



Q1 Fiscal Year 2024 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 2024, ended June 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.
- I am pleased to report that Fiscal 2024 is off to a strong start, highlighted by first quarter Net Bookings of \$1.2 billion, which was at the high end of our expectations, and management results that were in-line with our plans. *Grand Theft Auto Online* and *Grand Theft Auto V*, and *NBA 2K23* exceeded our projections, which illustrates the long-lasting benefits of producing the highest-quality offerings and amassing one of the strongest and most diverse portfolios in entertainment.

- In keeping with our core values of creativity, innovation, and efficiency, this quarter we introduced new intellectual properties, advanced the development of our eagerly-anticipated pipeline, and maintained our vigilance with cost-management initiatives across our organization.
- Turning to the results of our titles for the period:
 - *Grand Theft Auto V* continued to outperform, and to date, the title has sold-in more than 185 million units. On June 13th, Rockstar Games launched *San Andreas Mercenaries* for *Grand Theft Auto Online*, which offers 6 new major story-based missions; as well as new Los Santos Operations, Hangar upgrades, Smuggler Source and Sell Missions, 7 new vehicles, and more. The update also includes a range of fan-requested experience improvements, as well as the Career Progress feature, offering players a new way to track their progression across criminal careers and claim rewards. *San Andreas Mercenaries* continues to deliver high value content post-launch using a phased approach that is driving sustained engagement and Recurrent Consumer Spending. This June, *Grand Theft Auto Online* recorded more players than any other June in its history outside of the height of the pandemic. GTA+, Rockstar's premium membership service for *GTA Online* on PlayStation 5 and Xbox Series X|S, offered exclusive options for members to test drive and purchase an array of vehicles, and we are continuing to see strong growth in GTA+ adoption with each passing quarter.
 - We were pleased with the performance of *Red Dead Redemption 2*, which has sold-in more than 55 million units to-date. Rockstar Games continues to support *Red Dead Online* with new bonuses and rewards, including free apparel inspired by the RedDeadFashion subreddit, and seasonal content such as April's "*Condor Egg Freemode Event*."
 - *NBA 2K23* exceeded our plans and the title has now sold-in over 13 million units, representing 11% year-over-year growth, driven by higher demand, especially on Gen-9 consoles, as well as a more tailored promotional cadence. This incredible performance marks the title's second-highest sell-through ever – with only *NBA 2K20* achieving higher unit sales. Engagement with *NBA 2K23* remains strong, with approximately 2.6 million Daily Active Users delivering Recurrent Consumer Spending that exceeded our expectations. Our franchise extensions with the NBA continue to perform extremely well and *NBA 2K23 Arcade Edition* remains one of the top games on Apple Arcade.
 - *WWE 2K23*, which is the highest-rated game in our wrestling franchise's history and the second highest-rated sports simulation title of the year, experienced strong engagement throughout the quarter, with players logging nearly 22 million hours of gameplay and facing off in 170 million matches. 2K and Visual Concepts continue to support the title with a series of 5 DLC packs that can be purchased individually or as part of a Season Pass.
 - 2K also continues to support *PGA TOUR 2K23* with additional pros, courses, and Clubhouse Passes.
 - In May, 2K and Visual Concepts launched *LEGO 2K Drive*, the first game in a multi-title partnership between 2K and the LEGO Group. Following the launch, our teams released the first of four *Drive Pass Seasons* for the title, which features 100 levels and new content inspired by the *Fast and the Furious Saga*.

