

Activision Blizzard

LONG: ATVI (\$55 Target Price)

It's Game Time!

PRESENTATION CONTENTS

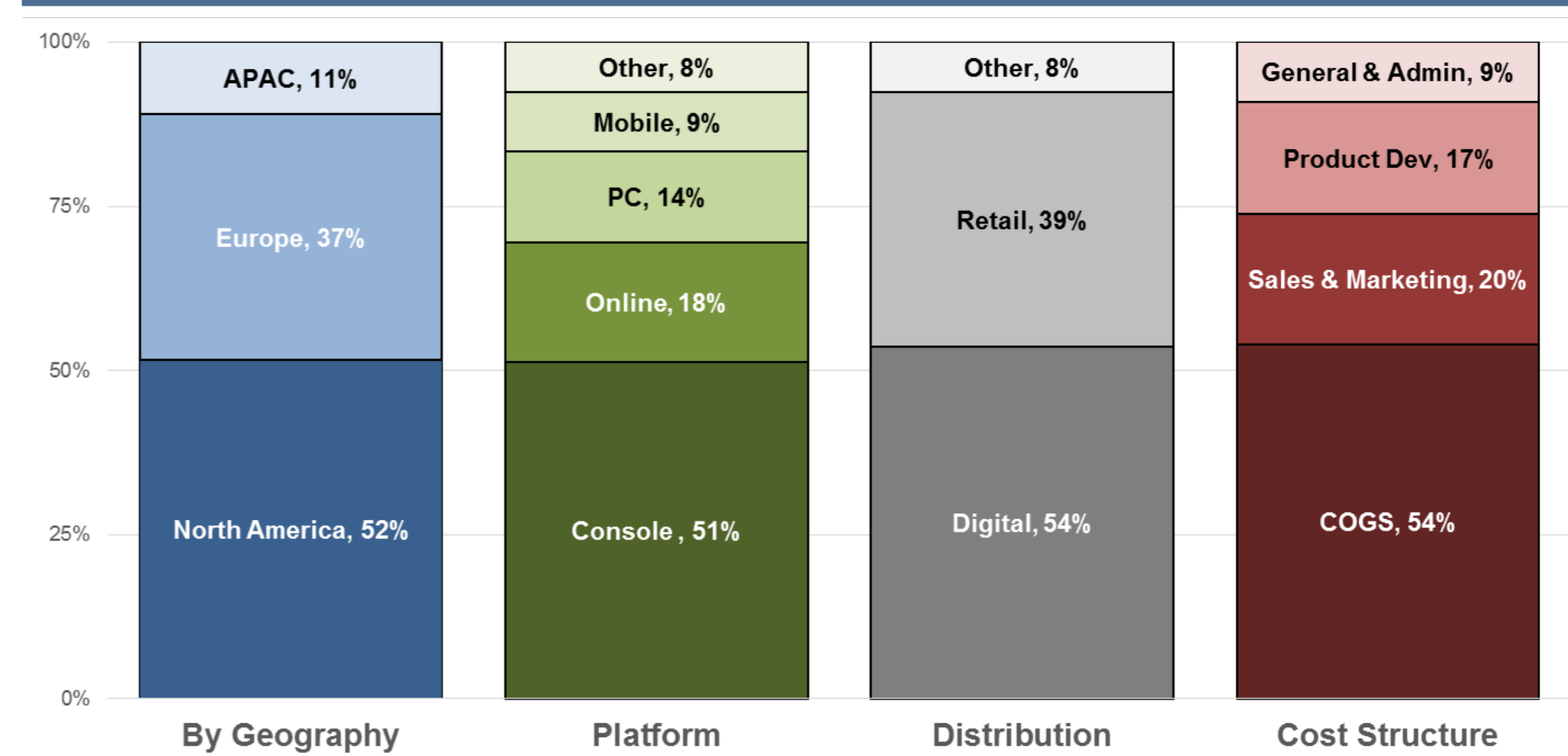
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ATVI COMPANY OVERVIEW



- Activision Blizzard (“ATVI”) is one of the largest video game publishers in the world with a **10% share** of the content market
- The company is **hardware-agnostic** and distributes video games via retail (26% of PF revenue) and digital (74%) channels
- A majority of the company’s historical sales were one-time transactions via retail stores (GameStop, Wal-Mart, Target)
- Currently, ATVI distributes **~40% of its games online** and collects **additional revenue** via in-game purchases

2015 Revenue and Cost Breakout (Excl. KING)



ATVI PF Financial Snapshot	
ATVI Share Price (04/05/16)	\$33.71
2016E Non-GAAP Revenue	\$6.7B
2016E Non-GAAP EBITDA	\$2.7B
Market Capitalization	\$24.8B
Net Debt	\$2.2B
Enterprise Value	\$27.0B
Price / 2016E Earnings (Mgmt. Guidance)	19.3x

	Activision	Blizzard	King Digital
% of Revenue ¹	43%	25%	32%
Game Style	Mid-Core and Hard-Core	Hard-Core	Casual
Distribution	Digital and Retail	Digital and Retail	Digital Only
Platform	Console, PC, and Mobile	Console, PC, and Mobile	Mobile
Monetization	Initial Sale and In-Game Content	Initial Sale and Subscriptions	Micro-transactions

ATVI is a market leading video game publisher

¹ Revenue is pro forma for the acquisition does not include “Other”

- **Situation:** ATVI is undervalued by the market because of its assumed reliance on two aging franchises (Call of Duty, World of Warcraft), underperformance on recent game releases, and recent \$5B acquisition of developer KING
- **Thesis:** The market does not acknowledge the **substantial earnings opportunity** brought about by a **best-in-class management team**, a **secular shift in user monetization potential**, and a **cost structure transition**

