



Q3 Fiscal 2023 Conference Call

SAFE HARBOR – Nicole Shevins

- Good afternoon. Thank you for joining our conference call to discuss our results for the third quarter of Fiscal Year 2023, ended December 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](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.
- During the third quarter, we continued to execute on our ambition to create the highest-quality, most engaging interactive entertainment franchises in the industry, to deliver them across an array of platforms, and to captivate our global audiences. All of our new game releases and post-launch content have received significant critical acclaim and we are pleased to have the highest catalog sales based on units sold in the Americas. The strength of our portfolio reflects the passion, vision, artistic acumen, and hard work of our world-renowned development teams and studios, and we are immensely proud of our long-standing commitment to quality.

- Notwithstanding our creative achievements, our third quarter Net Bookings of \$1.38 billion were slightly below our prior guidance. We believe that, as a result of macroeconomic conditions, consumers shifted holiday spending toward established blockbuster franchises and titles that were offered with pricing promotions. While our catalog benefited from this trend, it affected the performance of certain of our new releases and recurrent consumer spending for some of our console and PC games. Despite the current market, we believe that our long-term success will be driven by our consistent ability to create the best entertainment experiences, including sequels of our beloved franchises and the introduction of engaging new intellectual properties.
- Sales of *Grand Theft Auto V* exceeded our expectations during the holiday season, and to date, the title has sold-in more than 175 million units. During the quarter, Rockstar Games released an array of new content for both Halloween and the Holiday season, as well as a new, story-driven update, *Los Santos Drug Wars*. The update launched in December and continues to deliver exciting new story and gameplay features to players across the Winter season, including a new business, Taxi missions and much more to come, which is continuing to drive strong engagement with our player base.
- We were also pleased with the performance of *Red Dead Redemption 2*, which outpaced our expectations, driven by successful holiday promotions and events. To date, the title has sold-in more than 50 million units. During the quarter, Rockstar Games continued to release new updates for *Red Dead Online*, including a new *Halloween Hardcore Telegram Mission*, and new *Call to Arms* locations for Halloween and the holidays.
- We remain incredibly pleased with the enduring quality of these entertainment experiences. *Grand Theft Auto V* was ranked #3 for units sold in the U.S. during calendar year 2022 on all platforms and was #2 overall for 2022 on Steam. Additionally, 2022 was GTAV's 10th consecutive year in the NPD Top 5 for unit sales. *Red Dead Redemption 2* also continues to resonate strongly with players, ranking as the #1 selling game on Steam for the quarter and #3 for 2022.
- *NBA 2K23*, which remains the #1 selling sports title in North America, continues to expand its audience and to date, has sold-in over 8 million units. Full-game sales for *NBA 2K23* are up 3% year-over-year and MyTeam users grew more than 50% over last year, as players enjoyed assembling their rosters of the NBA's all-time greatest stars to dominate the competition. In addition, *NBA 2K23 Arcade Edition* remains the #1 game on Apple Arcade since its launch in October.
- 2K and HB Studios supported *PGA TOUR 2K23* with a limited-edition holiday bundle that included *NBA 2K23* and new content featuring branded gear from Barstool Sports, 100 Thieves, and Dude Perfect. HB studios will release more content and features, including the addition of Pebble Beach, cross-play functionality, and ranked matchmaking.
- On December 2nd, 2K and Firaxis Games launched *Marvel's Midnight Suns* on Windows PC via Steam and Epic Games Store, PlayStation 5, and Xbox Series X|S. The title launched to critical acclaim, with VGC rating it a 5 out of 5, calling it a "*modern strategy classic*." PC Gamer said it was "*completely brilliant*" scoring it 88 out of 100, and Rock Paper Shotgun called it "*one of the best superhero games*." The title is being supported with a series of post-launch content that can be purchased individually or as part of the game's Season Pass.

