



Q3 Fiscal Year 2024 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 2024, ended December 31, 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](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.
- I am pleased to report that we achieved solid results, including Net Bookings of \$1.3 billion. Our performance reflects our unwavering commitment to quality; the ongoing contributions from our outstanding portfolio, which is one of the strongest and most diverse in the entertainment industry; and our immensely talented creative teams.

- During the period, *Grand Theft Auto V*, *Grand Theft Auto Online*, the *Red Dead Redemption* series, and Zynga's in-app purchases, led by *Toon Blast*, exceeded our plans, driven by engaging new content, partnerships, and activations. This was partially offset by some softness in mobile advertising and sales for *NBA 2K24*. 2K is implementing measures to enhance performance for the title, such as offering new events and promotions, and delivering an exciting and engaging content lineup. We expect lifetime Net Bookings for the title to be in-line with *NBA 2K23*.
- Due to these factors, a planned release moving out of the fourth quarter, and increased marketing for Zynga's new hit mobile title, *Match Factory*, we are lowering our full-year outlook. While the timing of *Match Factory*'s user acquisition expense will reduce our profitability in the current fiscal year, we believe that this investment will allow us to grow our audience meaningfully and increase the lifetime value of the *Match Factory* franchise.
- We have always managed Take-Two for the long-term, and we have great confidence in our groundbreaking pipeline for fiscal 2025 and beyond, which we believe will enable us to grow our Net Bookings, increase our scale, and enhance our profitability.
- At the same time, our teams are always looking for ways in which we can operate at the highest level of efficiency, which is one of our core tenets. We are currently working on a significant cost reduction program across our entire business to maximize our margins, while still investing for growth. These measures are incremental to, and even more robust than, our prior cost reduction program, and we aim to achieve greater operating leverage as we roll out our eagerly-anticipated release schedule.
- Turning to the performance of our titles during the quarter:
 - Momentum for *Grand Theft Auto* remains phenomenal. Sales of *Grand Theft Auto V* exceeded our expectations during the holiday season, and to date, the title has sold-in more than 195 million units worldwide. During the quarter, Rockstar Games released its holiday update for *Grand Theft Auto Online*, *The Chop Shop*, which captured the highest number of active users in several years, including the largest-ever increase in new *Grand Theft Auto Online* accounts, driven by the variety and depth of new vehicles and robberies, positive community sentiment, and the game's inclusion in various subscription services. The *Grand Theft Auto* series is also benefiting meaningfully from excitement surrounding Rockstar's announcement of *Grand Theft Auto VI* and the release of its first trailer, which at 93 million views in 24 hours, broke YouTube's records for a non-music video launch and along with partner channels, became the biggest video debut ever. Rockstar's recent partnership with Netflix to launch the *GTA Trilogy* is also a resounding success, quickly yielding the highest rate of installs and engagement on the subscription service's game platform. In addition, Rockstar's membership program, *GTA+*, continues to grow rapidly, powered by enhanced benefits for members, including a rotating assortment of classic Rockstar titles.
 - *Red Dead Redemption 2* also surpassed our plans, as our exciting holiday promotions and events resonated deeply with players. To date, the title has sold-in more than 61 million units worldwide. During the quarter, Rockstar Games supported *Red Dead Online* with free updates, including the new *All Hallow's Call to Arms* locations, a trio of new *Dead of Night* maps, and a *Hardcore Telegram Mission* alongside the return of *The Halloween Pass 2*.