Core Thesis Elements – ATVI

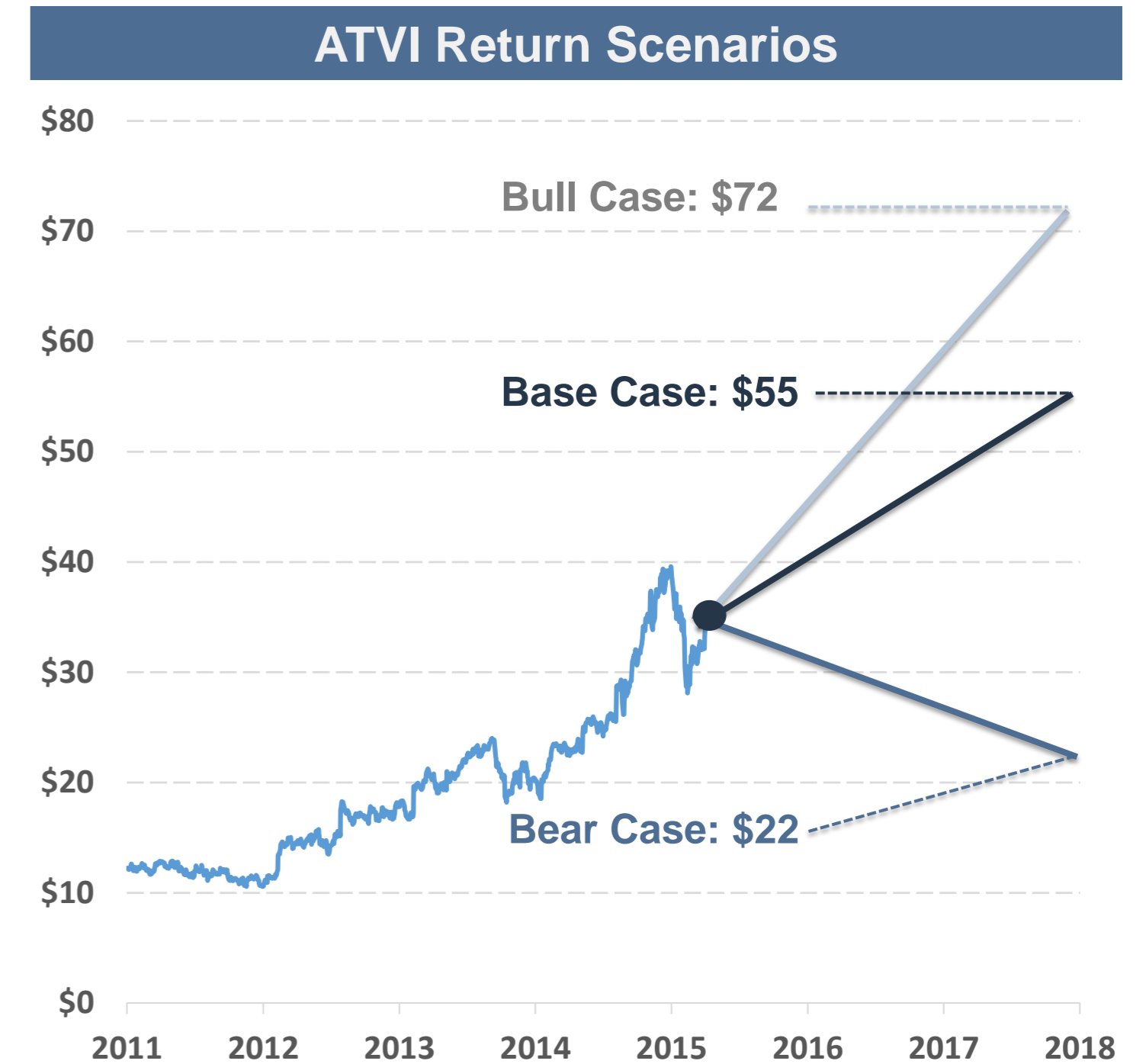
- 1 **Best-in-Class and Aligned Management Team**
- 2 **Franchise Strength**
- 3 **Cost Structure Improvement**
- 4 **User Monetization Potential**
- 5 **KING's Hidden Value**

- **Expected Return:** Giving credit for low-hanging fruit (advertising opportunity, shift to digital, KING synergies) we project ATVI will realize \$3.44 of 2018 EPS – implying a share price of \$55 (\$33.71 today) representing **63% upside** or **20% IRR**

ATVI's market value does NOT reflect its true earnings potential

INVESTMENT RETURN PROFILE

- Base Case: \$55.00, 63% upside from the current trading price
 - Base Case assumes ATVI is able to capitalize on the opportunities laid out in our thesis and is able to realize earnings of \$3.44 by FY 2018
- Bull Case: \$72.00, increase of 114% from its current trading price
 - Bull Case assumes ATVI is able to capitalize on the opportunities laid out in our thesis and launches several new successful games to realize earnings of \$4.50 by FY 2018
- Bear Case: \$22.00, a decrease of 34% from its current trading price
 - Bear Case assumes substantial KING attrition, an inability to capitalize on the opportunities in our thesis, and misses on new game launches resulting in earnings of \$1.85 by FY 2018



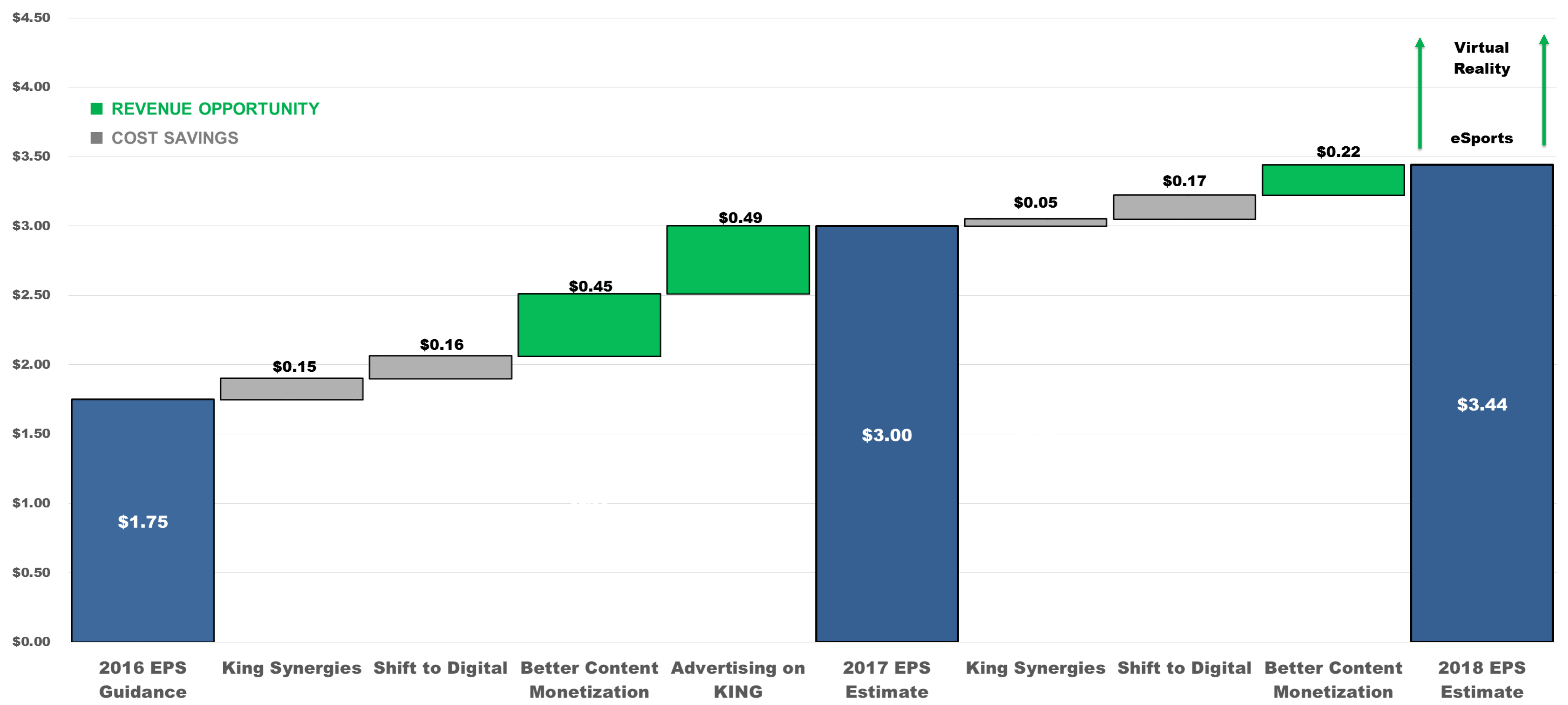
		Bear Case				
		2018 EPS				
		\$1.25	\$1.50	\$1.85	\$2.00	\$2.25
EPS Multiple	8x	\$10.00	\$12.00	\$14.80	\$16.00	\$18.00
	10x	\$12.50	\$15.00	\$18.50	\$20.00	\$22.50
	12x	\$15.00	\$18.00	\$22.20	\$24.00	\$27.00
	14x	\$17.50	\$21.00	\$25.90	\$28.00	\$31.50
	16x	\$20.00	\$24.00	\$29.60	\$32.00	\$36.00

