



Q1 Fiscal 2023 Conference Call

SAFE HARBOR – Nicole Shevins

- Good afternoon. Thank you for joining our conference call to discuss our results for the first quarter of Fiscal Year 2023, ended June 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](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 Fiscal 2023 is off to a great start, highlighted by first quarter Net Bookings of \$1 billion. Our performance demonstrates the quality of our games and our ability to engage audiences across the globe, despite the impacts of various macroeconomic and geopolitical factors.
- This has been a milestone period in the history of our Company, as we closed our combination with Zynga. This transaction firmly establishes Take-Two's position as one of the largest pure-play interactive entertainment companies in the world. We are home to the industry's top creative talent and we own and control an exceptional, diverse portfolio of intellectual properties encompassing all key platforms and genres.

- We are exceedingly optimistic about the long-term growth potential for the mobile industry, as well as our ability to create greater shareholder value as a combined entity. Over the past few months, we have made significant progress in our integration efforts.
 - Zynga, which is being run by the label's President, Frank Gibeau, established its ongoing leadership structure. Alongside Frank, we are fortunate to have numerous, proven senior executives who will be instrumental in overseeing Zynga's day-to-day operations and taking our combined mobile business to the next level of success.
 - The integration of our corporate functions and systems has been tracking well, and we are pleased that our Day 1 plans were executed seamlessly, with no disruptions to our business operations or player communities.
 - While it is still early, we are confident that we can realize \$100 million of annual cost synergies within two years post-close and we are exploring additional areas of efficiencies.
 - Our creative teams are in active discussions about potential projects, and we remain committed to delivering over \$500 million of annual Net Bookings opportunities over time.
 - There are several meaningful drivers in mobile that we believe our teams can begin to activate this fiscal year, including implementing new bold beats, driven by new content and other live-service enhancements; user acquisition optimization; creating a centralized library for development technologies and tools; enhancing the monetization of in-game advertising; and continuing to invest in our ad tech platform with Chartboost.
 - Over the intermediate and long-term, our vision is to introduce mobile games for some of our most popular and proven intellectual properties that have the potential to be greatly additive to our financial profile. We have observed positive signs that some mobile players are looking for more sophisticated and immersive content, and we look forward to participating in this trend that should continue for the foreseeable future.
 - We also see a tremendous opportunity to establish a more meaningful presence in key mobile-first emerging markets.

- Turning to our first quarter results, on a pre-combination basis, our Net Bookings of \$731 million were within our previously stated outlook range, led by the outperformance of *NBA 2K22* and *WWE 2K22*. Zynga's offerings complemented our results significantly for the period.

- *NBA 2K22* continued to dominate as the industry's leading basketball game, with sell-in of over 12 million units to date, exceeding the series' sell-in from the prior year. During the first quarter, engagement with the title remained strong, with average games played per user increasing 16% year-over-year. In addition, *NBA 2K22 Arcade Edition* remains the #1 game on Apple Arcade since its launch in October 2021, and downloads of *NBA 2K Mobile* remained robust, driven by the *Courtside Pass* updates and content surrounding the NBA Playoffs and Finals. Our partnership with the NBA remains incredibly strong and we look forward to the launch of *NBA 2K23* in September.

- Throughout the first quarter, 2K and Visual Concepts released a series of DLC packs to support *WWE 2K22*, which brought even more fan-favorite superstars into the ring for what has been hailed by critics and consumers alike as our best *WWE* offering in the series. Engagement with the title has been outstanding, with more than 330 million in-game matches played and over 8.5 million hours of *WWE 2K22* content viewed on Twitch. We greatly value our partnership with the WWE and are thrilled about the long-term opportunity to grow the franchise further together.

