



Q3 Fiscal 2022 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 2022, ended December 31, 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.
- 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 strong quarter, highlighted by Net Bookings of \$866 million, which exceeded our expectations and increased 6% over the prior year. Our outstanding holiday season results were driven by our new and existing titles, as well as strong ongoing engagement from our player communities that continue to immerse themselves in their favorite experiences and exciting new content updates.
- We continue to position our Company to deliver on its long-term pipeline, build scale, and gain market share.

- During the quarter, we grew our pool of creative talent with the addition of more than 300 developers.
 - This includes our highly complementary acquisitions of elite3D and Roll7.
 - Based in Valencia, Spain, elite3D is one of the world's leading creative studios that is dedicated to innovative 2D and 3D artwork for the interactive entertainment industry. elite3D will form a second office for 2K's 31st Union studio and serve as a new publishing location for 2K's Global Services division.
 - Roll7 is the BAFTA-award winning studio behind *OlliOlli World*, which is launching tomorrow. Going forward, the team will help support Private Division's mission to bring games to market from the industry's top creative studios, as well as to broaden the label's portfolio of owned intellectual property and internal development capabilities.
 - Our most significant recent development was our agreement to combine with Zynga, which we expect to close during the first quarter of our Fiscal 2023. We are very excited by the prospect of this transformative combination, which will significantly diversify our business; establish us as a leader in mobile, the fastest growing segment of the interactive entertainment industry; and greatly enhance our positioning as one of the world's top three pure-play publishers of interactive entertainment. We believe there will be tremendous strategic and financial benefits for our Company, and we have already identified \$100 million of annual cost synergies that we expect to achieve within the first two years post-closing and over \$500 million of annual revenue opportunities that we can deliver over time. We look forward to welcoming the teams at Zynga into the Take-Two family in the coming months.
- Turning to our third quarter results, our better-than-expected performance was driven primarily by *Grand Theft Auto: The Trilogy - The Definitive Edition*, *Red Dead Redemption 2* and *Red Dead Online*, and *NBA 2K22*.
 - *NBA 2K22* continued to exceed our expectations, and according to The NPD Group, it was the #1 selling title in the U.S. across all new releases in calendar 2021. In addition, the game achieved a new franchise record for experiencing the largest number of users in the shortest amount of time. This performance helped solidify *NBA 2K*'s legacy as the top basketball simulation experience in our industry, with over 8 million units sold in to-date worldwide. Players remain deeply engaged and an average of 1.9 million users are playing the game every day, which is up 10% compared to *NBA 2K21* in the same period last year. This helped drive better-than-expected recurrent consumer spending growth of 10% year-over-year, even as we faced challenging comparisons from the Gen 9 launch of the game last November. In addition, *NBA 2K22* experienced an 8% increase in total in-game purchasers and a 30% increase in new-to-franchise spenders. 2K expanded the brand's addressable market further with the launch of *NBA 2K22 Arcade Edition* for Apple Arcade. The title continues to sit at the top of the Arcade's Top Game chart and has an average score of 4.7 out of 5 across more than 35,000 ratings. We continue to be pleased with the ongoing innovation that Visual Concepts brings to the series annually and look forward to seeing how they will deliver new experiences to *NBA 2K* in the future.
 - Sales of *Grand Theft Auto V* continue to be strong, and to date, the title has sold-in more than 160 million units worldwide. Since its launch in 2013, *Grand Theft Auto V* has remained within the top-5 best-selling titles for each calendar year across the Americas, including the U.S., and over 50 major territories across Europe, the Middle East, Africa, and Asia Pacific.

