



Q4 Fiscal 2022 Conference Call

SAFE HARBOR - Nicole Shevins

- Good afternoon. Thank you for joining our conference call to discuss our results for the fourth quarter and fiscal year 2022, ended March 31, 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.
- Our strong fourth quarter results concluded another highly successful year for our Company. We delivered Net Bookings of \$3.4 billion, which reflect our creative teams' unwavering commitment to quality, and the ability to deliver captivating and engaging entertainment experiences that transcend geographies and generations.
- On behalf of our management team, I would like to thank all of our colleagues around the world for helping us to achieve these results, especially as we continue to navigate through the new normal following the pandemic.

- During the year, we positioned our organization strategically for long-term growth. To that end:
 - We bolstered our creative teams by adding nearly 1,000 new developers, including through the acquisition of several talented studios, which will help us expand our capabilities and support our growing pipeline of offerings;
 - We broadened our portfolio further with the introduction of new intellectual properties and business models to drive player engagement;
 - We agreed upon our pending combination with Zynga, which will grow our audience significantly and increase exponentially our Net Bookings from mobile, the fastest-growing segment in interactive entertainment, while also providing us with substantial cost synergies and revenue opportunities. As we build our scale, we believe that we can grow our margins meaningfully;
 - Lastly, we advanced our ESG efforts, and I am pleased that we recently published our first dedicated report, which includes information on our initiatives to date, as well as our roadmap for the future.

- During the quarter, our newly released *WWE 2K22* and *Tiny Tina's Wonderlands* outperformed our expectations, as did *Red Dead Redemption 2*.

- *NBA 2K22* continued to grow its audience, with the title selling-in over 10 million units to date, and exceeding sell-in from the prior year. During the fourth quarter, engagement remained very strong, with average active days of playing up 6% and average games per user up 13% year-over-year. In addition, *NBA 2K22 Arcade Edition* continues to hold the #1 position on Apple Arcade's Top Game chart, and for the full year, downloads of *NBA 2K Mobile* increased nearly 25% as compared with fiscal 2021. We see a significant opportunity to add unique and innovative experiences throughout the game and focus on expanding our player base.

- On March 11th, 2K and Visual Concepts returned triumphantly to the squared circle with the eagerly anticipated release of *WWE 2K22*, which achieved the highest Metacritic scores on both Xbox and PlayStation platforms in franchise history. Setting new benchmarks for quality, the title offers more features and enhancements than any prior release in the series, including a redesigned gameplay engine, new controls, foundational improvements, upgraded visuals, and an array of options requested by our passionate player base. Notably, *WWE 2K22's* sell-in for its first four weeks exceeded the levels achieved for both *WWE 2K19* and *WWE 2K20*, even with a revised release window that was not during holiday season. Consumer engagement with the title has been outstanding, with over 140 million in-game matches played to date, and over 5.6 million hours of *WWE 2K22* content viewed on Twitch. I'd like to thank 2K and the WWE team at Visual Concepts for their commitment to reestablishing this incredible franchise. We greatly appreciate WWE's immense support in launching this year's game and look forward to continuing and building upon our successful partnership in the years to come.

- On March 25th, 2K and Gearbox Software released *Tiny Tina's Wonderlands*, an all-new, fantasy-fueled offering that has taken our partnership with Gearbox to new creative heights and is viewed as the best new franchise launch from 2K in several years. The title has resonated with core fans and new audiences alike, with nearly 30% of players having never before played a *Borderlands* title. To date, *Tiny Tina's Wonderlands* has exceeded our expectations and is being supported with cross-play functionality, an array of post-launch content, and a Season Pass. I would like to congratulate

2K and Gearbox on delivering another stellar game and we look forward to the possibilities for this new franchise in the years to come.