- Rockstar Games capitalized on the momentum from last quarter's releases of *Grand Theft Auto V* for PlayStation 5 and Xbox series X/S, *Grand Theft Auto Online* standalone, and the launch of *GTA+*, as the experience continues to captivate players. Latest generation console players of *Grand Theft Auto Online* grew over 40% this quarter and are monetizing at a rate 36% higher than players on the previous generation. *GTA+*, the premium membership available exclusively on those consoles, has seen consistent growth since launch. The *GTA Online* community remains strong, and its audience size is operating at a new normal that is 49% higher than the pre-pandemic first quarter of fiscal 2020.
- Sales of *Grand Theft Auto V* also remained strong, and to date, the title has sold-in nearly 170 million units. With development of the next entry in the *Grand Theft Auto* series well underway, the Rockstar Games team is determined to once again set creative benchmarks for the series, our industry, and for all entertainment, just as the label has done with every one of their frontline releases.
- We were pleased with the performance of *Red Dead Redemption 2*, which continues to expand its audience and, to date, has sold-in more than 45 million units worldwide.
- *Tiny Tina's Wonderlands* exceeded our expectations and continued to sustain healthy player engagement, due in part to its robust post-launch content, which will continue throughout the Fiscal Year. The title has resonated with core fans and new audiences, with nearly 40% of players having never before played a *Borderlands* title. Additionally, *Tiny Tina's Wonderlands* launched on Steam in June alongside its previously released DLC offerings.
- Also in June, 2K and Supermassive Games launched *The Quarry*, an all-new horror narrative game, where every choice, big or small, shapes your story and determines who lives to tell the tale. The title launched to strong reviews, with NPR declaring it "this summer's best horror game," and Variety calling it "every horror fan's dream video game."
- And, Private Division released *Void Riders*, the first expansion for their critically acclaimed skateboarding action title, *OlliOlli World*, from Roll 7. The expansion earned an 87 on Openritic, which was even higher than the base game's excellent review scores. Private Division will share more details regarding the game's second expansion later this year.
- Recurrent consumer spending rose 48% and accounted for 73% of Net Bookings. This was significantly above our prior guidance due to the inclusion of Zynga for part of the quarter, which was not included previously, as well as outperformance from our core portfolio.
 - During the period, Zynga continued to experience strength in player engagement and retention, and we believe that we are maintaining our healthy market share on a global basis. Additionally, we delivered significant growth in advertising Net Bookings, which was offset by some pressure on in-app purchases due to current macroeconomic conditions and seasonality.
 - Some key highlights of our mobile offerings during the quarter include:
 - *Harry Potter: Puzzles & Spells* featured an in-game event to celebrate the cinematic release of "Fantastic Beasts: The Secrets of Dumbledore."
 - *Empires & Puzzles* introduced the game's fifth season, Dynasty of Dunes.
 - *Zynga Poker* released the Omaha update, giving players a new way to enjoy the popular game.
 - *Words With Friends* introduced Clubs, a new feature that expands the game's social experience by offering shared spaces that players can enjoy together.

- Rollic launched 11 games in the quarter and *Colors Runners!* reached the #1 top free downloaded games position in the U.S. App Store in June.
- Turning to our outlook, we now expect to deliver Net Bookings of \$5.8 to \$5.9 billion, which includes Zynga for part of the year. Our pipeline for the year continues to look very strong, and we are excited to expand significantly our mobile presence with a best-in-class platform. Our new forecast also takes into account some movement in our release slate for the year, foreign currency pressures, and macroeconomic uncertainty. Lainie will provide more details shortly.
- Looking ahead, our long-term vision is clearer than ever, and we believe that our combination with Zynga will enable us to capitalize better on the evolving dynamics of the interactive entertainment industry. As we deliver our expansive, diverse pipeline and pursue the vast opportunities that we have identified through our combination with Zynga, we see a path to engage even greater audiences around the world, grow our scale, and enhance our margins.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- I'd like to begin by thanking our teams for a great start to the year, driven by their tireless passion, creativity, and commitment to deliver the best entertainment experiences in the world.
- I'll now discuss our recent releases:
- On July 7th, 2K and Supermassive Games launched an update to the popular horror experience, *The Quarry*, which introduced several new features, including *Wolf Pack* – a new online multiplayer mode where the host can invite other players to help shape the story as a collective group. In addition, all six episodes of the ***Bizarre Yet Bonafide*** podcast featured in *The Quarry* are now available in-game and in their entirety. The podcast, which was previously available only on select streaming platforms, follows two fictional paranormal investigators as they delve into the troubling secrets of *The Quarry*.
- On July 19th, 2K and Visual Concepts released the fifth and final DLC pack for *WWE 2K22*, entitled "*The Whole Dam Pack*." The update features pop-culture icon Machine Gun Kelly, social media megastar Logan Paul, and high-flying, hard-hitting WWE Hall of Famer Rob Van Dam, alongside franchise debuts from LA Knight, Xia Li, Commander Azeez, and Sarray. We are very proud to have delivered such a stellar *WWE* offering this year and to support the title with our fans' most beloved superstars.
- On July 26th, Rockstar Games continued to grow and evolve the world of *Grand Theft Auto Online* across all platforms with the launch of *The Criminal Enterprises*, a sweeping update bringing new business prospects for Criminal Careers, plus new, elaborate Contact Missions, auto showrooms to test drive and purchase vehicles, and many other upgrades rolling out all summer long. The update also delivers highly-requested experience improvements as well as increased payouts across a range of gameplay, offering players more choices and freedom as they climb their way up the criminal ranks.

