



Q2 Fiscal Year 2024 Conference Call

- Good afternoon. Thank you for joining our conference call to discuss our results for the second quarter of Fiscal Year 2024, ended September 30, 2023. 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.
- We delivered another consecutive quarter of excellent results, highlighted by Net Bookings of \$1.44 billion, which was at the high end of our guidance, and management results that exceeded our plans. While we expect continued macroeconomic uncertainty, we believe that we are well positioned for the holiday season and are reiterating our fiscal 2024 Net Bookings guidance of \$5.45 to \$5.55 billion.
- Looking ahead, I am exceedingly optimistic about our Company's multi-year growth trajectory and our ability to deliver long-term value to our shareholders. Our development pipeline is robust and diverse, and we are getting closer to delivering the groundbreaking titles that our audiences throughout the world have been anticipating eagerly. Our unwavering commitment to being the most creative, the most innovative, and the most efficient entertainment company gives us great confidence that our offerings will surpass our players' expectations and set new standards of creative excellence in our industry.
- Now, turning to the performance of our titles during the quarter:

- *Grand Theft Auto V* and *Grand Theft Auto Online* continue to surpass our expectations, an outstanding achievement for two titles celebrating their 10th anniversaries. To-date, *Grand Theft Auto V* has sold-in approximately 190 million units. *Grand Theft Auto Online* experienced continued momentum due to the rollout of new gameplay and items from the *San Andreas Mercenaries* update, with new seasonal events, vehicles, modes, clothes, and weapons driving sustained engagement and Net Bookings. Our *GTA+* membership program continued to grow, and we are deepening our relationships with our player communities through new offerings, which now include access to a rotating assortment of classic Rockstar Games titles.
- During the quarter, Rockstar Games announced that Citizen FX, the team behind the FiveM and RedM role-playing communities for *Grand Theft Auto V* and *Red Dead Redemption 2*, officially joined the label. With their immense passion and creativity, Citizen FX has been pivotal in expanding the possibilities of user-generated content around Rockstar's leading titles. We are excited to see them continue to build these creative communities and help them thrive into the future.
- We are also thrilled by today's announcement from Rockstar Games' Founder, Sam Houser, that the eagerly anticipated first trailer for the next *Grand Theft Auto* will be revealed this coming December. As the label approaches its 25th anniversary next month, we congratulate Rockstar Games on their constant innovation in the pursuit of the highest quality interactive entertainment.
- *Red Dead Redemption 2* surpassed our plans and has sold-in more than 57 million units to-date. Rockstar Games continues to support *Red Dead Online* with new content, including bonuses for *The Naturalist* and *Bounty Hunters*, and new free roam missions and events. In addition, Rockstar Games expanded the audience for the franchise with the launch of *Red Dead Redemption* and *Undead Nightmare* for PlayStation 4 and Nintendo Switch.
- On September 8th, 2K and Visual Concepts once again redefined the #1 NBA simulation experience in our industry with the successful worldwide launch of *NBA 2K24*. With exciting new features and next-generation enhancements, the title is off to a great start, and to date, has sold-in over 4.5 million units. *NBA 2K24* features new Season Pass options that provide players with the opportunity to earn even more rewards, as well as a new seasonal progression that tracks and combines MyCAREER and MyTEAM into one linear rewards system. Engagement has been phenomenal, with Season Pass and virtual currency bookings exceeding our plans and driving double digit growth in ARPU compared to *NBA 2K23*. Our franchise extensions continue to perform extremely well, including *NBA 2K Mobile*, *NBA 2K Online* in China, and the recently-launched *NBA 2K24 Arcade Edition* on Apple Arcade. I would like to thank 2K and Visual Concepts for continuing to bring innovation and creativity consistently to our beloved franchise.
- 2K continued to support *LEGO 2K Drive* with its second Drive Pass Season and the Creators' Hub, and *PGA TOUR 2K23* with additional pros and gear. In addition, the label harnessed the power of our industry-leading catalog with the launch of the *Borderlands Collection: Pandora's Box*, which bundles together all six acclaimed *Borderlands* games and their previously released add-on content into a single offering at an amazing value. We have great respect for the team at Gearbox, and value deeply our long-term relationship.
- Zynga once again delivered solid results during the quarter and we remain pleased with its ongoing performance.
 - We continue to benefit from Zynga's ability to create engaging new games, which is a distinguishing capability of our mobile business. For example, Rollic successfully launched *Power Slap*, based on the world's first regulated and sanctioned slap fighting promotion. The title is highly entertaining, and to date, has experienced more than 1 billion slaps across training and matches. With the launch of this new mobile game, Rollic has now had 22 titles reach the #1 or #2 spot in the U.S. Apple App Store. We'd like to thank the entire team over at TKO, including Ari Emanuel and Dana White, for their strong partnership, as well as our colleagues at Rollic, who created this title from inception to release in just 8 weeks.