		Base Case				
		2018 EPS				
		\$2.25	\$3.00	\$3.44	\$4.00	\$4.50
EPS Multiple	12x	\$27.00	\$36.00	\$41.28	\$48.00	\$54.00
	14x	\$31.50	\$42.00	\$48.16	\$56.00	\$63.00
	16x	\$36.00	\$48.00	\$55.04	\$64.00	\$72.00
	18x	\$40.50	\$54.00	\$61.92	\$72.00	\$81.00
	20x	\$45.00	\$60.00	\$68.80	\$80.00	\$90.00

		Bull Case				
		2018 EPS				
		\$3.00	\$3.75	\$4.50	\$5.25	\$6.00
EPS Multiple	12x	\$36.00	\$45.00	\$54.00	\$63.00	\$72.00
	14x	\$42.00	\$52.50	\$63.00	\$73.50	\$84.00
	16x	\$48.00	\$60.00	\$72.00	\$84.00	\$96.00
	18x	\$54.00	\$67.50	\$81.00	\$94.50	\$108.00
	20x	\$60.00	\$75.00	\$90.00	\$105.00	\$120.00

Attractive 3.3x Upside / Downside return ratio for ATVI

EARNINGS OPPORTUNITY – BRIDGE



Clear path to earnings growth

DYNAMIC DUO – BRIAN KELLY & BOBBY KOTICK



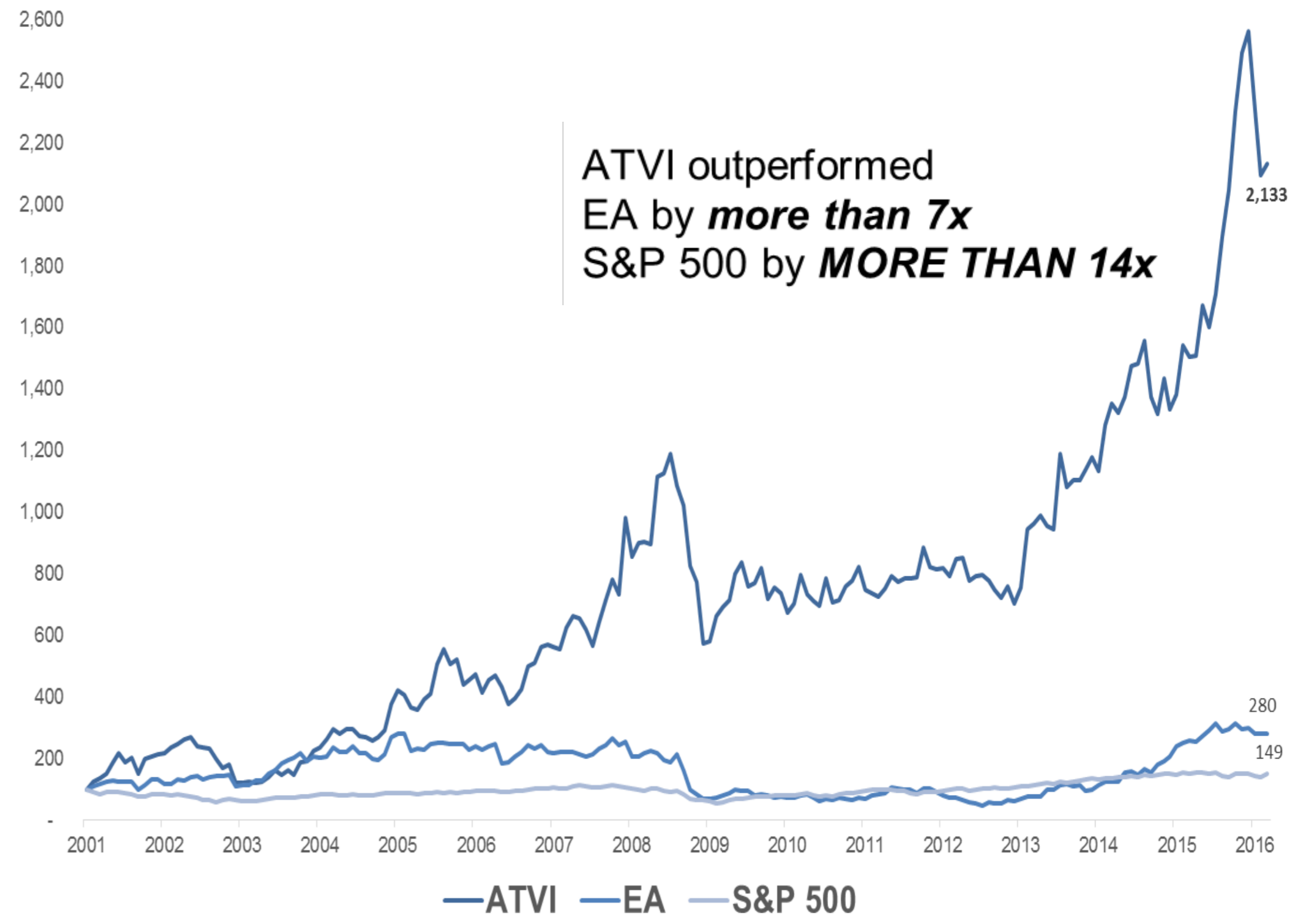
Activision Blizzard Management

- ✓ **Tenure:** Successfully managed ATVI for **25 years**
- ✓ **Results:** Book value **compounded >30%** for 25 years
- ✓ **Aligned Incentives:** Own **>\$400m** in stock, incentive comp tied to **EPS, FCF, and Op. Income**
- ✓ **Acquisition Track Record:** Vivendi Games – Blizzard Entertainment (2008)
- ✓ **Efficient Allocators:** Executed 38% one-time share repurchase at \$13.50/share

On book value per share growth as the hurdle... “If it’s good enough for Warren and Charlie Munger, it’s good enough for us”
– Bobby Kotick 2010 Annual Report

“Management has a ruthless focus on quality. The goal is to maximize the value to the consumer”
– Former Activision Employee