- During the fourth quarter, Rockstar Games expanded the reach of their iconic entertainment experience, *Grand Theft Auto V*, with the release of new versions of the game upgraded specifically for PlayStation 5 and Xbox Series X/S. This marked the third console generation for which the game has been made available since its initial launch in 2013, and to date, the title has sold-in more than 165 million units. Also, for the first time ever, *Grand Theft Auto Online* was made available as a standalone title for the latest generation consoles. Featuring an array of graphical and technical enhancements, a new Career Builder, new vehicles and more, these versions were well received by the game's vast community of players. In the period, *Grand Theft Auto Online* maintained its massive audience size from the prior year, while growing 8% and 74% as compared to the fourth quarters of fiscal 2020 and 2019, respectively. In addition, Rockstar Games launched *GTA+*, an all-new membership program that is exclusive to *Grand Theft Auto Online* players on PlayStation 5 and Xbox Series X/S consoles, whereby participants can receive a range of valuable player-friendly benefits, including a monthly deposit of GTA\$, and other bonuses designed to help players experience everything *Grand Theft Auto Online* has to offer, including access to major content packs like last holiday's The Contract. Initial conversion has been above our expectations, which we believe bodes well for this to be an ongoing engagement driver over time.
- *Red Dead Redemption 2* continued to expand its audience and, to date, has sold-in more than 44 million units worldwide. Results for the series were notably above our expectations for the period, which is further proof of the ongoing popularity of Rockstar's blockbuster entertainment experiences.
- Turning to Private Division, the label's recently-acquired studio, Roll7, successfully launched *OlliOlli World* in February, which received significant critical praise for its unique art style and impressive gameplay mechanics. We will support the title with its first expansion, VOID Riders, in the first half of this fiscal year.
- Championing the best independent talent in our industry, Private Division recently signed four new publishing agreements with leading independent developers Die Gute Fabrik, Evening Star, Piccolo Studio, and Yellow Brick Games. We look forward to working with these talented teams.
- During the fourth quarter, recurrent consumer spending declined 6% over last year and accounted for 60% of Net Bookings. Over the last few months, the consumer has seen a wide array of long-awaited, high-quality new releases in the market— including several of our own exciting titles that have not deployed significant live service offerings. We believe that this dynamic has impacted our overall recurrent consumer spending.
- *NBA 2K* and *Grand Theft Auto Online* were the largest contributors to recurrent consumer spending during the fourth quarter and many of our free-to-play offerings were notable drivers as well:
 - *Top Eleven* continued to perform very well following our acquisition and was our #1 mobile title during the fourth quarter;
 - *Two Dots* delivered notable year-over-year growth and posted its best-ever Net Bookings performance, driven by new in-game events and successful marketing activations;

- *Dragon City* and *Monster Legends* delivered a solid finish to the year, supported by enhanced live operations;
 - *WWE SuperCard* has now been downloaded more than 26 million times and remains 2K's highest grossing mobile game;
 - And, *NBA 2K Online* in China outperformed our expectations. The title remains the #1 online PC sports game in the region with nearly 57 million registered users.
- We are incredibly excited about our future path of growth, including our pending combination with Zynga. We believe that this will be a transformative moment for Take-Two as we continue to build upon our core tenets to become the most innovative, the most creative, and the most efficient entertainment company in the world. Combined, we will create a powerhouse of industry-leading titles that span key platforms and genres across interactive entertainment, developed by some of the most creative and forward-thinking talent within the industry. Later this week, our respective shareholders will vote on the transaction, which, assuming such approvals are obtained, we anticipate will close on May 23, 2022.
 - On a standalone basis, for fiscal 2023, we expect to achieve a new record of \$3.75 billion to \$3.85 billion in Net Bookings, as we plan to deliver many exciting new releases during the year.
 - Looking ahead, and excluding the impact of our combination with Zynga, we expect fiscal 2024 and fiscal 2025 to set even higher records of Net Bookings for our Company, alongside a significant ramp-up in profitability.
 - Lainie will provide additional details on our outlook shortly, while Karl will share an update on our exciting, diverse multi-year pipeline, including approximately 69 titles that we plan to release through fiscal 2025.
 - In closing, we are highly optimistic about our future. As we continue to expand our enterprise and execute on our growth strategies, we believe that Take-Two remains incredibly well-positioned to increase its scale and prominence within the industry, expand margins, and deliver 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 around the world for delivering another outstanding year for our Company. Our strong results were driven by our colleagues' passion, creativity, and commitment to deliver value for all of our stakeholders.
- I'll now discuss our recent first quarter releases:
 - On April 21st, 2K and Gearbox Software released *Coiled Captors*, the first of four exciting downloadable content packs in the *Tiny Tina's Wonderlands Season Pass*. Featuring a new environment, boss encounter, and legendary loot, the offering represents an innovative post-launch experience from this exciting new franchise.

