

Investment Club Presentation



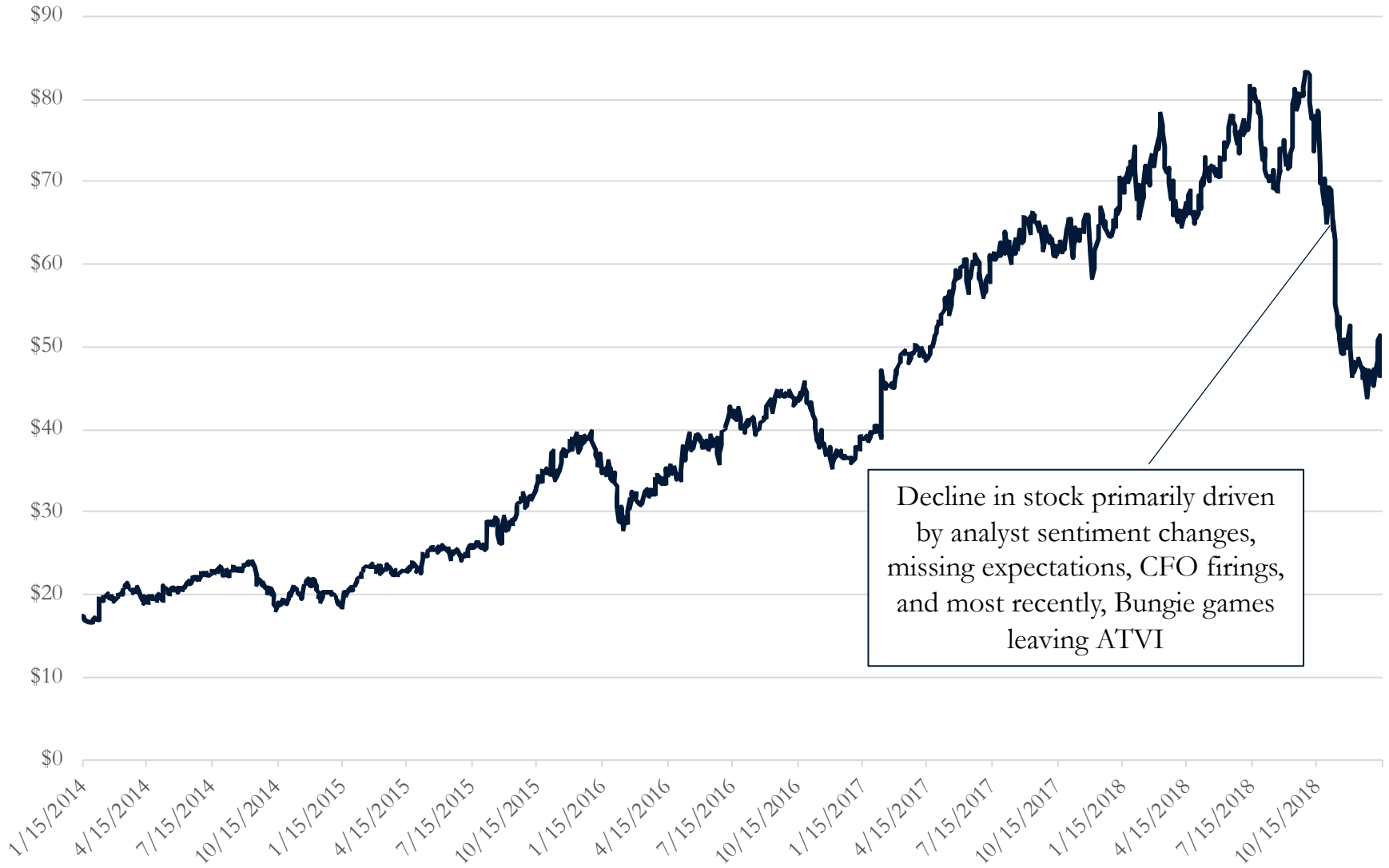
Activision Blizzard, Inc. (ATVI)