- We remain incredibly excited about our pipeline for Fiscal 2023 and beyond.
 - On August 16th, Private Division and Roll 7 will release *Rollerdrome* – a brand-new third-person, single-player shooter. This stylish, high-octane game combines adrenaline-fueled skate stunts with intense combat in a retro-futuristic world. The title will be available on Steam and for PlayStation Plus members for an introductory price just under \$20, after which it will retail for \$29.99. Additionally, PlayStation Plus Premium members will be able to play a free trial of the game when it launches.
 - On September 9th, 2K and Visual Concepts will launch *NBA 2K23*, the next offering from our industry-leading NBA series. Phoenix Suns’ shooting guard, three-time NBA All-Star, and 2021-22 Kia All-NBA First Team selection, Devin Booker, is featured on this year’s Standard Edition and cross-gen Digital Deluxe Edition. Iconic Michael Jordan appears on the cover of the *NBA 2K23 Michael Jordan Edition* and the brand-new *NBA 2K23 Championship Edition*, which retails for \$149.99 and delivers incredible value by including a 12-month subscription to the NBA League Pass for the first time. In the U.S. and Canada, players can purchase the *WNBA Edition* as a GameStop exclusive, featuring Phoenix Mercury superstar Diana Taurasi, along with Seattle Storm legend Sue Bird. 2K has partnered with Every Kid Sports to support greater representation of females in basketball with a \$100,000 donation that will enable girls across the U.S. to participate in youth sports. 2K will reveal more details of *NBA 2K23* in the coming weeks.
 - We have made the decision to move back the launch timing of *Marvel's Midnight Suns* to ensure the teams at Firaxis Games and 2K deliver the best possible experience for our fans. The title will launch later this fiscal year 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.
 - During the fourth quarter, Private Division and Intercept games will launch *Kerbal Space Program 2* on PC. The game’s dedicated community can look forward to more information about the game and its new features from the title’s ongoing gameplay reveal video series.
 - 2K’s teams at Visual Concepts and HB Studios remain hard at work on their upcoming launches of *WWE 2K23* and *PGA TOUR 2K23*. 2K will have more to share on these annual sports offerings shortly.
 - Zynga has a handful of games that are currently in soft-launch, with more on the horizon, and we expect some of these titles will begin launching worldwide in our next fiscal year.
 - This includes *Star Wars Hunters*, which is continuing to regularly roll out new content updates and features as it progresses through to a more mature phase of soft launch in strategic territories.
 - At the same time, Rollic will continue to release a high volume of mobile titles as it has done previously.
- Turning to eSports, the *NBA 2K League Championships* tip off will take place in Indianapolis at the Pavilion at Pan Am, with 3v3 play August 17th through the 20th, and 5v5 play August 24th through the 27th. We remain excited about the continued success and growth of the *NBA 2K League*.

- In closing, we believe that our Company today is the strongest and most diverse it has ever been. With approximately 11,000 of the industry's best and brightest talent, the most exciting and commercially successful portfolio of owned intellectual property, and the ability to deliver deeply captivating and engaging entertainment experiences on any platform anywhere in 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 first quarter before reviewing our financial outlook for the fiscal year 2023 and second quarter. Please note that our first quarter results include Zynga's financial performance for 39 days of the quarter, which impacts the comparability of our results relative to last year, as well as to our prior guidance, which did not include the contribution from Zynga. Also, any references to Take-Two's pre-combination results are referring to our financial performance excluding the acquired Zynga business. Additional details regarding our actual results and outlook are contained in our press release.
- As Strauss mentioned, this was a momentous quarter for our organization as we closed our transaction with Zynga and made significant progress on our integration efforts. Our teams created detailed plans to realize at least \$100 million of annual cost synergies and we continue to expect approximately \$50 million to be achieved within the first twelve months post-close. The largest opportunities include reducing duplicative corporate overhead and contracts, consolidating systems, rationalizing our real estate footprint, and leveraging Zynga's marketing functions across our other mobile titles. We are also exploring additional areas of efficiencies.
- At the same time, we delivered strong first quarter results, driven by Net Bookings of \$1 billion. On a pre-combination basis, our Net Bookings were \$731 million, which grew 3% compared to last year and was within our guidance range of \$700 to \$750 million. The movement in foreign currency exchange rates negatively impacted our Net Bookings by approximately 1%. We were also pleased with Zynga's contribution for part of the quarter. With consumers today navigating various macroeconomic and geopolitical factors, we believe that our financial performance truly demonstrates the resiliency of our business model, driven by the incredible quality of our games and the significant value that our interactive entertainment experiences provide our players.
 - During the period, recurrent consumer spending rose 48% and accounted for 73% of Net Bookings. This was significantly above our prior guidance due to the inclusion of Zynga for part of the quarter, as well as the outperformance of our pre-combination portfolio, led by *NBA 2K22*, *Tiny Tina's Wonderlands*, and *Top Eleven*.
 - Digitally-delivered Net Bookings increased 41% and accounted for 95% of the total.
 - During the quarter, 77% of console game sales were delivered digitally, up from 73% last year.