- On April 26th, 2K and Visual Concepts launched *The Banzai Pack*, featuring five playable Superstars, plus *MyFACTION EVO* cards for each. This is the first of five downloadable planned content offerings for *WWE 2K22*, all of which will be available individually and as part of the game's *Season Pass* throughout the year.
- Looking ahead, fiscal 2023 will be another exciting year for Take-Two, as we deliver captivating new entertainment experiences for our players, while also growing our business through our pending combination with Zynga.
- I'll now provide details on Take-Two's fiscal 2023 pipeline on a standalone basis, which includes 18 planned releases.
 - We expect to deliver 6 immersive core offerings, all of which will be available for purchase. These include:
 - ***The Quarry***, which is an all-new horror narrative game from 2K and Supermassive Games, where every choice, big or small, shapes your story and determines who lives to tell the tale. Featuring an iconic ensemble cast of Hollywood stars, including David Arquette, Ariel Winter, Justice Smith, Brenda Song, Lance Henriksen, Lin Shaye, and more, *The Quarry* will launch on June 10th for PlayStation and Xbox consoles, and Windows PC via Steam.
 - ***Marvel's Midnight Suns*** is planned for release during the second half of calendar 2022 and is one of this year's most anticipated games. The title is being developed by Firaxis Games – the acclaimed studio that brought audiences such iconic franchises as *Sid Meier's Civilization* and *XCOM*, and features the Marvel Universe's most revered heroes in an entirely new gameplay experience. 2K will have more to share in the coming months.
 - ***Kerbal Space Program 2***, which is coming from Private Division and Intercept Games, is now expected to launch on PC in early calendar 2023, and on consoles later in calendar 2023. Anticipation for the title is high, with more than 12 million views on the announcement trailer. The dedicated *Kerbal* community can look forward to more information about the game and its new features from the title's ongoing gameplay reveal video series.
 - Turning to our annual sports offerings, fans can expect all-new releases from our popular sports series, including ***NBA 2K23***, ***WWE 2K23***, and ***PGA TOUR 2K23*** which will debut legendary golf icon, Tiger Woods, as the game's Executive Director. 2K will have more to share about these titles shortly.
 - Continuing with our fiscal 2023, pipeline, we plan to release 8 mobile titles, including 4 from new franchises and 4 from existing franchises; and 3 midcore/arcade titles for purchase, which include one new sports title from 2K, a new franchise from Private Division, and a new *Tales from the Borderlands* game, which will feature new characters and stories set in the *Borderlands* universe. And lastly, we'll have one new iteration of a previously-released title available for purchase.
- Our labels will continue to provide new content and experiences that drive engagement and recurrent consumer spending across many of their hit franchises, including *NBA 2K*, *Grand Theft*

Auto Online, Red Dead Redemption Online, WWE 2K, Tiny Tina's Wonderlands, OlliOlli World, and more.