- During the quarter, Zynga’s in-app purchases performed in-line with our expectations, and we saw mobile trends improve from prior lows, particularly during the holiday season.
- The label continued to experience strong engagement among its active players, and we believe that we are maintaining our global market share.
- Our advertising business outpaced the broader industry, as we continue to introduce new ad supply and products, optimize our networks to increase ad yields, and roll out Chartboost throughout our inventory.
- A few key highlights of our mobile offerings during the quarter include:
 - *Empires & Puzzles* was a top performer, due to strong seasonal content and Black Friday offerings. This is one of our first titles to leverage our direct-to-consumer platform for in-app purchases, which we believe can enhance significantly the margins for our mobile portfolio over the next few years.
 - Rollic’s *Balls’n Ropes* reached the #1 spot for most downloaded game in the U.S. in December, giving Rollic a total of 20 games that have reached the #1 or #2 spot in Apple’s U.S. App Store.
 - We acquired Popcore, which offers a unique balance of hyper-casual experiences that also prioritize long-term player retention rates. This strengthens our leadership among hyper-casual publishers with respect to downloads and revenue. Following the acquisition, Popcore’s game, *Tap Away*, reached the #1 spot for “most downloaded game” multiple times throughout the quarter in Apple’s U.S. App Store.
 - Zynga’s casino titles remained resilient, with *Game of Thrones Slots* posting its best quarter ever.
 - *Top Eleven* had a strong quarter, driven by various in-game updates celebrating the World Cup.
 - *CSR Racing 2* released *Race Pass*, which features innovative new rewards that are driving stronger retention and monetization.
- Our combination with Zynga remains highly accretive to our business. We remain committed to delivering our planned synergies, and we are well on our way to exceed our target of \$100 million in annual cost savings within the first two years post-close.
- During the quarter, recurrent consumer spending rose 117% and accounted for 78% of Net Bookings.
- Turning to our outlook, we are operating in an environment that is in many ways more challenging than we anticipated and we are lowering our Fiscal 2023 Net Bookings guidance to \$5.2 to \$5.25 billion to take this backdrop into account.
- To be clear, I take personal responsibility for our revised downward guidance. We believe that there is always more to achieve, particularly when we fall short of our expectations. We have embarked on a Company-wide cost reduction program that will optimize our expense structure, while also positioning us to deliver on our anticipated growth trajectory. We expect to achieve savings in excess of \$50 million as the result of this initiative. Our balance sheet remains strong, allowing us to navigate these uncertain times with confidence.
- We have always managed our business for the long-term. As we achieve the powerful synergies from our combination with Zynga, release new titles from our robust multi-year pipeline, and execute on our cost savings initiatives, we expect to deliver sequential growth and record performance over the next several years.

- Our business and creative teams have done a phenomenal job during these challenging times, and I'd like to thank all of our colleagues for their tireless work. I'd also like to thank our shareholders for their continued support. I look forward to sharing our progress with you on all of our key initiatives.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- As we focus on the remainder of the year and beyond, we remain steadfast in our commitment to providing the most captivating and engaging entertainment experiences for our audiences across all platforms and geographies. We believe this is *the* best strategy and path forward to achieving our goals, driving our expected long-term growth, and bringing value to our shareholders.
- Turning to our upcoming releases:
 - On February 24th, Private Division and Intercept Games will launch *Kerbal Space Program 2* in Early Access for PC on Steam, Epic Game Store, and other storefronts. *KSP2* will bring an array of content for players to explore and the title promises to be the most visually impressive game in the franchise yet. Those that purchase *KSP2* in Early Access will help inform the future development of the game by providing feedback directly to its creators leading up to the full launch of the title.
 - In addition, Private Division has announced several new projects:
 - *After Us*, a riveting exploration adventure game from Piccolo Studio, is expected to launch this Spring during Fiscal 2024 for PC, PlayStation 5 and Xbox Series X|S.
 - Private Division announced a publishing partnership with Bloober Team to develop a new survival horror game, expected to launch after calendar 2024.
 - And, the label unveiled their new Private Division Development Fund to support smaller, independent teams with project financing and mentorship opportunities.
 - On March 17th, 2K and Visual Concepts will release *WWE 2K23* for PlayStation and Xbox consoles, and PC on Steam. In celebration of John Cena's 20th anniversary as a WWE Superstar, the 16-time World Champion, record-setting philanthropist, and *WWE 2K23* Executive Soundtrack Producer will be featured on the cover of each edition of the game. In addition, global music phenom Bad Bunny – 2022's most streamed artist in the world – will make his *WWE 2K* debut as a pre-order bonus. Building upon the success of *WWE 2K22*, this year's installment features a unique new take on the 2K Showcase, the introduction of the fan-favorite WarGames matches, and expansions to several marquee game modes. Fans can look forward to a deep roster of WWE Superstars and Legends, including Roman Reigns, "*American Nightmare*" Cody Rhodes, Ronda Rousey, Brock Lesnar, "*Stone Cold*" Steve Austin, and more. 2K will support the game with an array of post-launch content that may be purchased individually or through a Season Pass.
 - Throughout the balance of the fiscal year, Rockstar Games will continue to support *Grand Theft Auto Online* with additional content updates; and 2K and Firaxis Games will continue to release add-on content for *Marvel's Midnight Suns* and the *Sid Meier's Civilization VI: Leader Pass*.