- *NBA 2K24* remains the #1 basketball simulation experience in our industry, and to date, has sold in over 7 million units. Unit sales for the Gen 9 version of the game are growing at a double-digit percent increase over last year due to an enhanced gameplay experience and wider console availability. As players migrate to Gen 9 platforms, we are seeing significant declines in demand for our Gen 8 offering. Players have been highly engaged with many of *NBA 2K24*'s new features, including a Season Pass that helped average revenue per user grow 30% year-over-year.
- On October 6th, 2K and Gearbox Software launched the *Borderlands 3 Ultimate Edition* for Nintendo Switch. We are pleased to expand further our beloved franchise by enabling players to make some mayhem at home or on the go with this thrilling, high-stakes adventure.
- Now, turning to Zynga:
 - We are very pleased with the team's ability to create successful, new mobile games, including Peak's *Match Factory*, which launched on iOS in November and Android in late December. The title is a Top-30 grossing game on the Apple App Store in key target markets such as the US and the UK, and has shown stellar retention and monetization metrics, on par with previous category-leading Peak titles such as *Toon Blast*. Based on these excellent metrics, we see strong long-term potential for the title and are planning to invest in new features and a robust marketing campaign to capitalize on its popularity with consumers and to scale it further.
 - Zynga's other recent release, *Top Troops*, increased its engagement by more than 10% over last quarter, propelled by the launch of new features and semi-monthly battles. Looking ahead, the team is focusing on new brand collaborations, player competitions, and social and community engagements.
 - Overall, Zynga's in-app purchases exceeded our expectations, with significant sequential improvement compared to last quarter. This was led by *Toon Blast*, which materially outperformed, delivering its highest-ever average revenue per daily average user and over 50% growth in its daily in-app-purchase revenue compared to last quarter.
 - While we are encouraged by the trajectory of Zynga's in-app purchases, its ad revenues were below our expectations, due to some changes that we are implementing in the hyper-casual business, including a heightened focus on profitability and the launch of new features that deliver blended monetization.
 - Our direct-to-consumer business continues to grow and enjoyed a record holiday season. Our teams are working actively to add more titles each quarter to this highly accretive, owned distribution channel.
 - Looking ahead, Zynga has numerous titles in development and soft launch that we are eager to release worldwide in Fiscal 2025 and beyond. It bears noting that launching hit mobile titles is both highly complex and challenging, and we are gratified by Zynga's unique ability to release new properties that capture mindshare and market share.
- In closing, although we are lowering our outlook for the year, we believe that our Company's potential is vast and unique, driven by our creative talent, our owned and controlled IP, and our groundbreaking new pipeline for Fiscal 2025 and beyond. As we execute on our strategic priorities, we believe that we will deliver an array of unparalleled entertainment experiences that can captivate, engage, and redefine our industry for audiences around the globe.
- I will now turn the call over to Karl.