- 2021 marked another excellent year for *Grand Theft Auto Online*, with the title matching 2020's record-setting monthly audience size. *Grand Theft Auto Online's* engagement was driven by an array of free content updates, including new events around Halloween; new vehicles and clothing options for *The Race Creator*; and *The Contract* update featuring Grammy-Award winning artist, legendary producer and this year's Super Bowl half-time show headliner, Dr. Dre, which were all released during the third quarter. In particular, *The Contract* broke new ground for *Grand Theft Auto Online* from a design standpoint with its deep story elements and increased access for solo players, while also advancing Rockstar Games' unique ability to innovate through incorporating elements of pop culture and music into their experiences. The update also features co-op story missions with *Grand Theft Auto V* protagonist Franklin and sidekick Lamar as playable characters; a new social space – Record A Studios – where players are able to hang out with Dr. Dre and special guests; a new radio station hosted by global pop stars ROSALÍA and Arca, called Motomami Los Santos, named after Rosalia's forthcoming album; updates to two existing radio stations from L.A. DJ royalty, DJ Pooh and Big Boy; six exclusive new tracks by Dr. Dre which officially released to streaming services this past Friday; and new purchasable properties, vehicles, and more. In addition, Rockstar Games celebrated the 20th anniversary of the launch of *Grand Theft Auto III* with the release of *Grand Theft Auto: The Trilogy - The Definitive Edition* for current and prior-gen consoles and PC via the Rockstar Games Launcher, with the title significantly exceeding our commercial expectations.
- Red Dead Redemption 2* also had an excellent quarter. The title's outperformance was primarily driven by strong holiday sales and to date, it has sold-in nearly 43 million units worldwide. In addition, *Red Dead Online* outperformed our expectations due to strong sales of *Red Dead Redemption 2* and the continued influx of new players, alongside a series of updates, including the fourth installment of *The Quick Draw Club*, *All Hallows' Call to Arms*, *The Halloween Pass 2*, and the *Holiday Call to Arms*.
- 2K and Gearbox Software expanded our popular *Borderlands* series further with the release of *Borderlands 3 Ultimate Edition*. Our teams also re-released the 2013 fan-favorite *Tiny Tina's Assault on Dragon Keep: A Wonderlands One-Shot Adventure* on a standalone basis, which exceeded our expectations and is helping set the stage for next month's eagerly anticipated launch of *Tiny Tina's Wonderlands*.
- During the third quarter, recurrent consumer spending rose 2% over last year, which was in line with our expectations of a slight increase, and accounted for 57% of Net Bookings. Our ability to captivate and deeply engage audiences with our offerings remains a distinguishing characteristic of our enterprise. *NBA 2K* and *Grand Theft Auto Online* were the largest contributors to recurrent consumer spending and many of our free-to-play offerings were notable drivers as well:

 - Nordeus delivered a strong quarter, as its newly-released *Top Eleven 2022* achieved record-high seasonal Net Bookings, driven by new features, gameplay improvements and enhanced live operations.
 - Two Dots* posted record Net Bookings results, attributable to additional in-game events, curated seasonal content, and successful marketing activations.
 - Dragon City* and *Monster Legends'* performance was driven by enhanced live operations, new event types, and strong seasonal content.
 - 2K launched Season 8 for *WWE SuperCard*, which has now been downloaded more than 25 million times and remains 2K's highest grossing mobile game.

- *NBA 2K Online* in China outperformed our expectations. The title remains the #1 online PC sports game in the region with over 55 million registered users.
- Turning to our outlook, as a result of our third quarter outperformance, along with our updated forecast for the balance of the year, we are once again raising our guidance for Fiscal Year 2022, and we now expect to achieve Net Bookings of \$3.37 billion to \$3.42 billion. Lainie will provide more details shortly.
- Looking ahead, we remain highly optimistic about the future of the interactive entertainment industry and our multi-year growth trajectory. We have the strongest and most diverse pipeline in our Company's history, comprised of new intellectual properties, as well as sequels to many of our beloved franchises. We look forward to delivering many of these titles in the coming months and beyond.
- We are also confident that we can emerge as an even stronger player within our industry and deliver long-term value for our shareholders following the anticipated closing of our transaction with Zynga. With greater scale, extensive synergies, and a more diversified portfolio of industry-leading titles, we believe that, together, our two companies will far exceed our individual goals. We would like to thank all of our stakeholders for their continued support.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- I'd like to thank our teams for delivering another outstanding quarter, driven by their continued commitment to excellence and dedication to our business.
- I'll start by discussing our announced offerings planned for the remainder of this Fiscal Year.
 - Tomorrow, Private Division and our recently acquired Roll7 studio will launch *OlliOlli World* on Nintendo Switch, Xbox and PlayStation consoles, and Steam. This skateboarding action-platformer has been eagerly awaited by fans and received significant critical praise for its unique art style and tight gameplay mechanics. Reviews for *OlliOlli World* have been extremely positive, with multiple sites "Recommending" or calling the title an "Essential" purchase, and the game currently earning a score of 85 on OpenCritic and 84 on Metacritic. We're thrilled to add this popular series to our portfolio and to pursue exciting new projects with the talented team at Roll7.
 - In early March, 2K and Visual Concepts will launch *WWE 2K22*, which we believe will set a new benchmark in quality for the series. The game offers more features and enhancements than any prior *WWE 2K* release, including a redesigned gameplay engine, new controls, foundational improvements, upgraded visuals, and an array of features specifically requested by our passionate player base. *WWE 2K22* will "*Hit Different*" – giving players complete control over the game's universe, including a new look and feel, accessible but challenging gameplay, and significant replay value. Rey Mysterio, one of the most renowned and respected WWE icons of all time, will grace the cover of this year's game in true Lucha Libre fashion. We can't wait for

players to step into the ring with *WWE 2K22* and experience all the groundbreaking enhancements on which our teams have been tirelessly working.