Analyst: Niko Martinovic





5-Yr Stock Performance



Source: AIM/Martinovic 2018, Company Filings, S&P Capital IQ, and IBIS World



They're Wrong



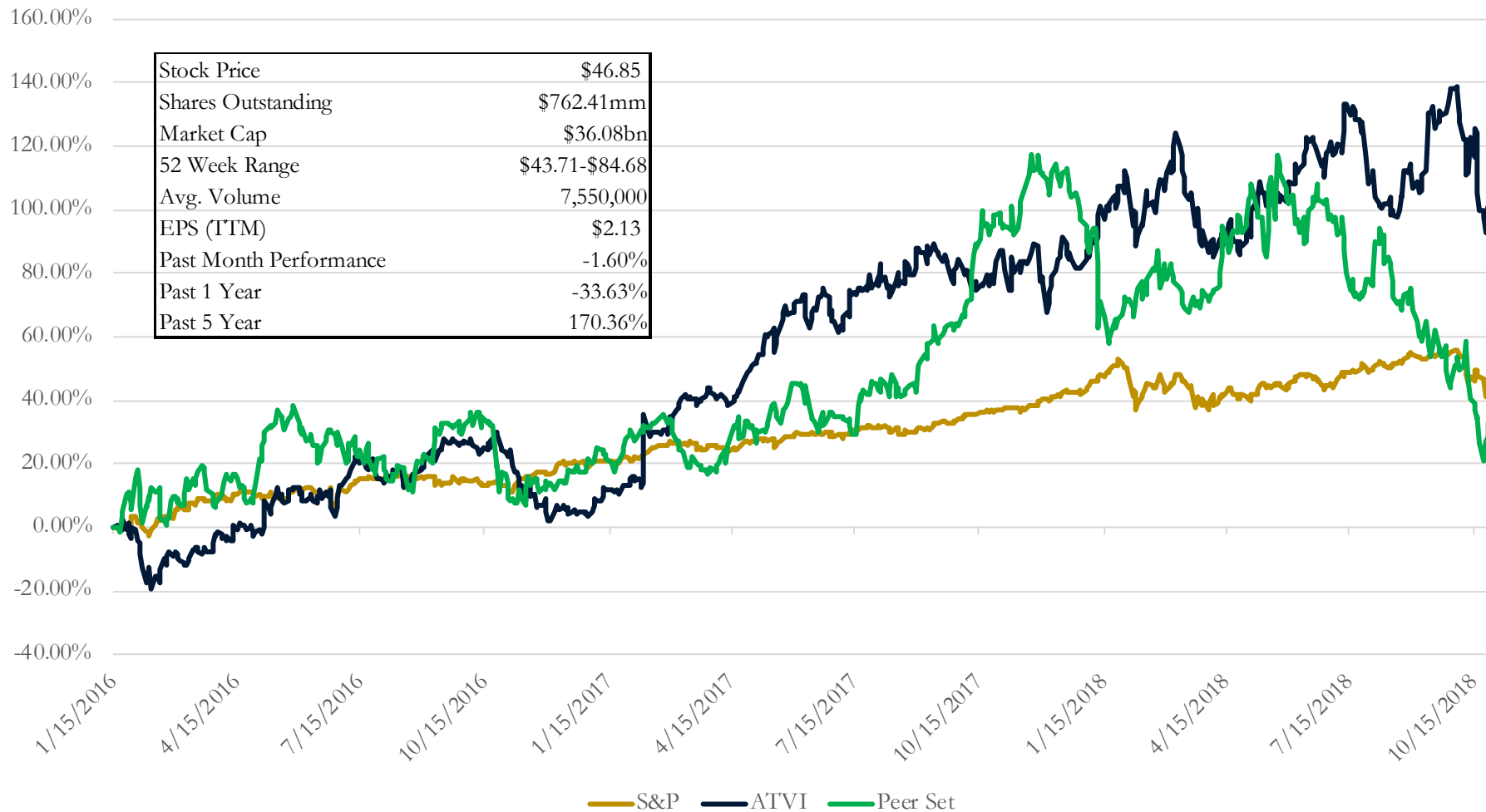
Activision Blizzard has **three** meaningful and diverse revenue streams that can all grow in unique ways. **E-Sports** and **Virtual Reality** are the most exciting growth opportunities in this industry and ATVI is the best positioned to take advantage of it with the power of their **brands**, aggressive **R&D spend**, and **patience**.



Three Year Stock Performance



ATVI has outperformed the S&P consistently since early 2017 while the Peer Set¹ has reverted back.



Source: AIM/Martinovic 2018, Company Filings, S&P Capital IQ, and IBIS World

¹Electronic Arts, Ubisoft, Take Two Interactive, Square Enix, and Zynga



Company Overview & Monetization



Activision Blizzard, Inc.

- Number one global developer and publisher of interactive entertainment content and services
- Competitive and Fragmented Industry, but ATVI has highest market share (7%), EA (5%), Nintendo (5%), Ubisoft (2%)
- Branching out into e-sports and films using their brands as the selling point



Activision Publishing

- **Call of Duty, Destiny, Spiderman, Crash Bandicoot, Legend of Spyro**
 - Retail and online for \$60+
- Partnership with Netflix for an animated TV Show (Skylanders Academy)
- Call of Duty Movie: *Sicario's* Director

\$2,628mm¹

Blizzard Entertainment

- **Major League Gaming (MLG)**
 - Overwatch (20 teams) - \$45mm per team
 - Call of Duty League
- World of Warcraft: ~5mm users
 - \$50 for the game, plus \$15 a month

\$2,139mm

King Digital Entertainment

- **Candy Crush Saga, Farm Heroes (Free to Play)**
 - In top 5 of highest grossing apps of last 17 consecutive quarters (In-App Purchases)
- Partnership with Facebook
- Set to release a betting related game with a casino feel later this year

\$1,998mm

Source: AIM/Martinovic 2018, Company Filings, S&P Capital IQ, and IBIS World

¹2017 Revenue by Segment



Corporate Governance and Compensation



Who sits on the Board?