Karl Slatoff

- Thanks, Strauss.
- I'd like to thank our teams for delivering another solid quarter and adding to the continued positive momentum of our business.
- I'll now turn to our upcoming launches for the balance of Fiscal 2024 and beyond:
 - This quarter, Private Division and Evening Star will launch *Penny's Big Breakaway*, a 3D platforming game. Private Division will share more news about this exciting release shortly.
 - On March 8th, 2K and Visual Concepts will launch *WWE 2K24*. The title will feature several franchise advancements, including the *2K Showcase...of the Immortals* celebrating 40 years of WrestleMania, four new match types, two new MyRISE experiences, and much more. We're thrilled to build upon our longstanding partnership with WWE and to continue to set new creative benchmarks for this franchise.
 - At The Game Awards in December, Private Division announced *No Rest for the Wicked*, an action role-playing game from Moon Studios, creators of the critically acclaimed *Ori and the Blind Forest* and *Ori and the Will of the Wisps*. The title will launch in Early Access on PC in the first quarter of Fiscal 2025, with a full release on PlayStation 5, Xbox Series X|S, and PC thereafter. We will reveal more information about the game on March 1st during the label's "*Wicked Inside*" digital showcase.
 - After 13 years, we're pleased that 2K will return to tennis and broaden its sports offerings with the upcoming release of *TopSpin 2K25*. Developed by Hangar 13, the title is poised to provide an incredibly realistic and engaging tennis simulation featuring the world's top players and courts. 2K will share more details in the coming weeks, including an expected launch date.
 - Zynga continues to deliver on their outstanding pipeline, with their much-anticipated titles, *Star Wars: Hunters* and *Game of Thrones: Legends* each slated for global release in Calendar 2024. We are encouraged by both games' performances in soft launch and are confident that they will resonate with broad audiences when they debut worldwide. At the same time, Zynga's 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.
 - And, as always, our labels will continue to provide new content and experiences that drive engagement and recurrent consumer spending across many of our key offerings.
- Looking ahead, we remain 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.
- We delivered solid holiday results, including Net Bookings of \$1.34 billion, which was within our guidance range. I'd like to thank our talented teams for their commitment to creativity, innovation, quality, and value, which allows us to provide outstanding entertainment experiences for our players across the world.
 - *Grand Theft Auto V*, *Grand Theft Auto Online*, the *Red Dead Redemption* series, and Zynga's in-app purchases, led by *Toon Blast*, exceeded our expectations.
 - This was partially offset by softness in mobile advertising and *NBA 2K24*.
 - Recurrent consumer spending declined 7% for the period and accounted for 75% of Net Bookings. This was slightly less than our outlook, driven by weakness in mobile advertising and *NBA 2K24*, which was largely due to the effect of lower unit sales on its in-game monetization. Recurrent consumer spending for *Grand Theft Auto Online* virtual currency and GTA+ membership was up notably.
 - During the quarter, we launched several mobile titles, including *Top Troops*, *Match Factory*, and *NBA 2K24 Arcade Edition* for Apple Arcade, as well as *Borderlands 3 Ultimate Edition* for Switch.
- GAAP net revenue decreased 3% to \$1.37 billion and cost of revenue declined 1% to \$688 million, which included an impairment charge of \$53 million and \$177 million of amortization of acquired intangibles.
- Operating expenses decreased by 10% to \$808 million. On a management basis, operating expenses rose 4% year-over-year and was favorable to our guidance, due to lower marketing and personnel expenses.
- Turning to our guidance, I'll begin with our full fiscal year expectations.
 - As Strauss mentioned, we are lowering our outlook to reflect the softness we are currently experiencing in mobile advertising and *NBA 2K24*, a planned release moving out of the fourth quarter, and increased marketing for Zynga's new hit mobile title, *Match Factory*, which we believe will enable us to scale it more meaningfully to reach its full long-term potential.
 - Our revised Net Bookings forecast is \$5.25 to \$5.3 billion.
 - We expect the Net Bookings breakdown from our labels to be roughly 51% Zynga, 30% 2K, and 19% Rockstar Games.
 - And, we forecast our geographic Net Bookings split to be about 60% United States and 40% International.
- We are projecting recurrent consumer spending growth of 1% compared to fiscal 2023, which includes a full year of Zynga, partially offset by a slight decline in *NBA 2K*. *Grand Theft Auto Online* is expected to deliver modest growth for virtual currency and *GTA+* membership. RCS is expected to represent 79% 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 now forecast GAAP net revenue to range from \$5.27 to 5.32 billion.
- Our total operating expenses are now planned to range from \$3.55 to \$3.56 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, which are being partially offset by the realization of synergies from our combination with Zynga and savings from our prior cost reduction program announced last year.
- Now, moving onto our guidance for the fiscal fourth quarter:
- We project Net Bookings to range from \$1.27 to \$1.32 billion, compared to \$1.4 billion in the fourth quarter last year.
 - Our release slate for the quarter includes *WWE 2K24*, as well as *Penny's Big Breakaway* from Private Division.
 - The largest contributors to Net Bookings are expected to be *NBA 2K*, *Grand Theft Auto Online* and *Grand Theft Auto V*, *Toon Blast*, our hyper-casual mobile portfolio, *Empires & Puzzles*, *WWE 2K24*, *Red Dead Redemption 2* and *Red Dead Online*, *Words With Friends*, and *Match Factory*.
 - We project recurrent consumer spending to decrease by approximately 5%, which assumes flat results for Zynga and a decline for *NBA 2K*. For *Grand Theft Auto Online*, virtual currency and GTA+ membership are expected to be up.
- We project GAAP net revenue to range from \$1.32 to \$1.37 billion.
- Operating expenses are planned to range from \$896 to \$906 million. On a management basis, operating expenses are expected to grow by approximately 17% year-over-year, driven by the additional marketing expense for *Match Factory* that I mentioned previously, higher personnel costs, and an increase in depreciation, which are being partially offset by the realization of synergies from our combination with Zynga and savings from our prior cost reduction program that we announced last year.
- Looking ahead, our teams remain committed to efficiency and we have begun a rigorous analysis to identify additional areas for cost optimization. The expected savings are incremental to our previously-announced cost reduction program, and we expect that it will be more expansive. We believe that these measures will enhance our margin profile and position our business for greater operating leverage in the future.
- In closing, while we are disappointed to have lowered our outlook for the year, we are exceedingly confident in our growth prospects. With our industry-leading portfolio and passionate teams, we believe that we are poised to deliver the best content in our industry, reach new record levels of operating performance and deliver long-term value for our shareholders.

- Thank you for your continued support. I'll now turn the call back to Strauss.

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