- On March 15th, Rockstar Games will launch *Grand Theft Auto V* for PlayStation 5 and Xbox Series X|S, bringing the blockbuster entertainment experience to an unprecedented third console generation. This new release features new graphics modes with up to 4K resolution, up to 60 frames per second, texture and draw distance upgrades, HDR options and ray-tracing, as well as faster loading times, immersive 3D audio, platform-specific features and much more. We are also excited for new players to join the thriving *Grand Theft Auto Online* community on the latest hardware when the standalone offering is released in March, with *Grand Theft Auto Online* free on PlayStation 5 for the first three months from launch.
- PlayStation 4 and Xbox One players eager to continue their journey on the newest generation of hardware will be able to transfer both their *Grand Theft Auto V* Story Mode progress and their current *Grand Theft Auto Online* characters and progression to PlayStation 5 and Xbox Series X|S with a one-time migration at launch.
- On March 25th, 2K and Gearbox Software will launch an exciting new entry from the *Borderlands* universe – *Tiny Tina's Wonderlands* – the highly anticipated, fantasy-fueled and all-new take on the looter-shooter genre. During *The Game Awards* in December, 2K debuted a story trailer introduced on-stage by members of *Tiny Tina's Wonderlands'* all-star celebrity cast. On the heels of this star-studded event, player excitement for *Tiny Tina's Wonderlands* is at an all-time high. We expect the excitement to continue to build as we grant access to media and content creators for extended previews and reviews, and reveal new gameplay details in the coming weeks. We are looking forward to wrapping up our fiscal year with this tent pole release.
- Looking ahead to fiscal year 2023:
 - Rockstar Games will launch *Grand Theft Auto: The Trilogy – The Definitive Edition* for iOS and Android devices in the first half of calendar 2022.
 - 2K and Firaxis Games remain deeply immersed in the development of *Marvel's Midnight Suns* – one of our most exciting upcoming releases – which will launch this Fall. The team is diligently working to add more story content, cinematics, and overall polish to the game. Given the immense, global popularity and cross-media presence of the Marvel universe, coupled with Firaxis Games' proven success in creating deeply immersive games, we believe this title has the potential to appeal to a broad audience that will enjoy experiencing some of comics' most legendary heroes in an all-new way.
 - Private Division and Intercept Games remain hard at work on *Kerbal Space Program 2*, the next iteration in our beloved space exploration simulation series.
 - We'll have more to share about our Fiscal 2023 pipeline in the coming months and during our fourth quarter call in May.
- Turning to eSports, the *NBA 2K League* is gearing up for its 5th season, which will provide a thrilling tournament-centric structure, including 3-on-3 play, amateur teams vs. *NBA 2K League* teams, and a significantly higher prize pool. On February 26th, fans can tune in to the *League's* Twitch and

YouTube channels to watch its draft on livestream. In keeping with its ongoing commitment to women in eSports, last month, the *League* held its 3rd annual *Women in Gaming Development Camp* and brought together top amateur female *NBA 2K* players to compete alongside and learn from *League* players and coaches, and to participate in off-court development sessions, focused on amplifying the voices of women in gaming.

- In closing, we believe there is vast potential for our Company to continue captivating and engaging audiences around the world by delivering the very best entertainment experiences. The next few months represent an exciting time for Take-Two, as we release many of our new titles and prepare for our transformative combination with Zynga, which brings with it a diverse portfolio of titles, impressive data science capabilities, industry-leading publishing and live operations, a massive customer database, and their leading advertising platform, Chartboost. Together, we expect to benefit from substantial cost and publishing synergies, while also unlocking significant new revenue streams and reaching new audiences around the world.
- As we capitalize on these and other opportunities, we believe we will 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 third quarter results and then review our financial outlook for our Fiscal Year 2022 and fourth quarter. Please note that additional details regarding our actual results and outlook are contained in our press release.
- As Strauss mentioned, our holiday results were outstanding, driven by strong engagement across our key franchises.
- Net Bookings were \$866 million, which was above our guidance of \$800 to \$850 million and up 6% as compared to last year. Our outperformance was primarily driven by *Grand Theft Auto: The Trilogy - The Definitive Edition*, *Red Dead Redemption 2* and *Red Dead Online*, and *NBA 2K22*.
 - During the period, recurrent consumer spending increased 2%, compared to our outlook of a slight increase and accounted for 57% of total Net Bookings.
 - Digitally-delivered Net Bookings increased 12%, which was above our outlook of a 5% increase, and accounted for 88% of the total. Our outperformance was primarily due to higher than expected digitally-delivered full game sales.
 - During the quarter, 63% of console game sales were delivered digitally, up from 56% last year.
- GAAP net revenue increased 5% to \$903 million, and cost of goods sold increased 1% to \$350 million.
- Operating expenses increased by 18% to \$399 million, primarily driven by higher personnel and stock-based compensation expenses, the addition of Nordeus, and the revaluation of its earnout, partially offset by lower marketing expense.