Name	Age	Director Since	Principal Occupation	Independent
Reveta Bowers	69	2018	Independent Governance and Organizational Consultant	✓
Robert Corti	68	2003	Retired CFO of Avon Products	✓
Hendrik Hartong	51	2015	Chairman and CEO of Brynwood Partners	✓
Brian G. Kelly	55	1995	Chairman of the Board of Activision Blizzard	
Robert Kotick	55	1991	CEO of Activision Blizzard	
Barry Meyer	74	2014	Retired Chairman and CEO of Warner Bros. Entertainment	✓
Robert Morgado	75	1997	Retired Chairman and CEO of Warner Music Group	✓
Peter Nolan	59	2013	Senior Advisor to Leonard Green & Partners	✓
Casey Wasserman	43	2015	Chairman and CEO of Wasserman	✓
Elaine Wynn	76	2013	Co-founder of Wynn Resorts	✓

Base Salary is Not Where the Money Is...

- CEO is expected to own shares of ATVI common stock equal to at least ten times his base salary
 - Robert Kotick currently holds shares with a value equal to 134 times his current annual base salary.
- All executives' base salaries are less than 10% of their annual compensation.
- Kotick believes in granting equity awards for employees

Long Standing Management

- Robert Kotick has been CEO for 27 years
- Brian G. Kelly has been Chairman for 24 years
- Spencer Neumann Fired Jan 2019 (Netflix)
- Dennis Durkin (\$15mm award)
 - Was previously CFO of ATVI and was CCO before promoted to this role



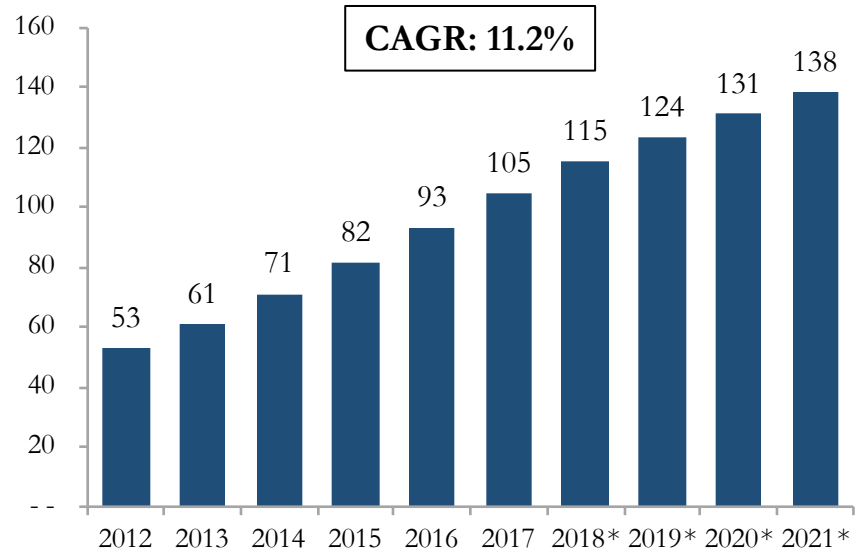
Industry Overview



Disruption in the Industry (Growth Opportunities)

- **Battle Royale Mode** with Free to Play models
 - Epic Games: **Fortnite** - Recently reached \$1bn in revenue
 - New Call of Duty **Blackout Mode**
- **E-Sports** Leagues
 - ATVI is the biggest player; viewership already exceeds that of the NFL and NBA
- **Virtual Reality** (Facebook, Google, Microsoft)
 - Many argue this is the future of gaming
 - “We will not roll out VR products until we believe we are pushing the art form forward”

Gaming Industry Revenue (in \$bn)



Porters “Five” Forces

Threat of Substitutes

- **High**: Lots of competing products and can take away revenues

Threat of New Entrants

- **Medium**: Capital is required to produce a new game, but if it’s a hit, the maker can become a new player (Epic Games)

Bargaining Power of Suppliers

- **Low**: The movement away from discs has kept supplier involvement very low

Bargaining Power of Customers

- **Medium**: Games have been at the same \$60 price point for years, but that is changing



