.
- GAAP net revenue increased 2% to 858 million dollars, while cost of goods sold increased 6% to 457 million dollars. Cost of goods sold included a 53 million dollar impairment charge related to our decision not to proceed with further development of an unannounced title in our pipeline.
- Operating expenses increased by 30% to 381 million dollars. The variance is driven by higher personnel, marketing, and IT expenses; the addition of Playdots and Nordeus; and the revaluation of the Nordeus earnout.
- And, GAAP net income was 10 million dollars, or 9 cents per share, as compared to 99 million dollars, or 86 cents per share, in the second quarter last year.
- We ended the quarter with approximately 2.3 billion dollars of Cash and Short-Term Investments. We opportunistically repurchased 1.26 million shares of our stock during the quarter for approximately 200 million dollars, with an average share price of 158 dollars and 67 cents.
- Turning to our guidance, I'll begin with our full Fiscal year expectations.
- We are raising our Net Bookings outlook range to 3.3 to 3.4 billion dollars. This is up from our prior outlook of 3.2 to 3.3 billion dollars due to our second quarter outperformance along with our updated forecast for the balance of the year, which includes the move of *Marvel's Midnight Suns* into Fiscal 2023.

- The largest contributors to Net Bookings are expected to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Red Dead Redemption 2* and *Red Dead Online*, and *Borderlands 3*.
 - We expect the Net Bookings breakdown from our labels to be roughly 50% 2K, 40% Rockstar Games, and 10% Private Division and T2 Mobile Games.
 - We forecast our geographic Net Bookings split to be about 60% United States and 40% International.
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- We now expect recurrent consumer spending to decline by 6%, compared to our prior outlook of a 9% decline versus Fiscal 2021. As a percentage of Net Bookings, recurrent consumer spending is expected to represent 66% of total Net Bookings, slightly above 65% last year.
 - We now project digitally-delivered Net Bookings to decrease by approximately 4%, compared to our prior outlook of a 6% decline. As a percentage of our business, digital is projected to represent 90%, slightly above 89% last year.
 - Our forecast assumes that 73% of console game sales will be delivered-digitally, up from 64% last year.
 - We expect to generate more than 400 million dollars in Non-GAAP Adjusted Unrestricted Operating Cash Flow and we plan to deploy approximately 170 million dollars for capital expenditures.
 - We are raising our GAAP net revenue outlook to 3.35 to 3.45 billion dollars, while we now expect cost of goods sold to range from 1.51 to 1.55 billion dollars.
 - Total operating expenses are expected to range from 1.47 to 1.49 billion dollars, representing, at the midpoint, a 22% increase over the prior year. This increase reflects costs relating to marketing, personnel, stock compensation, IT, and Research & Development to bring our expansive multi-year pipeline to market, as well as incremental expenses due to the addition of Nordeus and a full year of Playdots. Our operating expense expectations have improved compared to our prior guidance, driven by lower marketing expenses due to the movement in our release schedule.
 - And, we expect GAAP net income to range from 320 to 350 million dollars, or 2 dollars and 75 cents to 3 dollars per share.

- For management reporting purposes, we expect our tax rate to be 16% throughout Fiscal 2022.

- Now, moving to our guidance for the Fiscal third quarter:

- We project Net bookings to range from 800 to 850 million dollars, compared to 814 million dollars 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*, *Red Dead Redemption 2* and *Red Dead Online*, and *Grand Theft Auto: The Trilogy – The Definitive Edition*.
 - We project recurrent consumer spending to be up slightly compared to last year and digitally-delivered Net Bookings to increase by approximately 5%.
 - Our forecast assumes that 61% of console game sales will be delivered digitally, up from 56% last year.

- We expect GAAP net revenue to range from 840 to 890 million dollars and cost of goods sold to range from 344 to 370 million dollars.

- Operating expenses are expected to range from 378 to 388 million dollars. At the midpoint, this represents a 13% increase over last year, driven primarily by higher personnel, Research and Development and IT expenses, as well as the inclusion of Nordeus.

- And, GAAP net income is expected to range from 99 to 111 million dollars, or 85 cents to 95 cents per share.

- In closing, our second quarter results demonstrate the health of our business and our continued ability to engage our players with exciting and innovative new content. As we continue to capitalize on organic and inorganic growth opportunities, we believe that we will greatly expand our scale and deliver long-term growth for our shareholders.

- Thank you. I'll now turn the call back to Strauss.