15 year Total Return Comparison

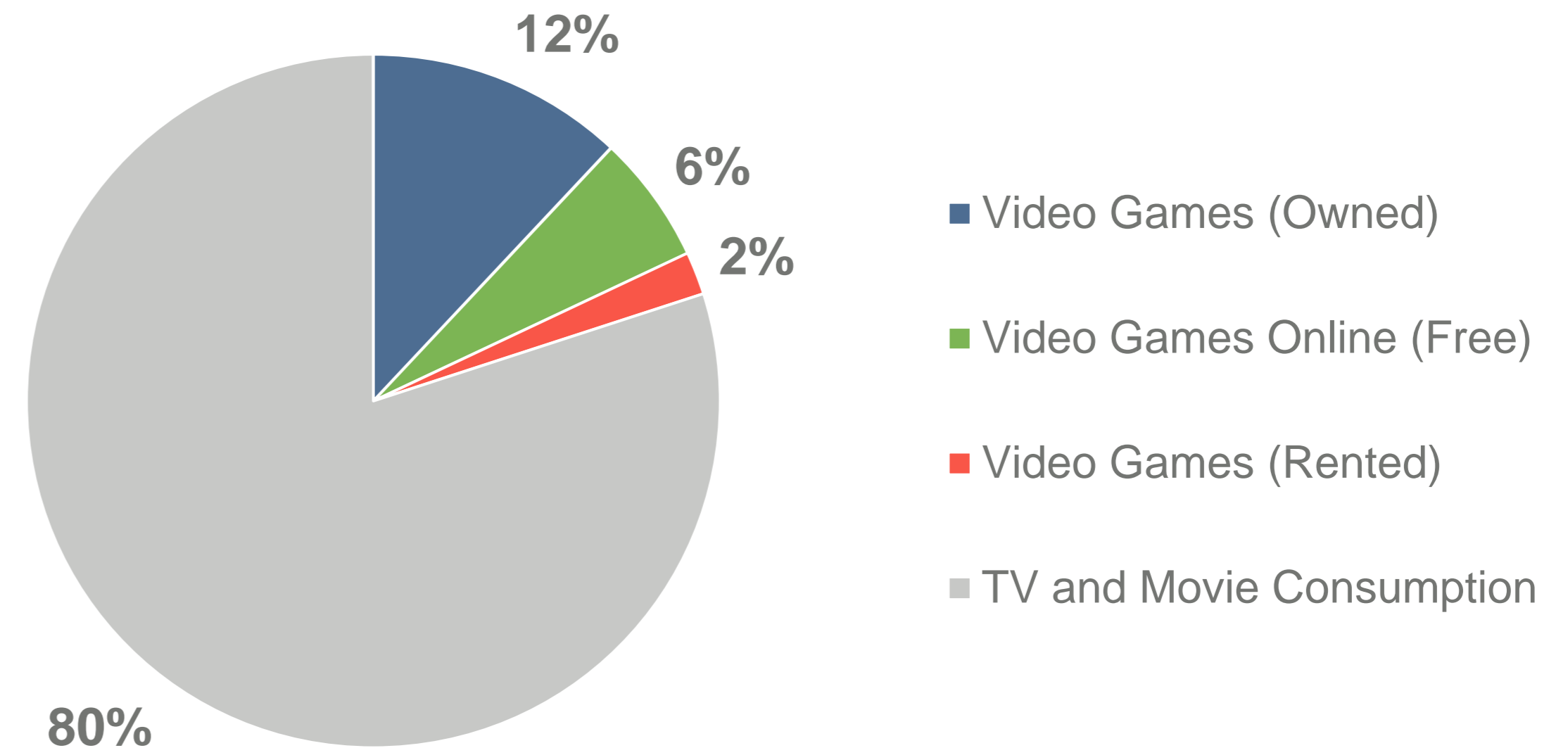


Proven best-in-class management

MARKET OPPORTUNITY – INDUSTRY TAILWINDS

- The current worldwide video game market is approximately **\$90B in annual sales**
- Worldwide market is expected to grow in excess of **8% annually**
- There are between **1.5B and 2B active gamers worldwide**, but most of them are “casual”
 - Activision Blizzard (80mm) and King Digital (420mm) account for ~500mm MAUs (monthly active users)
- In the United States, leisure hours devoted to gaming is **growing at 12% annually**, continuing to displace passive content (e.g. TV, movies, music)

Share of US Media Consumption (Hours)



YoY Growth in Worldwide Spending by Media										
Category	2010	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
Broadband	14.4%	16.9%	13.7%	10.5%	9.2%	8.0%	7.9%	7.8%	7.8%	7.5%
In-Home Video	5.1%	4.5%	5.1%	4.4%	4.1%	2.6%	4.8%	3.2%	3.1%	3.1%
Audio	-4.8%	1.2%	1.2%	4.2%	-1.6%	2.0%	2.5%	2.6%	2.8%	2.5%
Cinema	4.8%	1.5%	7.8%	3.8%	3.4%	6.1%	5.7%	5.1%	4.4%	5.2%
Consumer Magazines	-3.0%	-0.1%	-2.3%	-3.8%	-3.2%	-1.9%	-1.4%	-0.9%	-0.5%	-0.3%
Newspapers	1.0%	0.1%	0.1%	-0.6%	-0.4%	-0.1%	0.4%	0.6%	0.8%	0.9%
Consumer Books	0.5%	-0.8%	0.6%	1.2%	2.3%	0.9%	1.4%	1.0%	0.8%	0.7%
Educational Publishing	2.6%	1.3%	-2.0%	1.5%	2.6%	1.6%	1.2%	1.2%	1.4%	1.6%
Video Games	4.4%	5.0%	9.1%	10.8%	14.0%	10.9%	9.5%	7.6%	6.1%	4.6%
Total	5.6%	6.8%	6.7%	5.9%	5.5%	4.8%	5.5%	4.9%	4.9%	4.7%

Rapid growth of video game market provides meaningful tailwinds

Sources: Nielsen, McKinsey

KEY FRANCHISES AND IP VALUE

- ATVI owns some of the most well known and successful franchises in the video game industry
 - e.g. Call of Duty, Guitar Hero, Skylanders, Warcraft, Starcraft, Diablo, Candy Crush
- Franchises in the video game space have substantial value and enjoy meaningful sales and engagement advantages relative to non-franchise games
 - Franchises are the video game equivalent to consumer brands and benefit from being known quantities with respect to users' historical connection and affinity
- ATVI intellectual property is well positioned to take advantage of the both domestic and international video game industry growth given the cross-border appeal of the franchises and its commitment to brand development
 - 49% of ATVI revenue is derived outside of North America