Impressive Margin Resilience



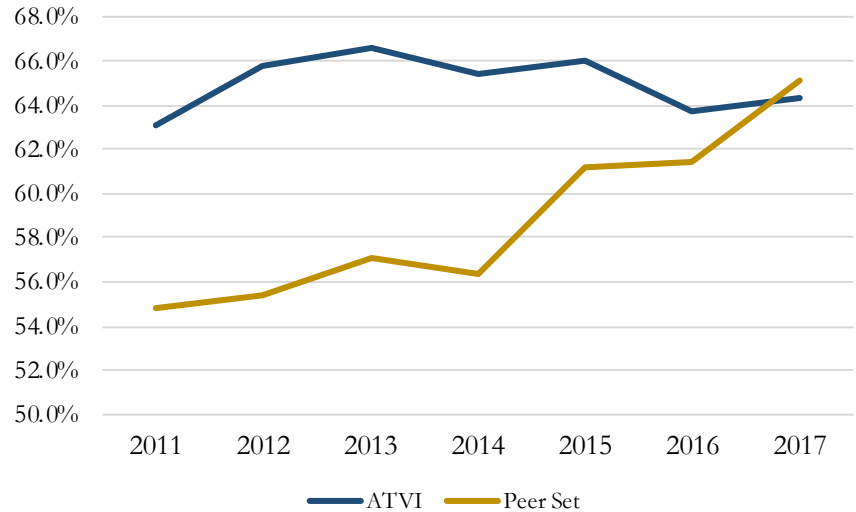
Activision Sales Volumes Keep Gross Margins Flat

- Activision is in such a leading position in terms of brand and offering that huge volumes of customers continue to buy their products year after year
- Developing a game costs a little more each year than it used to as new technologies like “Unreal Engines” continue to be utilized and games become larger with more content, but that cost is offset by sales growth
- The Peers have caught up to ATVI by implementing better cost structures

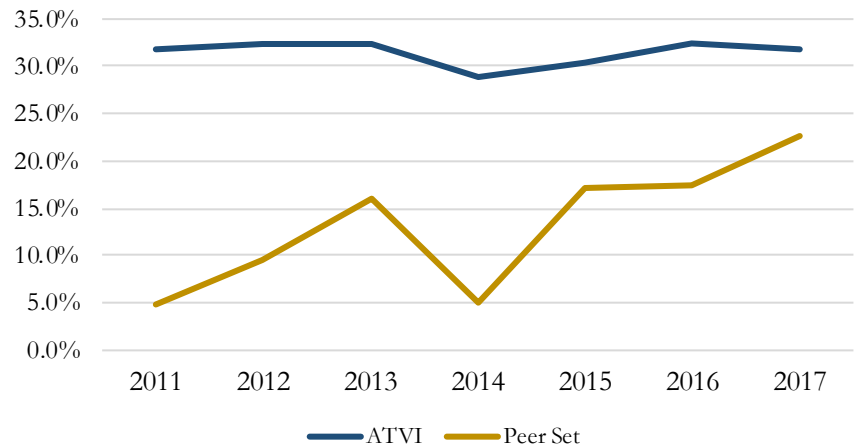
“Movement to Digital” and E-Sports Franchising

- Games are no longer being pressed onto discs in quantities that they used to: you can download a game right from your console: Decreased packaging costs
- Licensing and Franchising is essentially cost free revenue that helps keep their Gross and EBITDA margins high
- The Peers do not have the brand/franchise strength of ATVI and this gives them an advantage

Gross Margin Percentage Relative to Peer Set



EBITDA Margin Relative to Peer Set



Source: AIM/Martinovic 2018, Company Filings, S&P Capital IQ, and IBIS World

Chief Admin of World of Warcraft

- One of the very few players who can access server data and see how many players are on the servers at a time
- Told me that currently 4.2 million people are on the servers and that serious players will always buy the expansion packs



Interviews in Call of Duty Black Ops 4

- Will you be buying the expansion packs?
 - 60% of responses were affirmative
- If a remastered version of COD MW2 came out next year, how much would you pay for it?
 - \$100 was the consensus
- How does Blackout compare to Fortnite?
 - It is a more mature gameplay for a sophisticated audience



Impact on Valuation (Revenue Build)

- ✓ Revenue for WoW accounts for 1/3 of Blizzard's Revenue, this data is very informative (\$15/mo)
- ✓ Revenue build accounts for how many people buy the DLCs and Expansion packs
- ✓ Revenue growth for 2019 is very much a factor of MW2's remastered edition