- Also in May, Private Division and Piccolo Studio launched *After Us* on PlayStation 5, Xbox Series X|S, and PC, which has been praised by critics for its striking visuals and game world.
- Zynga had a solid start to the year, performing in-line with our plans, and we are pleased with the ongoing progress of our mobile business.
 - Ad revenue grew approximately 11% year-over-year, driven by the addition of Popcore and our ability to open new inventory supplies in our portfolio.
 - *Toon Blast* has been introducing strong feature releases such as the Toon Race event, which drove outperformance versus our forecasts and helped the game recently surpass \$2 billion in lifetime gross Bookings.
 - We made excellent progress on our profitability initiatives in mobile. We expanded our offerings on our direct-to-consumer platforms and continue to believe that, over the next few years, the majority of our mobile games will leverage our highly-profitable, proprietary distribution channel.
 - We continue to enhance the performance and profitability of our hyper-casual business, with multiple new games scaling quickly and several titles generating Bookings from in-app purchases in addition to ads.
 - A few key highlights of Zynga's live services during the period include:
 - *Empires & Puzzles* grew quarter-over-quarter, driven by the new *Path of Giants* battle pass featuring daily and weekly challenges to unlock rewards.
 - Rollic's *Twisted Tangle* reached the #1 Free Game spot on the U.S. Google Play store.
 - Social Casino again delivered strong results, driven by *Hit It Rich*'s best quarter in two years, and *Game of Thrones Casino*'s second best quarter in its history.
 - Casual games continued to improve participation and engagement, with *Words With Friends* launching the new Club Daily Puzzle and *Harry Potter: Puzzles & Spells* adding Bonus Levels and Special Delivery prize events.
 - With numerous games in development and soft launch across Zynga's studios, we are excited to start delivering several new offerings in the coming months.
- Turning to our outlook, we are reiterating our prior guidance of \$5.45 to \$5.55 billion in Net Bookings for Fiscal 2024. We remain highly optimistic about our future and our ability to deliver record results in the coming years. Lainie will provide more details on our outlook shortly.
- In closing, as we continue to execute our strategy, we believe that we can increase significantly our scale and prominence within the industry, grow margins, and pursue the vast opportunities to engage even larger audiences around the world. Led by the passion, creativity, and innovation of our world-class development teams, Take-Two is in a powerful position to set new benchmarks for our player communities, which we believe will drive long-term returns for our shareholders.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss. I'd like to thank our teams for a strong start to the year.
- Turning to our announced launches for Fiscal 2024.

- Yesterday, Rockstar Games announced that the beloved Western experiences, *Red Dead Redemption* and *Undead Nightmare* would be coming to the Nintendo Switch and PlayStation 4 for the first time in a new single package, arriving August 17th. In a new conversion by Double Eleven Studios, the Switch and PS4 versions bring the two classic experiences together again for new players and original fans to enjoy across modern consoles, including backwards compatibility with the PlayStation 5.
- On September 8th, 2K and Visual Concepts will celebrate the 25th anniversary of our industry-defining *NBA 2K* series and once again redefine basketball simulations with the launch of *NBA 2K24*, featuring the iconic Kobe Bryant as the game's cover athlete for the second time in the history of the franchise. Players will be able to celebrate Bryant's legacy and replicate his skills in the brand-new *Mamba Moments* mode. Players in the U.S. and Canada can also purchase the *WNBA Edition* of the game exclusively at GameStop, featuring WNBA All-Star Sabrina Ionescu, as this year's cover star. *NBA 2K24* will introduce crossplay, a community-requested feature for PlayStation 5 and Xbox Series X/S. Available in every multiplayer mode, players will be able to compete with or against others from around the world in dynamic co-op matches, thrilling online tournaments, or casual pick-up games between new generation consoles. The title will also introduce ProPLAY - a groundbreaking new technology that directly translates actual NBA footage into gameplay. 2K will have more to share on *NBA 2K24* in the coming weeks.
- In addition, 2K and Visual Concepts remain hard at work on *WWE 2K24*, the next installment of our popular wrestling series, which set new creative and critical benchmarks with last year's highly successful release.
- In June, Private Division and Evening Star announced *Penny's Big Breakaway*, a new 3D action platformer from the team behind *Sonic Mania*. This kinetic yo-yo adventure is expected to launch in early 2024.
- Zynga's *Star Wars: Hunters*, which offers players the opportunity to join the greatest hunters from across the Star Wars galaxy, is expected to launch later this fiscal year. Players will engage in thrilling third-person combat in a range of competitive game modes across battlegrounds from the iconic worlds of Star Wars.
- Also in mobile, Socialpoint's latest game, *Top Troops*, a medieval fantasy-themed title in the PvP merge genre, is progressing well in soft launch and is expected to launch worldwide this fiscal year.
- In addition, our hyper-casual studios will release a steady cadence of mobile titles throughout the year, focusing on games that have the potential for enhanced retention rates and a mix of in-app purchases and advertising to drive higher monetization and profitability.
- Our labels will also continue to provide new content and experiences that drive engagement and recurrent consumer spending across many of our offerings, including *Grand Theft Auto Online*, *Red Dead Online*, *WWE 2K*, *LEGO 2K Drive*, *PGA TOUR 2K*, *Kerbal Space Program 2*, and Zynga's mobile portfolio.
- Throughout Fiscal Year 2024, we look forward to launching additional releases from 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 first quarter before reviewing our financial outlook for the full year and second quarter of fiscal 2024. Our combination with Zynga closed on May 23, 2022, 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.
- We had a strong start to the fiscal year, powered by our portfolio of iconic, industry-leading intellectual properties. As we approach our next phase of growth, our teams continue to make excellent progress advancing our development pipeline and capitalizing on our revenue-driven opportunities and synergies. We also partnered together to maintain our focus on efficiency amidst the challenging macroeconomic backdrop and cautious consumer spending trends. I'd like to thank our incredible teams worldwide for their determination and passion for our business.
- Now, moving onto our results. We achieved Net Bookings of \$1.2 billion, which was at the high end of our guidance range.
 - In the current backdrop, many consumers are purchasing established franchises and those that offer great value, and our catalog stands at the intersection of these two trends. Accordingly, our performance reflects better-than-expected results from *Grand Theft Auto Online* and *Grand Theft Auto V*, and *NBA 2K23*.
 - During the quarter, we launched *Marvel's Midnight Suns* for Gen 8 consoles, *Lego 2K Drive*, and *After Us*.
 - Recurrent consumer spending rose 38% for the period, which was above our outlook of 35% growth, and accounted for 84% of Net Bookings. The outperformance was primarily driven by *Grand Theft Auto Online* and *NBA 2K23*.
- GAAP net revenue increased 17% to \$1.28 billion and cost of revenue increased 39% to \$606 million, driven by \$187 million of amortization of acquired intangibles. We also recorded an impairment charge of \$18 million, related primarily to capitalized software and development costs for an unreleased title, which affected our management results compared to our guidance.
- Operating expenses increased by 25% to \$883 million. On a management basis, operating expenses grew by 46%, which primarily reflected a full quarter of Zynga, higher personnel costs, and depreciation related to office buildouts and capitalized IT expenses.
- Turning to our guidance, I'll begin with our full fiscal year expectations.
 - As Strauss mentioned, our business is performing well, and we are reiterating our Net bookings outlook range of \$5.45 to \$5.55 billion.
 - 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*,