- Excluding our pending combination with Zynga, we expect to deliver 51 titles throughout fiscal 2024 and fiscal 2025, which we believe will pave the way for us to achieve a strong acceleration in Net Bookings growth and profitability. This includes:
 - 18 immersive core releases, 7 of which are sports simulation games. 16 of these will be available for purchase, while 2 will be free-to-play;
 - 10 independent titles, which will all be available for purchase;
 - 12 free-to-play mobile games;
 - 4 mid-core games for purchase, 2 of which will be sports-oriented; and
 - 7 new iterations of previously-released titles, which will all be available for purchase.
- It bears noting that these titles are a snapshot of our current development pipeline. It is likely that some of these titles will not be developed through completion, that launch timing may change, and that we will also be adding new titles to our slate.
- In addition to our full game releases, we will continue to offer post-launch content opportunities for many of our releases, ranging from virtual currency sales to DLC packs and Season Passes.
- Turning to eSports, the *NBA 2K League* kicked off its fifth season on March 23, and included new sponsors, such as Google and Coinbase. This year, the *League* has partnered with the City of Indianapolis to bring all tournaments, as well as Playoffs and Finals, to its new home at The Pavilion at Pan Am. The *League's* overall prize pool has increased to \$2.5 million this season, the largest since its inception. We remain very excited about the continued success and growth of the *NBA 2K League*, which has the long-term potential to enhance engagement, and to be a driver of profits for our Company.
- In closing, as we execute on our organic growth initiatives and unlock new opportunities presented by our pending transaction with Zynga, we believe that we can broaden our portfolio and capitalize further on new platforms, business models, emerging markets, and distribution channels. As we deliver on these growth opportunities, we believe that Take-Two is exceedingly 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 our fourth quarter and fiscal 2022 results and then review our financial outlook for the full year and first quarter of fiscal 2023. Please note that our initial outlook does not include Zynga in our projected results or the interest expense on the notes that Take-Two issued in April to fund the cash portion for our pending acquisition of Zynga. Additional details regarding our actual results and outlook are contained in our press release.

- I am extremely pleased with the accomplishments that Take-Two delivered during the fourth quarter and fiscal year. We posted strong financial results, took exciting steps to position the Company for long-term growth, and announced our transformational pending combination with Zynga, which brings massive potential to our portfolio and financial profile.
- I'd like to thank our teams for their passion, commitment, and for continuing to help Take-Two deliver its strategic vision.
- Starting with our fourth quarter results, total Net Bookings grew 8% to \$846 million. Our newly released *WWE 2K22* and *Tiny Tina's Wonderlands* outperformed our expectations, as did *Red Dead Redemption 2*.
 - During the period, digitally-delivered Net Bookings grew 4% and accounted for 91% of the total. This exceeded our outlook of a "slight increase," due to the outperformance of digitally-delivered full game sales.
 - 75% of console game sales were delivered digitally, up slightly from last year.
 - As Strauss mentioned, over the last few months, there has been a wide array of long-awaited, high-quality new releases in the market— including several of our own exciting titles that have not deployed significant live service offerings. Accordingly, our recurrent consumer spending declined 6% and accounted for 60% of total Net Bookings.
- GAAP net revenue grew 11% to \$930 million, while cost of goods sold increased 43% to \$399 million, driven by amortization of software development costs for our fourth quarter releases.
- Operating expenses increased by 32% to \$403 million, driven by the addition of Nordeus, including its earnout, as well as higher marketing and transaction costs.
- And, GAAP net income was \$111 million, or \$0.95/share, compared to \$219 million, or \$1.88/share in the fourth quarter of fiscal 2021.
- Turning to our fiscal 2022 results, total Net Bookings were \$3.41 billion, as compared to \$3.55 billion in the prior year. As we expected, throughout the year, our engagement trends were notably higher than they were pre-pandemic; however, as the world began settling into a new normal, there was a moderation of the trends that benefitted our industry during the height of the pandemic.
 - As a result, digitally-delivered Net Bookings declined 2%, slightly outperforming our guidance of a 3% decline, and accounted for 91% of the total.
 - 68% of our console game sales were delivered digitally, up from 64% last year.
 - And, recurrent consumer spending declined 6%.
- Non-GAAP Adjusted Unrestricted Operating Cash Flow was \$425 million as compared to our outlook of over \$400 million.
- During fiscal 2022, we spent \$159 million on capital expenditures.
- At fiscal year end, our cash and short-term investments balance was approximately \$2.6 billion.