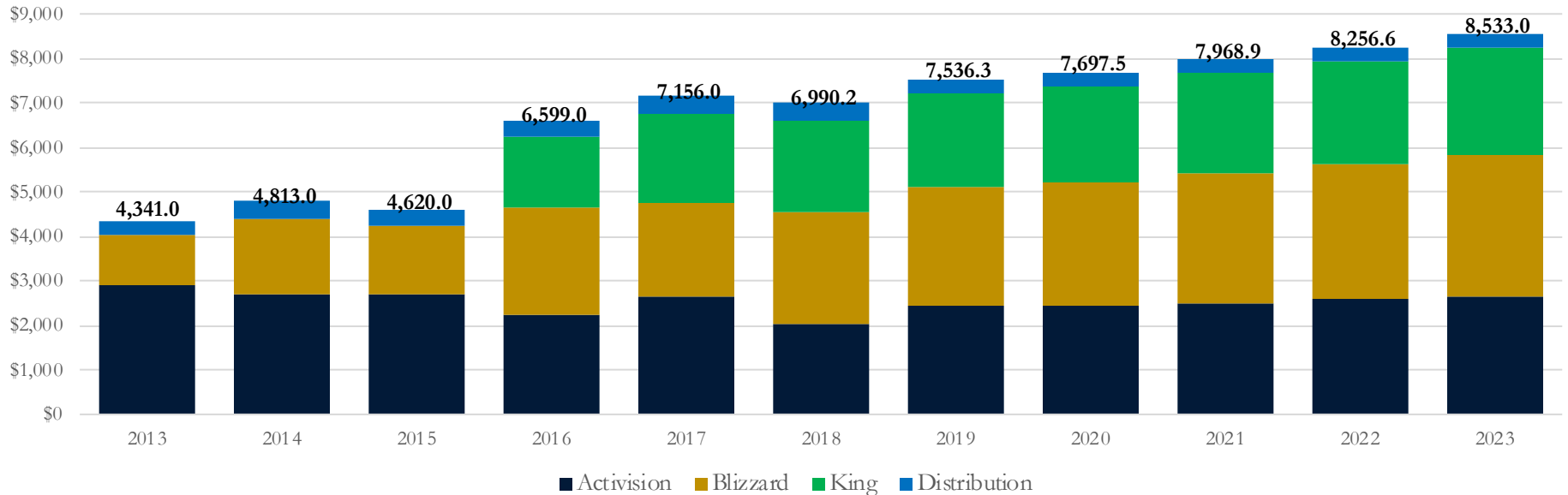


Revenue Build (in \$mm)



ATVI has found ways to grow their top line, whether through acquisitions, new product offerings, or growing a never before seen market

Growth in Revenue Driven by Activision and Blizzard Segment



Activision

- 2019 Spike: Infinity Ward is developer of COD game; MW2 Remastered Edition
- Remaining revenue growth is at 7-YR historical average of 3.0%

Blizzard

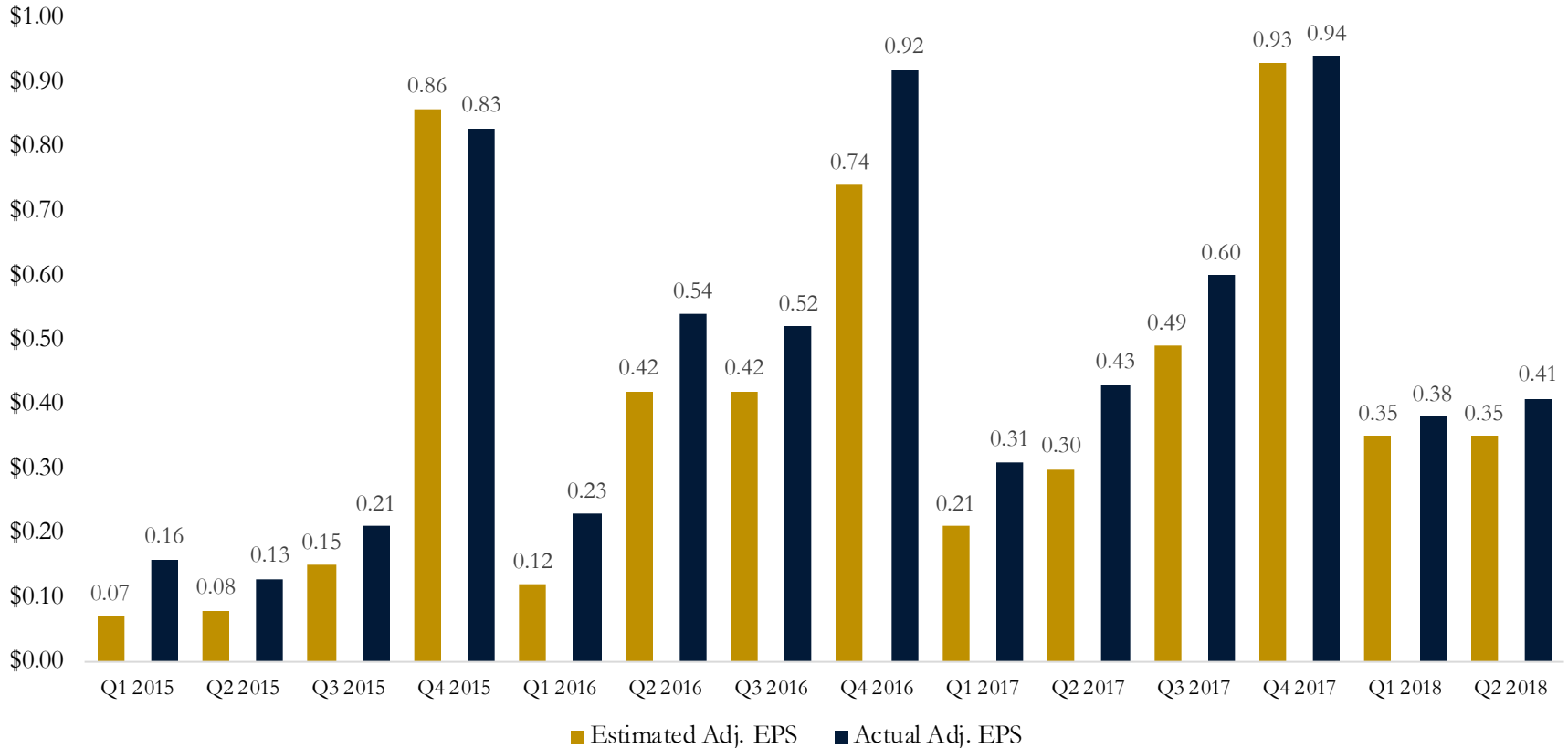
- E-Sports is the largest driver of growth for Blizzard
 - Created an E-Sports Benefit Line Item
- Also a historical average growth of 3.0% which was carried forward