- In mobile, Zynga's Rollic studio will release a vast array of titles as they have done previously, while the label's other studios remain at work on a variety of games, including several in soft launch that we expect to release in Fiscal 2024.
- We will have more to share on our pipeline when we report our fourth quarter results in May.
- 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 third quarter before reviewing our guidance for fiscal year 2023 and our fourth quarter. Please note that our third quarter results include our combination with Zynga, which affects the comparability of our results relative to last year. Additional details regarding our actual results and outlook are contained in our press release.
- As Strauss mentioned, we delivered Net Bookings of \$1.38 billion, which was slightly below our prior guidance, as consumers displayed more cautionary purchasing behaviors during the Holiday season. As in prior periods of economic headwinds, full-game sales from our catalog of industry leading intellectual properties were relatively resilient. However, we felt pressure on some of our newer releases that are in earlier stages of building their player base, alongside softness in recurrent consumer spending.
 - During the period, recurrent consumer spending rose 117% and accounted for 78% of Net Bookings. Zynga's in-app purchases performed in line with our revised expectations; however, this was offset by weakness in recurrent consumer spending for several of our console and PC games.
 - Digitally-delivered Net Bookings increased 72% and accounted for 95% of the total.
 - During the quarter, 69% of console game sales were delivered digitally, up from 63% last year.
- GAAP net revenue increased 56% to \$1.41 billion and cost of revenue increased 97% to \$692 million.
- Operating expenses increased by 123% to \$889 million, primarily driven by the addition of Zynga, as well as higher marketing and stock-based compensation expenses.
- And, GAAP net loss was \$153 million, or (\$0.91) per share, which was impacted by \$302 million of amortization of acquired intangibles and \$24 million of business acquisition costs.
- Our management tax rate for the period was 18% as compared to 16% in the prior year as a result of our combination with Zynga.
- We ended the quarter with over \$1.1 billion of Cash and Short-Term Investments and paid down \$200 million of revolver borrowings, reducing our debt to \$3.1 billion.
- Turning to our guidance, I'll begin with our full fiscal year expectations.
- We now expect to deliver Net Bookings of \$5.2 to \$5.25 billion. Our forecast takes into account the current economic environment and consumer purchasing trends that we have been experiencing and

which we expect to continue into the fourth quarter, including lower expectations for some of our recent game releases and softer recurrent consumer spending, as well as the shift of an unannounced mobile title and a focus on enhanced profitability for our hyper-casual business.

- The largest contributors to Net Bookings are expected to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Empires & Puzzles*, *Toon Blast*, Rollic's hyper-casual mobile portfolio, and *Red Dead Redemption 2* and *Red Dead Online*.
 - We expect the Net Bookings breakdown from our labels to be 46% Zynga, 36% 2K, 17% Rockstar Games, and 1% Private Division.
 - We forecast our geographic Net Bookings split to be about 65% United States and 35% International.
- We expect recurrent consumer spending to grow by approximately 85% and represent 77% of total Net Bookings.
 - Our digitally-delivered Net Bookings are expected to grow by approximately 60% and represent 95% of the total.
 - Our forecast assumes that 74% of console game sales will be delivered digitally, up from 68% last year.
 - We expect to generate more than \$400 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow, and we expect to deploy approximately \$170 million for capital expenditures.
 - We expect GAAP net revenue to range from \$5.24 to \$5.29 billion and cost of revenue to range from \$2.53 to \$2.55 billion, which includes approximately \$694 million of amortization of acquired intangibles.
 - Total operating expenses are expected to range from \$3.4 to \$3.41 billion as compared to \$1.5 billion last year. This increase reflects the inclusion of Zynga; business acquisition costs; and higher personnel, stock compensation and marketing expenses; which we anticipate will be slightly offset by our expected cost synergies from our integration with Zynga.
 - As we've mentioned on prior calls, in light of the current backdrop, we have been evaluating cost savings opportunities that can structurally enhance our margins and make our Company more efficient and nimble for the long-term. After a comprehensive review, we now believe that we can deliver over \$50 million of annual savings, which we will begin to execute on this quarter. Opportunities include personnel, processes, infrastructure, and other areas, particularly in our publishing and corporate functions. This program is in addition to the over \$100 million of annual cost synergies from our combination with Zynga, and is not expected to impact the delivery of our robust multi-year pipeline.
 - We expect a GAAP net loss ranging from \$704 to \$721 million, or \$4.40 to \$4.50 per share, which assumes a basic share count of 159.8 million shares.
 - We expect our management tax rate to be 18% throughout the year.
 - Now, moving to our guidance for the fiscal fourth quarter:

- We project Net bookings to range from \$1.31 to \$1.36 billion, compared to \$846 million in the fourth 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*, *Toon Blast*, Rollic's hyper-casual mobile portfolio, and *WWE 2K23*.
 - We project recurrent consumer spending to grow approximately 105% and digitally-delivered Net Bookings to increase approximately 70%.
 - Our forecast assumes that 80% of console game sales will be delivered digitally, up from 75% last year.
- We expect GAAP net revenue to range from \$1.34 to \$1.39 billion and cost of revenue to range from \$688 to \$708 million, which includes approximately \$198 million of amortization of acquired intangibles.
- Operating expenses are expected to range from \$871 to \$881 million. At the midpoint, this represents a 120% increase over last year. This increase reflects the inclusion of Zynga; business acquisition costs; and 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 \$197 to \$214 million, or (\$1.17) to (\$1.27) per share, which assumes a basic share count of 168 million shares.
- In closing, while we are disappointed to have lowered our outlook for the year, we are highly confident in our long-term growth potential. We believe that the actions we are taking now will position us to deliver sequential growth and record performance over the next several years, which we anticipate will drive meaningful shareholder value. I'd like to thank all of our stakeholders again for their support.
- Thank you. I'll now turn the call back to Strauss.

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