- GAAP net revenue increased 36% to \$1.1 billion and cost of revenue increased 32% to \$436 million, which included a \$20 million impairment charge related to our decision not to proceed with further development of a title from an unannounced new franchise.
- Operating expenses increased by 125% to \$704 million, primarily driven by the addition of Zynga and a full quarter of Nordeus; business acquisition costs; and higher personnel and marketing expenses.
- And, our GAAP net loss was \$104 million, or (\$0.76) per share, which was largely impacted by \$117 million of amortization of acquired intangibles and \$165 million of business acquisition costs. Our GAAP net loss benefited from a reversal of expense of approximately \$48 million related to forfeitures of previously granted stock awards. In the first quarter last year, our GAAP net income was \$152 million, or \$1.30.
- 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.
- On a pre-combination basis, our management results (excluding the impacts of the Zynga transaction) exceeded the high end of our guidance range by \$0.06, despite the impairment charge taken during the quarter and the higher tax rate.
- 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 initiating new guidance that includes our combination with Zynga for approximately 10 months of our fiscal year. We now expect to deliver Net Bookings of \$5.8 to \$5.9 billion. Our assumptions take into consideration some shifts in our pipeline for the year, as well as movement in foreign exchange rates and the uncertain macroeconomic backdrop.
 - 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 hypercasual 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), 37% 2K, 17% 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 110% and represent 77% of total Net Bookings.
- Our digitally-delivered Net Bookings are expected to grow by approximately 80% and represent 96% of Net Bookings.
- Our forecast assumes that 74% of console game sales will be delivered-digitally, up from 68% last year.

- We expect to generate more than \$700 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow and we expect to deploy approximately \$135 million for capital expenditures.
- We expect GAAP net revenue to range from \$5.73 to \$5.83 billion and cost of revenue to range from \$2.74 to \$2.79 billion, which includes approximately \$700 million of amortization of acquired intangibles.
- Total operating expenses are expected to range from \$3.37 to \$3.38 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 is slightly offset by our anticipated cost synergies for the year.
- And, we expect a GAAP net loss ranging from \$398 to \$438 million, or (\$2.50) to (\$2.75) per share, which assumes a basic share count of 159.2 million shares.
- We expect our management tax rate to be 18% throughout the year.
- Now, moving to our guidance for the fiscal second quarter:
- We project Net bookings to range from \$1.5 to \$1.55 billion, compared to \$985 million in the second 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 hypercasual mobile portfolio, and *Toon Blast*.
 - We project recurrent consumer spending to grow approximately 85% and digitally-delivered Net Bookings to increase approximately 70%.
 - Our forecast assumes that 73% of console game sales will be delivered digitally, up from 65% last year.
- We expect GAAP net revenue to range from \$1.37 to \$1.42 billion and cost of revenue to range from \$700 to \$719 million, which includes approximately \$200 million of amortization of acquired intangibles.
- Operating expenses are expected to range from \$849 to \$859 million. At the midpoint, this represents a 125% increase over last year. This increase reflects the inclusion of Zynga and business acquisition costs, as well as higher marketing and personnel expenses, which we believe will be slightly offset by the realization of some of our anticipated cost synergies.
- And, GAAP net loss is expected to range from \$144 to \$160 million, or (\$0.86) to (\$0.96) per share, which assumes a basic share count of 166.4 million shares.
- In closing, we had a great start to the year and we believe that our combination with Zynga will enhance our positioning as one of the top interactive entertainment companies in the world. As our teams continue to leverage the core competencies from Zynga's publishing platform, we believe that we will be able to engage our player base more deeply, add new dimensions to our existing portfolio, and deliver significant long-term growth and margin expansion for our shareholders.

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

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