Earnings Surprise History



ATVI has beaten estimates 13 out of the last 14 quarters. They are a resilient and strong business that can out perform. They did beat on 3Q as well



Activision Blizzard (US ATVI) - EPS Adjusted															
Quarter	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	
Actual Adj. EPS	0.16	0.13	0.21	0.83	0.23	0.54	0.52	0.92	0.31	0.43	0.60	0.94	0.38	0.41	
Estimated Adj. EPS	0.07	0.08	0.15	0.86	0.12	0.42	0.42	0.74	0.21	0.30	0.49	0.93	0.35	0.35	
Surprise	128.57%	62.50%	40.00%	-3.49%	91.67%	28.57%	23.81%	24.32%	47.62%	43.33%	22.45%	1.08%	8.57%	17.14%	

Source: AIM/Martinovic 2018, Company Filings, S&P Capital IQ, Bloomberg



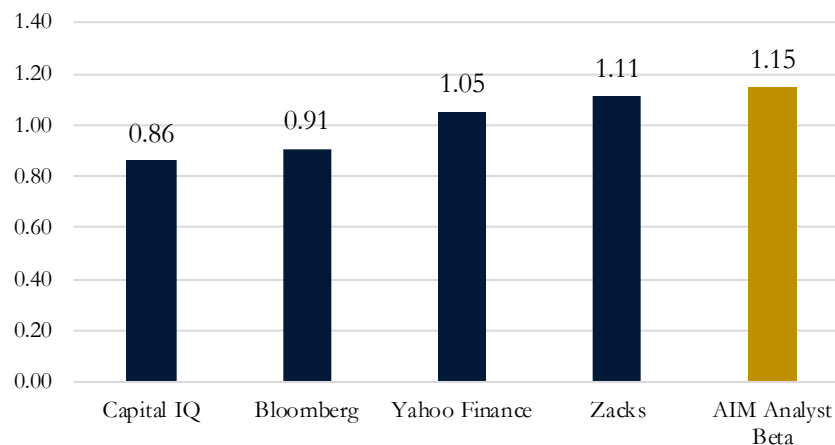
Walk to WACC

ASSUMPTIONS	
Marginal Tax Rate	20.0%
Risk-Free Rate of Return, 10-yr	2.7%
Market Risk Premium	7.0%
Forward Looking Cost of Debt	4.0%
Total Debt	4,390
Total Debt (including Capitalized Op. Leases and R&D)	4,951
Total Equity	52,600
ATVID/E %	9.4%
ATVID/D+E %	8.6%
ATVIE/D+E %	91.4%
WACC	
Risk-Free Rate	2.7%
Market Risk Premium	7.0%
Multiplied by: Smoothed Beta	1.15
Cost of Equity	10.7%
Multiplied by: CMA E/(D+E)	91.4%
Cost of Equity Portion	9.8%
Cost of Debt	4.0%
Tax Rate	20.0%
After-Tax Cost of Debt	3.2%
Multiplied by: CMA D/(D+E)	8.6%
Cost of Debt Portion	0.3%
WACC	10.08%

Assumptions

- **Cost of Debt**
 - Screened Issuances on Bloomberg
- **Operating Leases and R&D**
 - The relevant capitalized values were added to the cap stack
- **Beta Calculation**
 - 5-Yr Daily
 - Confidence Intervals made sense

Market Beta Estimates





Relative Valuation



Just about middle of the pack from an EV/EBITDA multiple perspective. Much lower on P/E I believe given the recent contraction in the stock