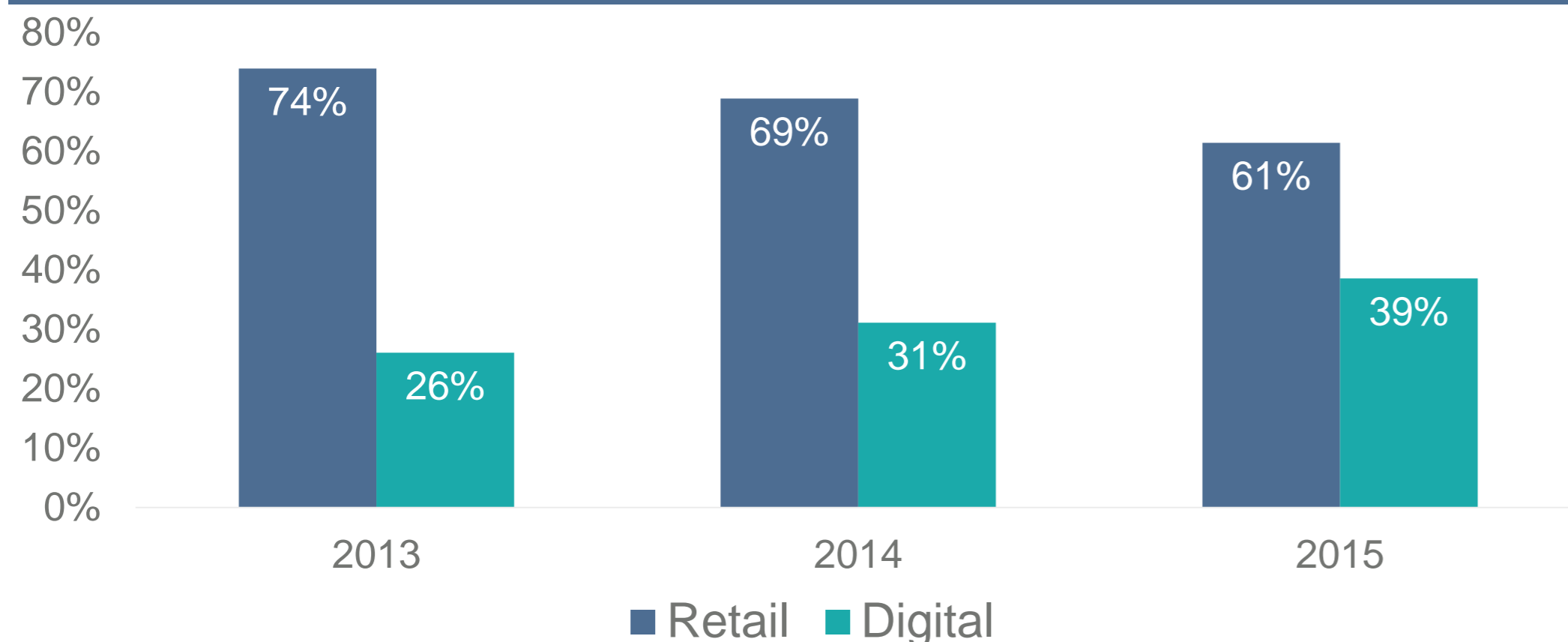


“Activision knows franchises and brands matter in videogames. When I went to Activision out of business school I viewed it as a “Brand University” – they have stellar franchises and are always thinking about how to deliver the next great product.”
 – Ex. Call of Duty Brand Manager, Activision

DIGITAL DISTRIBUTION – CHANNEL DISRUPTION

- The shift to online distribution enables ATVI and other publishers to earn **more gross profit** per game sale as the “tolls” of distribution are lower
- For full-game purchases, ATVI has a long transition runway as **more than 60%** of Activision/Blizzard revenues can be shifted online
- Consumer use of digital downloads is correlated with **increased in-game purchases**

Channel Mix of Full Game Revenue for ATVI



Retail Distribution

- Users have to purchase physical copies of games in-store or by delivery
- Retailers can accept returns of used games and resell used copies
- Studios have less flexibility in pricing and earn less gross profit per sale
- **Both retailers and consoles extract rents**



Digital Distribution

- Users can purchase full games online through major platforms (e.g. Xbox Games Store, Sony PlayStation Store, and Steam)
- Studios earn more gross profit per sale and can control pricing dynamically
- **Only one channel partner extracts rents**



Distribution shifting from traditional retail to more profitable digital

UNIT ECONOMICS – DIGITAL VS. RETAIL

	Digital Distribution	Retail Distribution	Effect vs. Retail
Consumer Price Paid	\$60	\$60	-
Retail Share (20%)	-	(\$12)	-
Digital Royalty Payment*	(\$15)	-	-
Net Revenue Reported	\$45	\$48	(6%)
Physical Royalty Payment*	-	(\$12)	-20%
Physical Production Costs	-	(\$2)	<i>nmf</i>
Gross Profit	\$45	\$34	+32%
Incremental Gross Margin	100%	71%	+41%

“The shift to digital is happening, much like you’ve seen the shift already in other media like Music, TV, and Movies – one reason the shift has been slower in video games is because it’s taken this long for GameStop to admit its model needs to change.”
 – Hedge Fund Media Analyst

ATVI Current Gross Profit Margin = 66%
 ATVI 100% Digital Profit Margin = 88%



22% Margin Expansion
\$1.06 EPS Opportunity

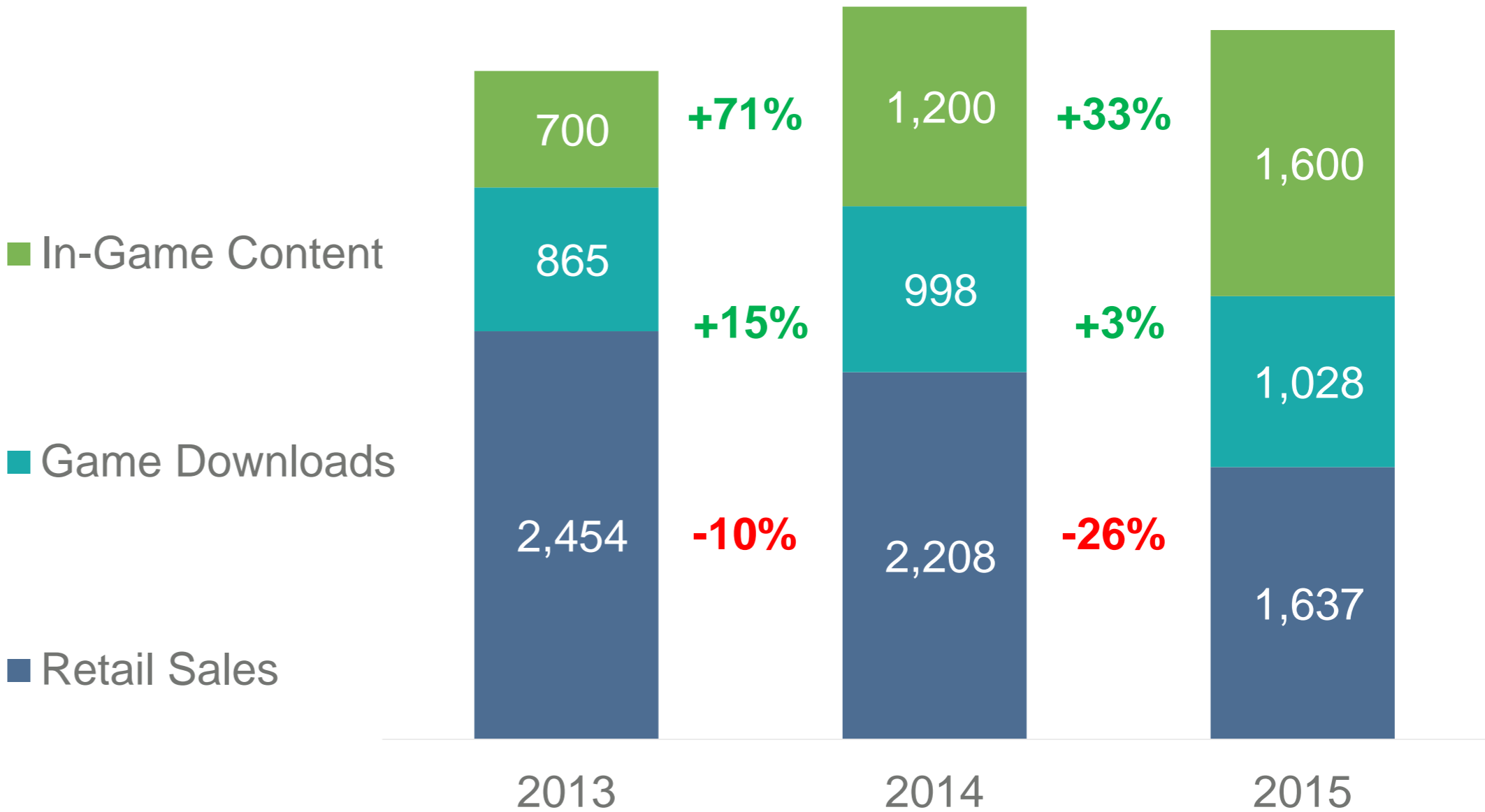
Digital distribution transition enables margin expansion