- Zynga also recently launched *Top Troops* and *Match Factory*, both of which delivered excellent KPI's in soft launch and appear to have strong long-term potential for our portfolio. And, *Star Wars Hunters* continues to hit important milestones as we approach its planned release date in Calendar 2024. Karl will discuss these titles in greater detail.
- Other highlights from our mobile business this quarter include:
 - Our advertising bookings grew year-over-year, driven by the addition of Popcore, contributions from strategic partnerships, and our efforts to increase ad inventory in many live games.
 - We continue to make excellent progress on our profitability initiatives, including expanding the number of mobile games that leverage our direct-to-consumer platform. As we convert additional players, we are gaining new insights that we believe will better serve our players' preferences. We remain optimistic that over the next few years, most of our mobile games will leverage this highly-accretive, owned distribution channel.
 - In addition, we continue to enhance the profitability and performance of our hyper-casual business, with multiple new games scaling rapidly and several games generating revenue from in-app purchases in addition to ads.
 - Our live games portfolio also continued to deliver. Social Casino maintained steady performance coming off a great first quarter, driven by new bold beat features, which drove strong results, particularly in *Zynga Poker*. Additionally, we implemented new updates and events across many games, including *Top Eleven* and *Dragon City*, which drove audience growth as well as increased engagement in core systems, leading to better retention and monetization.
- We stand at an exciting time in our Company's history, with numerous growth opportunities ahead of us. As we deliver on our strategic priorities, we have the potential to create unparalleled entertainment experiences, engage broader audiences throughout the world, and ultimately, enhance our scale and margin profile. I'd like to thank you all for your continued support and look forward to delivering our next phase of growth.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- I'd like to thank our teams for delivering another strong quarter and adding to the ongoing positive momentum of our business.
- I'll now turn to our recent and upcoming launches for Fiscal 2024 and beyond:
 - On October 3rd, Zynga's Socialpoint studio successfully launched *Top Troops*, a new mobile game that blends strategy, RPG, and merge mechanics to create a thrilling medieval fantasy adventure of combat and conquest. This marked the studio's first worldwide launch under Zynga following our combination last year. The game has seen positive player reception, with an average rating of 4.38 on Google Play and 4.5 on the Apple App Store. Engagement has also been fantastic, with over 2 million hours played and over 70 million battles fought since its worldwide launch date.
 - 2K and Gearbox Software expanded the audience of our beloved *Borderlands* franchise with the October 6th release of *Borderlands 3 Ultimate Edition* for Nintendo Switch. The game now allows players to make some mayhem at home or on-the-go in a thrilling, high-stakes adventure filled with genre-defining shooter-looter action.
 - On October 20th, 2K and Visual Concepts launched the *WWE 2K23 Bad Bunny Edition* across all platforms. Global phenomenon, Bad Bunny, is featured on the cover of the edition, which also

includes a new playable version of his in-game character wearing the apparel that he wore at WWE's Backlash 2023 live event.

- Zynga's Peak Games studio, the makers of *Toon Blast* and *Toy Blast*, released *Match Factory*, a new puzzle game for mobile where players connect identical items, sort tiles, and clear the board in a mesmerizing 3D environment. In soft launch, we observed strong engagement and monetization metrics, as well as a very positive player response as indicated by app store review scores, which gives us optimism about the long-term potential for this new mobile title.
- Private Division has several exciting releases planned for this fiscal year. On November 28th, Roll7 will release their critically acclaimed and wildly imaginative third-person shooter-skater, *Rollerdrome*, for Xbox Series X|S and PC, as well as Xbox Game Pass for both platforms. Also, during the fourth quarter, Evening Star, founded by the industry veterans behind *Sonic Mania*, will launch *Penny's Big Breakaway* – a kinetic yo-yo 3D platformer for PlayStation 5, Xbox Series X|S, Nintendo Switch, and PC.
- 2K and Visual Concepts are hard at work on *WWE 2K24*, the next installment of our popular wrestling series, which will launch during the fourth quarter.
- Looking ahead, we continue to see great engagement and feedback from audiences enjoying *Star Wars: Hunters* in soft launch across multiple territories. There are several exciting new elements that we are working hard to get into the game, and so we are moving the title's worldwide launch window to Calendar 2024.
- Private Division is working with Wētā Workshop on *Tales of the Shire*, a game set in the Middle-earth universe and inspired by the books of J.R.R. Tolkien. The team recently released a teaser trailer showing fans a glimpse of the project, which is planned for release in Calendar 2024 during our Fiscal Year 2025.
- Also, Zynga plans to globally launch *Game of Thrones: Legends*, an all-new RPG puzzle-oriented mobile title.
- In addition to our full game releases, our labels will continue to provide new content and experiences that drive engagement and recurrent consumer spending across many of our key offerings. Additionally, our hyper-casual studios plan to release a steady cadence of mobile titles for games that have the potential for enhanced retention rates and a mix of in-app purchases and advertising to drive higher monetization and profitability.
- Throughout the balance of this fiscal year and beyond, we are highly optimistic about what we believe to be the strongest and most exciting development pipeline in our company's history.
- 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 financial outlook for the full year and third quarter of fiscal 2024. Additional details regarding our actual results and outlook are contained in our press release.
- We delivered another great quarter, which demonstrates the enduring strength of our catalog; our ability to deliver deeply engaging post-launch content; and our commitment to disciplined execution. At the same time, our teams continued to make excellent progress advancing our development

pipeline, which gives us confidence in our multi-year growth trajectory. I'd like to thank our incredible teams worldwide for their hard work and passion for our business.