Valuation Statistics

Company	Market Capitalization	Net Debt	Enterprise Value	EV / Revenue		EV / EBITDA		P/E Ratio	
				2018E	2019E	2018E	2019E	2018E	2019E
Electronic Arts Inc.	26,763	(3,552)	23,211	4.5x	4.5x	12.9x	12.9x	20.7x	19.4x
Take-Two Interactive Software, Inc	11,950	(1,025)	10,924	5.4x	3.7x	20.6x	14.5x	32.2x	21.1x
Zynga Inc.	3,925	(420)	3,505	3.9x	3.4x	18.9x	17.6x	26.4x	26.2x
Ubisoft Entertainment SA	8,627	341	8,968	5.4x	4.3x	10.8x	8.3x	44.0x	26.3x
Square Enix Holdings Co., Ltd.	398,149	(102,414)	295,735	1.2x	1.1x	6.7x	7.8x		
Activision Blizzard, Inc.	\$36,085	(\$754)	\$35,331	5.4x	5.0x	15.3x	13.5x	18.2x	17.6x

Low	\$3,925	(\$102,414)	\$3,505	1.2x	1.1x	6.7x	7.8x	20.7x	19.4x
Mean	89,883	(21,414)	68,469	4.1x	3.4x	14.0x	12.2x	30.8x	23.2x
Median	11,950	(1,025)	10,924	4.5x	3.7x	12.9x	12.9x	29.3x	23.6x
High	\$398,149	\$341	\$295,735	5.4x	4.5x	20.6x	17.6x	44.0x	26.3x

Operating Statistics

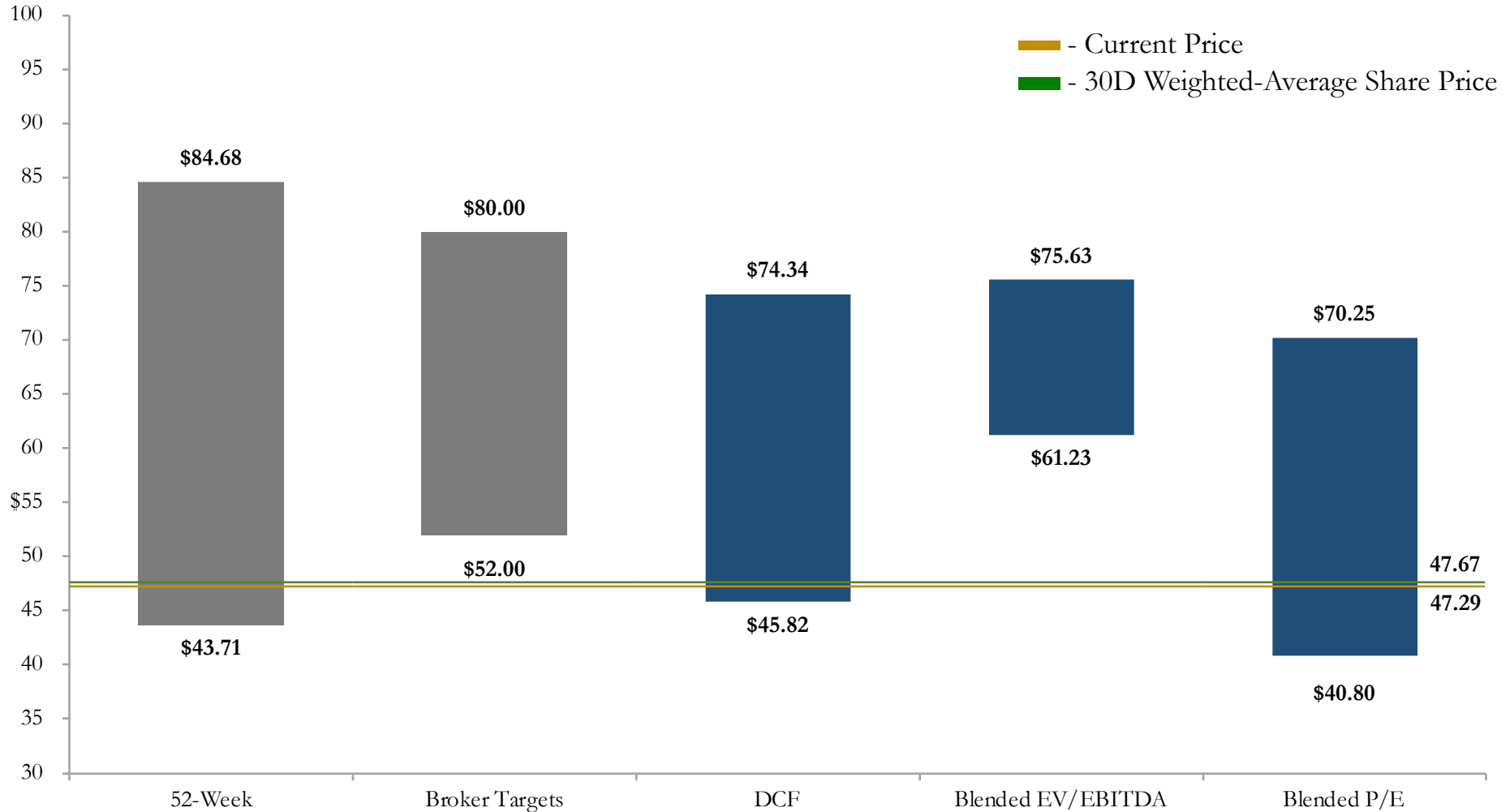
Company	Revenue			EBITDA			EPS			Share Price
	2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E	
Electronic Arts Inc.	4,845	5,159	5,205	1,407	1,797	1,794	2.53	4.28	4.57	88.58
Take-Two Interactive Software, Inc	1,780	2,029	2,963	147	531	753	0.68	3.26	4.98	104.98
Zynga Inc.	861	902	1,030	70	185	199	0.04	0.16	0.16	4.24
Ubisoft Entertainment SA	1,460	1,670	2,080	650	829	1,077	1.05	1.78	2.98	78.50
Square Enix Holdings Co., Ltd.	256,824	243,819	258,276	37,568	44,000	37,700	159.39	–	–	3,340.00
Activision Blizzard, Inc.	\$4,664	\$6,517	\$7,043	\$1,419	\$2,312	\$2,608	\$0.99	\$2.60	\$2.69	\$47.29
Low	\$861	\$902	\$1,030	\$70	\$185	\$199	\$0.04	–	–	\$4.24
Mean	53,154	50,716	53,911	7,969	9,469	8,304	\$32.74	\$1.90	\$2.54	\$723.26
Median	1,780	2,029	2,963	650	829	1,077	\$1.05	\$1.78	\$2.98	\$88.58
High	\$256,824	\$243,819	\$258,276	\$37,568	\$44,000	\$37,700	\$159.39	\$4.28	\$4.98	\$3,340.00