(*): Royalty payments are made to console creators or distribution platform owners Sources: ATVI Investor Relations, Primary Research

MONETIZING IN-GAME CONTENT

- In-game/Micro-transactions enable publishers to **benefit from increasing user engagement**
- In 2015, **8.6%** of Call of Duty players made **in-game purchases**
- In 2016, Activision and Blizzard will collect **more revenue from in-game content than from retail**
- ATVI has substantial white space to broaden **micro-transaction revenue across its portfolio**

Annual Sales Mix for Activision Blizzard Games (\$mm)



“When executed well, **increased player investment and deeper engagement** are not a trade-off, but instead, can **reinforce each other.**”
 – *Thomas Tippl, COO of ATVI (2/11/2016)*

“The industry can **definitely earn more per customer...** But to do it right, it is important to limit ‘the regret factor’”
 – *VP of Marketing for a AAA Studio*

“World of Warcraft was the first example. People don’t understand that games can be a **multi-year hobby. You can spend infinite dollars on a hobby.**”
 – *Project Manager for EA Mobile*

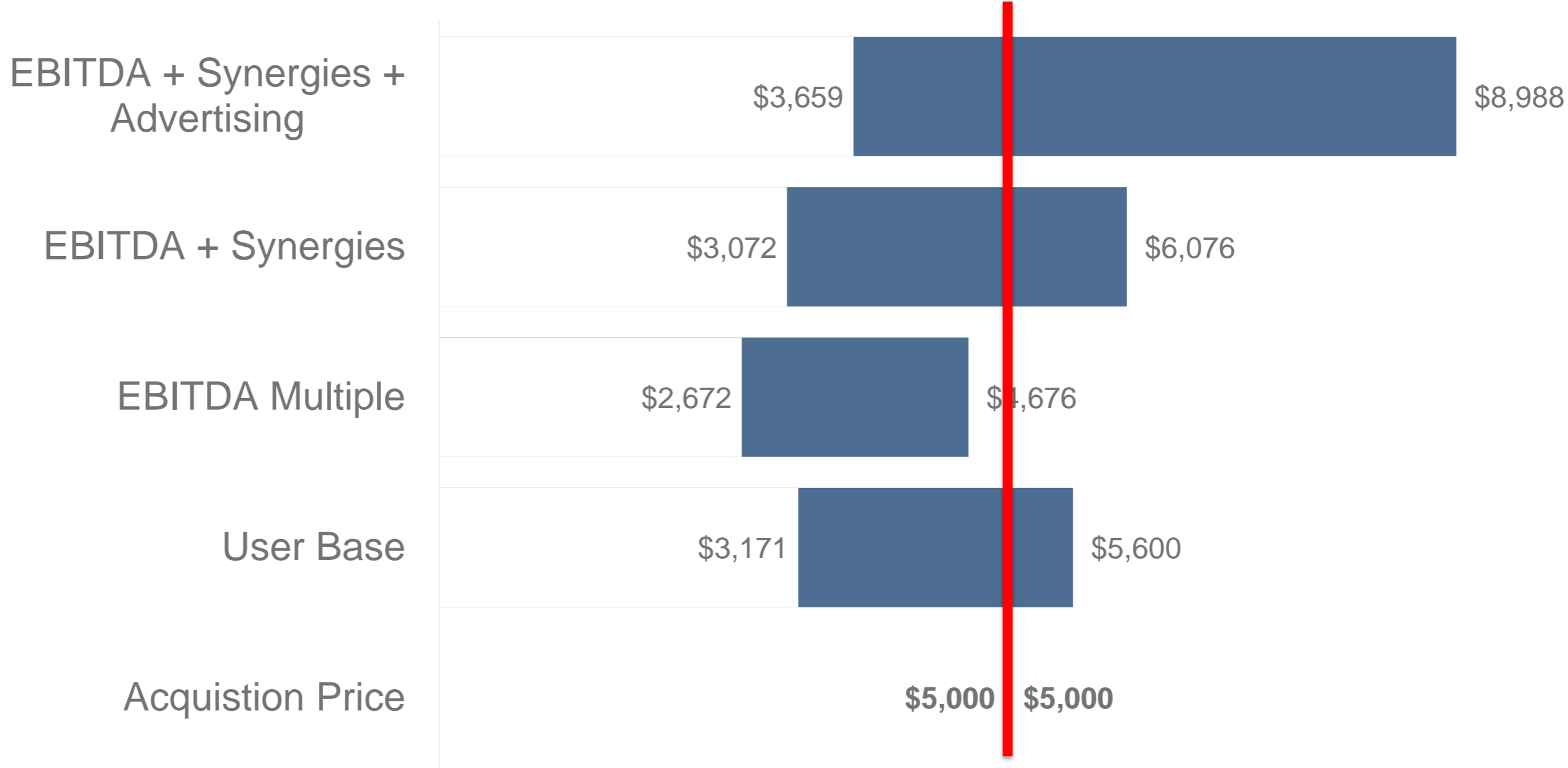
Secular shift in user monetization

Source: SuperData, ATVI filings and transcripts

AN ACQUISITION FIT FOR A KING

- 2/23/2016: ATVI acquired KING for \$18/share, an implied **enterprise value of \$5B (~7.5x LTM EBITDA)**
- Street concerns regarding declining user base overlooks **strategic benefits of the combined entity** (customer targeting and cross-selling)
- User-based valuation indicates **attractive price** given high industry customer acquisition costs
- Substantial upside at KING through **improved advertising integration**

Enterprise Value Ranges of KING



“A big part of the opportunity is to explore the **intellectual property that exists** at Activision Blizzard and see if it makes sense in that network.”
 – Bobby Kotick, ATVI CEO (11/2/2015)

KING has substantial value and ATVI is the optimal parent

Sources: ATVI and KING merger presentation, Primary industry research

RISKS & MITIGANTS

Risks	Our View
ATVI is unable to produce commercially successful game content	<ul style="list-style-type: none">• Strength of existing franchises – Call of Duty, World of Warcraft, and Destiny continue to be category leaders and provide stable cash flow for organic or acquisition investment in new games• Management track record – proven ability to create and acquire best in class games <i>“ATVI’s management is the best in the industry at bridging business acumen with creative development”</i> – Former Activision Blizzard Employee
Drawn-out transition to digital distribution	<ul style="list-style-type: none">• Conservative cost reduction estimates – we are forecasting a < 200 bps reduction per year in product costs for next 5 years• Improving technological feasibility – increase in broadband speed and coverage• Historical trend supports thesis – retail channel revenue as a percentage of total has gone from 59% in 2010 to 39% in 2015
Deterioration of KING Digital profitability	<ul style="list-style-type: none">• Large incremental monetization potential – advertising for 97% of non-paying users or strategic cross-selling for high value players• Cost rationalization potential – KING enjoys the benefit of scale with more than 450m monthly active users in a high fixed cost business <i>“KING will bridge ATVI’s AAA title success to the mobile F2P model.”</i> – Co-Founder of Activision

Activision and Affiliates

1. Co-Founder – Activision; CEO of Player Propensities
2. Former Brand Manager – Activision; Current VP of Marketing – AAA Studio #1
3. Former Brand Manager – Activision; Founder and CEO – Mobile Studio #1
4. Former EVP of Business Development & Advertising – King Digital
5. Game Engine Developer – King Digital
6. Business Development Manger – King Digital
7. Activision Investor Relations