- Now, moving onto our results. We achieved Net Bookings of \$1.44 billion, which was at the high end of our guidance range.
 - Our performance reflects better-than-expected results from *Grand Theft Auto V* and *Grand Theft Auto Online*, and *Red Dead Redemption 2*.
 - During the quarter, we released *NBA 2K24*; *Red Dead Redemption* and *Undead Nightmare* for Switch and PlayStation 4; *Borderlands Collection: Pandora's Box*; and *Power Slap*.
 - Recurrent consumer spending declined 7% for the period, which was in-line with our outlook, and accounted for 78% of Net Bookings.
- GAAP net revenue decreased 7% to \$1.3 billion while cost of revenue increased 24% to \$884 million, driven by an impairment charge of \$220 million and \$190 million of amortization of acquired intangibles.
- Operating expenses increased by 3% to \$959 million and included \$165 million of goodwill impairment, representing a partial impairment of one of our reporting units. On a management basis, operating expenses were flat year-over-year, which was favorable to our guidance. This was driven by lower marketing expenditures, some of which shifted to later this year.
- Turning to our guidance, I'll begin with our full fiscal year expectations.
 - As Strauss mentioned, we are reiterating our Net bookings outlook range of \$5.45 to \$5.55 billion.
 - The largest contributors to Net Bookings are planned to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, our hyper-casual mobile portfolio, *Empires & Puzzles*, *Toon Blast*, *Red Dead Redemption 2* and *Red Dead Online*, *Words With Friends*, *Merge Dragons*, and *Zynga Poker*.
 - We expect the Net Bookings breakdown from our labels to be roughly 49% Zynga, 31% 2K, 18% Rockstar Games, and 2% Other.
 - And, we forecast our geographic Net Bookings split to be about 65% United States and 35% International.
- We are projecting recurrent consumer spending growth of 4% compared to fiscal 2023, which assumes an increase for *NBA 2K* as well as Zynga, since we will own the business for a full 12 months this year. For *Grand Theft Auto Online*, virtual currency and *GTA+* membership is expected to be flat. RCS is expected to represent 78% of Net Bookings.
- We plan to generate approximately \$100 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow, and to deploy approximately \$150 million for capital expenditures, primarily to support our office build outs and larger footprint.
- We continue to forecast GAAP net revenue to range from \$5.37 to \$5.47 billion.
- Our total operating expenses are now planned to range from \$3.53 to \$3.55 billion as compared to \$3.45 billion last year.
- On a management basis, we continue to expect operating expense growth of approximately 14% year-over-year, due to a full year of Zynga, an increase in personnel and marketing expenses, and higher depreciation of office buildouts and capitalized IT expenses, which are being partially offset by the realization of synergies from our combination with Zynga and savings from our cost reduction program. We remain vigilant in our efforts to optimize our cost structure and reduce discretionary costs where possible, while still investing for growth.

- Now, moving onto our guidance for the fiscal third quarter:
- We project Net Bookings to range from \$1.3 to \$1.35 billion, compared to \$1.4 billion in the third quarter last year.
 - Our release slate for the quarter includes two mobile titles, *Top Troops* and *Match Factory*, as well as *Borderlands 3 Ultimate Edition*, all of which have been released.
 - The largest contributors to Net Bookings are expected to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, our hyper-casual mobile portfolio, *Empires & Puzzles*, *Toon Blast*, *Red Dead Redemption 2* and *Red Dead Online*, *Words With Friends*, *Merge Dragons*, and *Zynga Poker*.
 - We project recurrent consumer spending to decrease by approximately 5%, which assumes a modest decline in our mobile business, which is being partially offset by expected growth in *NBA 2K*. For *Grand Theft Auto Online*, virtual currency and GTA+ membership is expected to be up.
- We project GAAP net revenue to range from \$1.29 to \$1.34 billion.
- Operating expenses are planned to range from \$826 to \$836 million. On a management basis, operating expenses are expected to grow by approximately 7% year-over-year, driven by higher personnel and depreciation expenses, which are being partially offset by the Zynga synergies and our cost savings initiatives.
- In closing, there are many exciting upcoming catalysts that we believe will enable our Company to achieve new record levels of financial performance. Powered by our incredible talent, we believe that our projects in development will set new standards for creativity and engagement in our industry, while also significantly enhancing our financial profile. We'd like to thank all our stakeholders for being on this journey with us, and we can't wait to share more details with you.
- Thank you. I'll now turn the call back to Strauss.

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