- GAAP net income was \$145 million, or \$1.24 per share, as compared to \$182 million, or \$1.57 per share, in the third quarter last year.
- We ended the quarter with approximately \$2.5 billion of Cash and Short-Term Investments.
- Turning to our guidance, I'll begin with our full Fiscal year expectations.
- We are raising our Net Bookings outlook range to \$3.37 to \$3.42 billion. This is up from our prior outlook of \$3.3 to \$3.4 billion due to our third quarter outperformance along with our updated forecast for the fourth quarter.
 - 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*, *Borderlands 3*, and *Grand Theft Auto: The Trilogy - The Definitive Edition*.
 - 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.
- We now expect recurrent consumer spending to decline by 5%, compared to our prior outlook of a 6% decline, and represent 65% of Net Bookings, which is in line with last year.
- We now project digitally-delivered Net Bookings to decrease by approximately 3%, compared to our prior outlook of a 4% decline. Ninety percent of our Net Bookings are expected to be digital, slightly above 89% last year.
- Our forecast assumes that 69% of console game sales will be delivered digitally, up from 64% last year.
- We expect to generate more than \$400 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow and we plan to deploy approximately \$170 million for capital expenditures.
- We are raising our GAAP net revenue outlook to \$3.41 to \$3.46 billion, and we now expect cost of goods sold to range from \$1.52 to \$1.54 billion.
- Total operating expenses are expected to range from \$1.48 to \$1.49 billion, which, at the midpoint, represents a 23% increase over the prior year. This increase includes investments in marketing, personnel, IT, and Research & Development that will help us deliver our expansive multi-year pipeline. It also reflects the addition of Nordeus and a full year of Playdots, as well as an increase in stock compensation expense. Our operating expense expectations are slightly above our prior guidance, primarily driven by the transaction costs associated with our anticipated combination with Zynga.
- We expect GAAP net income to range from \$361 to \$373 million, or \$3.10 to \$3.20 per share.

- For management reporting purposes, we expect our tax rate to be 16% for the remainder of Fiscal 2022.
- Now, moving to our guidance for the Fiscal fourth quarter:
- We project Net bookings to range from \$808 to \$858 million, compared to \$785 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*, which includes *Grand Theft Auto V* for PlayStation 5 and Xbox Series X|S, *Tiny Tina's Wonderlands*, *Red Dead Redemption 2* and *Red Dead Online*, *Grand Theft Auto: The Trilogy - The Definitive Edition*, and *WWE 2K22*.
 - We project recurrent consumer spending to be down 3% compared to last year and digitally-delivered Net Bookings to increase slightly.
 - Our forecast assumes that 77% of console game sales will be delivered digitally, up from 74% last year.
- We expect GAAP net revenue to range from \$835 to \$885 million and cost of goods sold to range from \$380 to \$406 million.
- Operating expenses are expected to range from \$389 to \$399 million. At the midpoint, this represents a 30% increase over last year, driven primarily by higher marketing expenses to support our fourth quarter release slate, the addition of Nordeus, and transaction costs associated with our anticipated combination with Zynga.
- GAAP net income is expected to range from \$53 to \$65 million, or \$0.46 to \$0.56 per share.
- Looking ahead, we have many exciting projects underway across all of our labels, and we plan to make continued investments next year to prepare for some of our major launches. With our incredible portfolio of creative assets, our significant growth opportunities, including our robust pipeline, and our strong balance sheet, we remain highly confident in our long-term growth trajectory and our ability to deliver shareholder value.
- Before I turn the call back over to Strauss, I'd like to reiterate that we are very excited about our anticipated combination with Zynga. We believe that the proposed transaction will not only bring together our highly complementary portfolios but will also significantly increase Take Two's scale and provide many new growth opportunities. As we disclosed in our January 10th announcement, we expect the combined business to deliver a 14% compound annual growth rate for the three-year period from our fiscal year 2021 through 2024, excluding any of the proposed transaction's revenue opportunities or any future acquisitions.
- In terms of next steps, we expect to file our joint S-4, which includes the proxy statement and prospectus, with the SEC in late February or early March, and our stockholder voting will occur in the Spring. We continue to expect the transaction to close in the first quarter of our Fiscal Year 2023.
- Thank you. I'll now turn the call back to Strauss.

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