Game Development Studios

8. Lead Product Manager – EA Mobile
9. Director of IT – AAA Studio #2
10. VP of Engineering – Mobile Studio #2
11. Former CEO – AAA Studio #3
12. Founder – independent Studio
13. Assistant Community Manager – Kongregate
14. Recruiting Manager – Mid-Size Studio
15. Independent Game Developer

Advertising Partners

16. Account Manager, Digital Marketing – Google
17. Market Analyst – Vungle
18. VP of Product – Vungle
19. Engineering Manager – Tapjoy
20. Manager of Developer Relations – Tapjoy
21. Sales Manager – Tremor Video
22. Account Executive – Supersonic/ironSource

Our primary research includes **50 sources** from the company, competitors, industry members, and investment professionals

Technology Partners and Industry Experts

23. CEO – Streaming Video Platform #1
24. VP of eSports – Streaming Video Platform #2
25. Business Development Manager for Video Games – Amazon
26. Manager of Vendor Management – Amazon
27. Senior Games Marketing Manager – Digital Distribution Platform
28. Co-Founder and CEO – eSports Team
29. Head of Virtual Reality Engineering – Console Manufacturer
30. Product Engineer - Oculus
31. Product Engineer – OSVR
32. Head of Virtual Reality – Advertising Agency
33. Economist – Scientific Revenue
34. Market Analyst, Video Games – SuperData Research
35. Data Scientist – Datadog
36. Senior Product Marketing Manager - Chartboost
37. Senior Editor – Media & Entertainment Technologies Magazine
38. Data Consultant – TGG Group
39. Sales Manager – MSI Gaming
40. Co-Founder and CEO – Software Development Platform
41. Independent Developer/Entrepreneur – Unity Game Engine
42. Admissions Officer – SCAD
43. Animation Student – California College of Arts
44. Video Game Development Student – California College of Arts

Investment Community

45. Greenlight Capital
46. Fidelity
47. Top-tier Hedge Fund
48. Mercator Fund
49. Solas Capital
50. Mid-size Venture Capital Fund

Thesis Summary

- 1 Best-in-Class and Aligned Management Team**
- 2 Franchise Strength**
- 3 Cost Structure Improvement**
- 4 User Monetization Potential**
- 5 KING's Hidden Value**

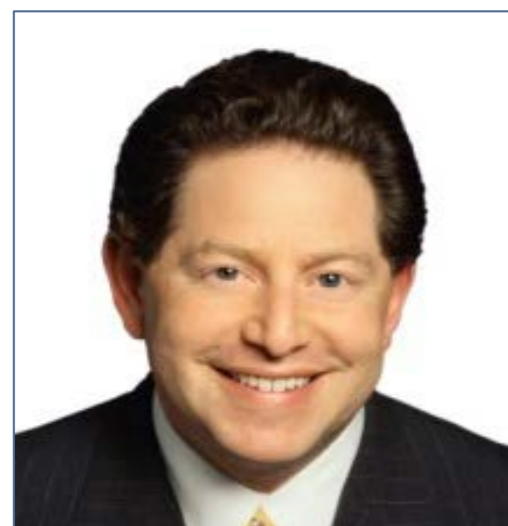
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Management, Ownership, and Governance

KEY MANAGEMENT



Bobby Kotick President and CEO

- Age: 52
- Mr. Kotick has been CEO of Activision for 25 years
- Board member: Coca Cola
- Founder of Call of Duty Endowment



Brian Kelly Chairman

- Age: 52
- Chairman since 2013
- Former President, COO, & CFO of Activision
- Director since 1995



Michael Morhaime CEO Blizzard Entertainment

- Age: 48
- Co-founded Blizzard Entertainment in 1991
- Executive Committee Member of Vivendi Games, when Blizzard was owned by Vivendi



Riccardo Zacconi CEO of King Digital

- Age: 47
- Co-founder of King Digital in 2003
- Co-founder of Midasplayer.com



Eric Hirshberg CEO Activision

- Age: 47
- CEO since 2010
- Co-CEO of Deutsch LA prior to Activision



Steve Bornstein Chairman of Activision Media Networks

- Age: 63
- Co-Founder of Major League Gaming
- CEO of NFL Network 2003-2014
- President of ABC & ABC Sports 1996-2003
- CEO of ESPN 1990-1996



Dennis Durkin CFO Activision

- Age: 44
- Former Corporate VP, COO, and CFO of Microsoft's interactive entertainment business

“The 24-year operating history of this management team in driving superior results and stakeholder returns has been driven by unwavering focus and discipline. We continue to foster a culture of creative excellence and financial discipline, and we will continue to strive for improvement in all areas of our business.”
– Bobby Kotick 2014 Annual Report