Merge Dragons, Words With Friends, Red Dead Redemption 2 and Red Dead Online, and Zynga Poker.

- We expect the Net Bookings breakdown from our labels to be roughly 51% Zynga, 30% 2K, 17% Rockstar Games, and 2% Other.
- And, we forecast our geographic Net Bookings split to be about 65% United States and 35% International.
- We continue to forecast recurrent consumer spending growth of 5% compared to fiscal 2023, representing 78% of Net Bookings. Mobile trends are projected to remain stable, with Zynga's ad business continuing to deliver growth.
- We expect to generate approximately \$100 million in Non-GAAP Adjusted Unrestricted Operating Cash Flow, and deploy approximately \$180 million for capital expenditures, primarily to support our office buildouts and larger footprint.
- We continue to expect GAAP net revenue to range from \$5.37 to \$5.47 billion.
- Our total operating expenses are expected to range from \$3.38 to \$3.4 billion as compared to \$3.45 billion last year.
- On a management basis, our operating expenses are expected to grow by approximately 15% year-over-year, due primarily 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. As we announced previously, our teams are taking extensive measures to review our cost structure and reduce discretionary costs whenever possible to offset the current consumer backdrop and inflationary environment, while still investing for growth.
- Now, moving onto our guidance for the fiscal second quarter:
- We project Net Bookings to range from \$1.4 to \$1.45 billion, compared to \$1.5 billion in the second quarter last year.
 - Our release slate for the quarter includes *Red Dead Redemption* and *Undead Nightmare* for Switch and PlayStation 4, and *NBA 2K24*.
 - 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*, *Words With Friends*, *Merge Dragons*, *Red Dead Redemption 2* and *Red Dead Online*, and *Zynga Poker*.
 - We project recurrent consumer spending to decline by approximately 7%, which assumes modest declines in our mobile business; *NBA 2K*, driven by changes to its summer promotional cadence; and *Grand Theft Auto Online*; as well as a reduction in DLC revenue from several titles that were released in prior years.
- We expect GAAP net revenue to range from \$1.26 to \$1.31 billion.
- Operating expenses are expected to range from \$811 to \$821 million. On a management basis, operating expenses are expected to grow by approximately 5% year-over-year, driven by last year's

acquisition of Popcore and higher personnel costs, which are being partly offset by the Zynga synergies and our cost savings initiatives.

- In closing, we are confident that the actions our teams are taking this year are preparing us for a strong trajectory of growth. Through our collective efforts, we continue to believe that we are positioning our business for a significant inflection point in fiscal 2025 that will culminate in us delivering new record levels of operating performance next year and beyond. We thank all of our stakeholders for their continued support, and we look forward to delivering on this exciting next chapter.
- Thank you. I'll now turn the call back to Strauss.

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