- GAAP net revenue grew 4% to \$3.5 billion, while cost of goods sold was flat at \$1.5 billion.
- Operating expenses increased 24% to \$1.5 billion, driven primarily by the additions of Playdots and Nordeus, including the revaluation of its earnout; higher personnel, stock compensation, marketing, and IT expenses; and higher transaction costs.
- And, GAAP net income was \$418 million, or \$3.58/share as compared to \$589 million, or \$5.09/share in the prior year.
- Today, we provided our initial fiscal 2023 outlook for Take-Two on a standalone basis.
 - We project Net bookings to range from \$3.75 to \$3.85 billion, which is a new record level for the Company, and implies strong growth of 11% at the midpoint.
 - We have an exciting pipeline of releases that we expect to bring to market during the year, including 6 immersive core titles, which is twice as many as we delivered in Fiscal 2022.
 - 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*, *Tiny Tina's Wonderlands*, *Marvel's Midnight Suns*, and *PGA TOUR 2K23*.
 - We expect the Net Bookings breakdown from our labels to be roughly 60% 2K, 30% Rockstar Games, and 10% Private Division and T2 Mobile Games.
 - And, we forecast our geographic Net Bookings split to be about 60% United States and 40% International.
- We expect recurrent consumer spending to be flat compared to fiscal 2022, and represent 58% of Net Bookings, which is down from 64% last year due to a greater number of new releases.
- We project digitally-delivered Net Bookings to grow 10% and represent 91% of Net Bookings, which is in line with last year.
- Our forecast assumes that 71% of console game sales will be delivered digitally, up from 68% last year.
- We expect to generate more than \$350 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow, and we plan to deploy approximately \$120 million for capital expenditures.
- We expect GAAP net revenue to range from \$3.67 to \$3.77 billion and cost of goods sold to range from \$1.66 to \$1.7 billion.
- Our total operating expenses are expected to range from \$1.74 to \$1.76 billion.
 - At the midpoint, this represents a 17% increase over the prior year. As Karl mentioned, we have approximately 69 titles that we plan to deliver over the next three years, and we will be investing behind our pipeline in key areas, such as marketing, personnel, and IT.
- And, we expect GAAP net income to range from \$223 to \$252 million, or \$1.90 to \$2.15 cents per share.
- For management reporting purposes, we expect our tax rate to be 16% throughout fiscal 2023.

- Now, moving onto our guidance for the fiscal first quarter:
- We project Net bookings to range from \$700 to \$750 million as compared to \$711 million in the first quarter last year.
 - The largest contributors to Net Bookings are expected to be *NBA 2K22*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Tiny Tina's Wonderlands*, *Red Dead Redemption 2* and *Red Dead Online*, *The Quarry*, and *WWE 2K22*.
 - We expect digitally-delivered Net Bookings to increase 2%.
 - Our forecast assumes that 78% of console game sales will be delivered-digitally, up from 73% in the same period last year.
 - We project recurrent consumer spending to decline by 10%, as we believe that the momentum behind our own exciting titles that have not deployed significant live service offerings will continue into the first quarter.
- We expect GAAP net revenue to range from \$810 to \$860 million and cost of goods sold to range from \$307 to \$333 million.
- Operating expenses are expected to range from \$387 to \$397 million. At the midpoint, this represents a 25% increase over last year, driven primarily by higher personnel and marketing expenses, as well as transaction costs.
- And, GAAP net income is expected to range from \$93 to \$105 million, or \$0.80 to \$0.90 per share.
- In closing, we have great confidence in our ability to drive accelerated growth into fiscal 2023 and beyond, and we believe that our pending combination with Zynga will take our business to an even greater level of scale and profitability. As we execute on our strategic initiatives, we believe that we can deliver sustainable, profitable growth for our shareholders.
- Thank you. I'll now turn the call back to Strauss.

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