Football Field



Once upper and lower bounds plotted, the percentage of data in the upper portion reflects inherent upside in the stock (excl. P/E Valuation)



Source: AIM/Niko 2018, Company Filings, Earnings Calls



ACTIVISION® | BLIZZARD

Downside Case

Price Target: **\$45.82**

Upside: *(3.1)%*

Base Case

Price Target: **\$59.36**

Upside: *25.5%*

Upside Case

Price Target: **\$74.34**

Upside: *57.2%*

Catalysts

E-Sports: More viewership than the NFL

Expansion and Innovation: Increased customer acquisition/users

Mobile Gaming/Integration with King: Superior products and new offerings (Diablo, Casino)



Appendix A: DCF



	Fiscal Year Ending December 31			Fiscal Year Ending December 31					
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Revenue	4,620	6,599	7,156	6,990	7,536	7,697	7,969	8,257	8,533
<i>% Growth</i>	-4.0%	42.8%	8.4%	-2.3%	7.8%	2.1%	3.5%	3.6%	3.3%
Cost of Revenues	1,585	2,147	2,227	2,175	2,345	2,396	2,480	2,570	2,656
Gross Profit	3,035	4,452	4,929	4,815	5,191	5,302	5,489	5,687	5,877
Total Operating Expenses (Excl. R&D Exp.)	1,114	1,811	1,934	1,926	1,806	1,844	1,923	2,002	2,076
Operating Income (EBIT)	1,921	2,641	2,995	2,889	3,385	3,458	3,566	3,685	3,801
<i>% Growth</i>	-10.9%	37.5%	13.4%	-3.5%	17.2%	2.1%	3.1%	3.3%	3.2%
Taxes	228	126	141	578	677	692	713	737	760
<i>Tax Rate</i>	11.9%	4.8%	4.7%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-Tax Operating Income, Adj.	1,693	2,515	2,854	2,311	2,708	2,766	2,853	2,948	3,041
Add: Depreciation and Amortization	383	1,181	1,334	872	959	1,061	1,106	1,157	1,211
Less: Capital Expenditure	(231)	(756)	(215)	64	(225)	(60)	(101)	(107)	(444)
Less: Change in WC	119	20	(16)	(736)	(80)	6	35	34	32
Free Cash Flow to Firm (FCFF)	1,964	2,960	3,957	2,511	3,363	3,774	3,893	4,031	3,839
<i>% Growth</i>	-6.8%	50.7%	33.7%	-36.5%	33.9%	12.2%	3.2%	3.5%	-4.8%
<i>% of Revenue</i>	42.5%	44.9%	55.3%	35.9%	44.6%	49.0%	48.9%	48.8%	45.0%
PV of Future Cash Flow s					3,217.6	3,280.4	3,074.3	2,891.9	2,502.0



PRESENT VALUE OF FIRM		
\$ in millions		
		% of EV
PV of 2018-2023 Free Cash Flows to Firm	14,966	32.2%
PV of Terminal Value	31,580	67.8%
Firm Value	46,547	
Plus: Excess Cash and Securities	4,570	9.8%
Plus: Net Non Operating Assets	(459)	(1.0%)
Less: Capitalized Operating Leases	561	1.2%
Less: Long Term Debt	4,390	9.4%
Equity Value	45,706	98.2%
Diluted Shares Outstanding	770.0	
Per Share Value	\$ 59.36	
Current Price	\$ 47.29	
<i>Premium (Discount) to Price</i>	25.5%	