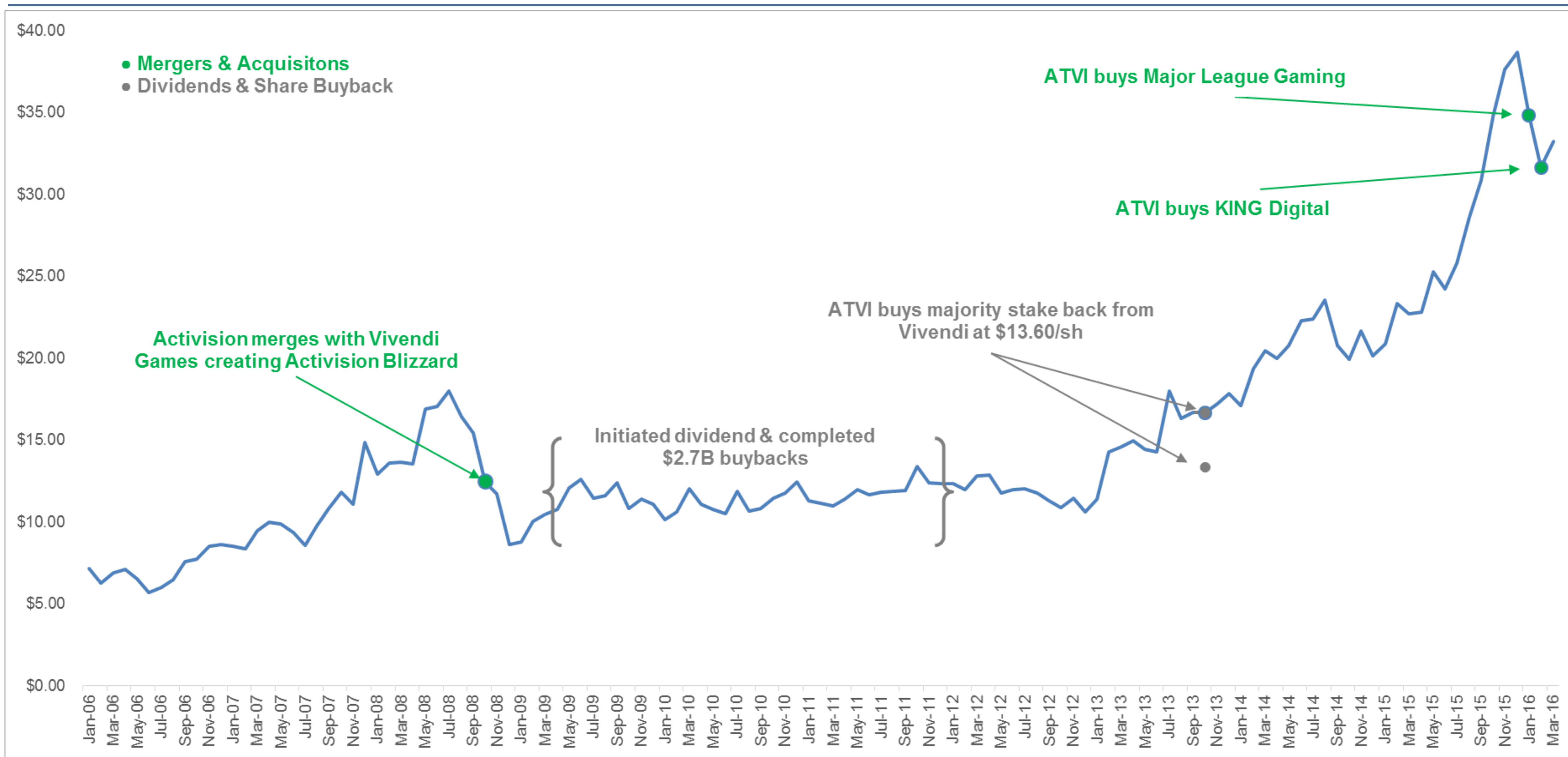
PUBLIC OWNERSHIP – OVERVIEW

Holder	Shares (000)	Market Value (\$M)	% of CSO
ASAC II LP*	171,968	\$5,716	23.4%
Fidelity Investments	52,266	\$1,737	7.1%
BlackRock, Inc.	43,027	\$1,430	5.9%
Barclays PLC	41,450	\$1,378	5.6%
The Vanguard Group, Inc.	29,618	\$985	4.0%
Robeco Investment Management Inc.	24,600	\$818	3.3%
Columbia Management Investment Advisers	19,189	\$638	2.6%
State Street Global Advisors, Inc.	18,874	\$627	2.6%
Coatue Management, LLC	12,781	\$425	1.7%
Egerton Capital LLP	12,529	\$417	1.7%
Top 10 Holders			58.0%

*ASAC II LP is an investment vehicle managed by CEO Bobby Kotick & Chairman Brian Kelly

Direct alignment with ATVI management

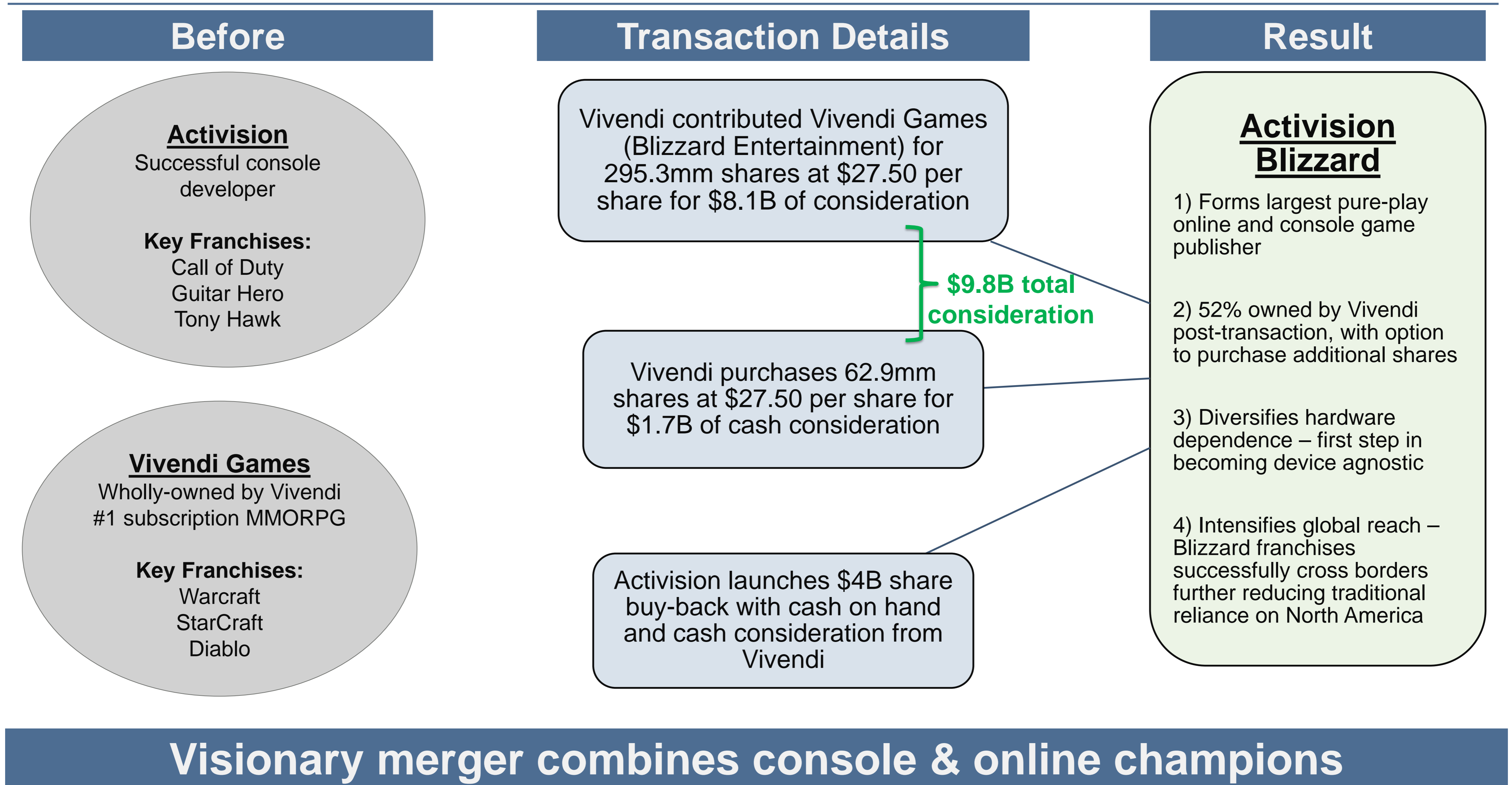
CAPITAL ALLOCATION HISTORY



Long history of value creation

Sources: ATVI Annual Reports, CapIQ

ACTIVISION & VIVENDI TRANSACTION (JULY 2008)



VIVENDI BUYBACK TRANSACTION (OCTOBER 2013)

Before	Transaction Details	Result
<p><u>Vivendi</u> Ownership: 61% Shares: 684mm</p>	<p>1) ATVI purchased and retired 429mm shares from Vivendi for \$13.60 per share</p>	<p><u>Vivendi</u> Ownership: 12% Shares: 83mm</p>
<p><u>Management & Public</u> Ownership: 39% Shares: 435mm</p>	<p>2) Purchase financed with existing cash and new credit facilities totaling \$4.75B with a weighted avg. cost less than 5%</p>	<p><u>Management & Public</u> Ownership: 63% Shares: 435mm</p>
	<p>3) ASAC II LP, an investor group led by CEO & Chairman purchased 172mm shares from Vivendi at \$13.60 per share</p>	<p><u>ASAC II LP</u> Ownership: 25% Shares: 172mm</p>

Highly accretive – 38% reduction in share count at \$13.60/share

Source: Investor Relations





Franchises

THE LASTING VALUE OF FRANCHISES

Video Game Franchise Success

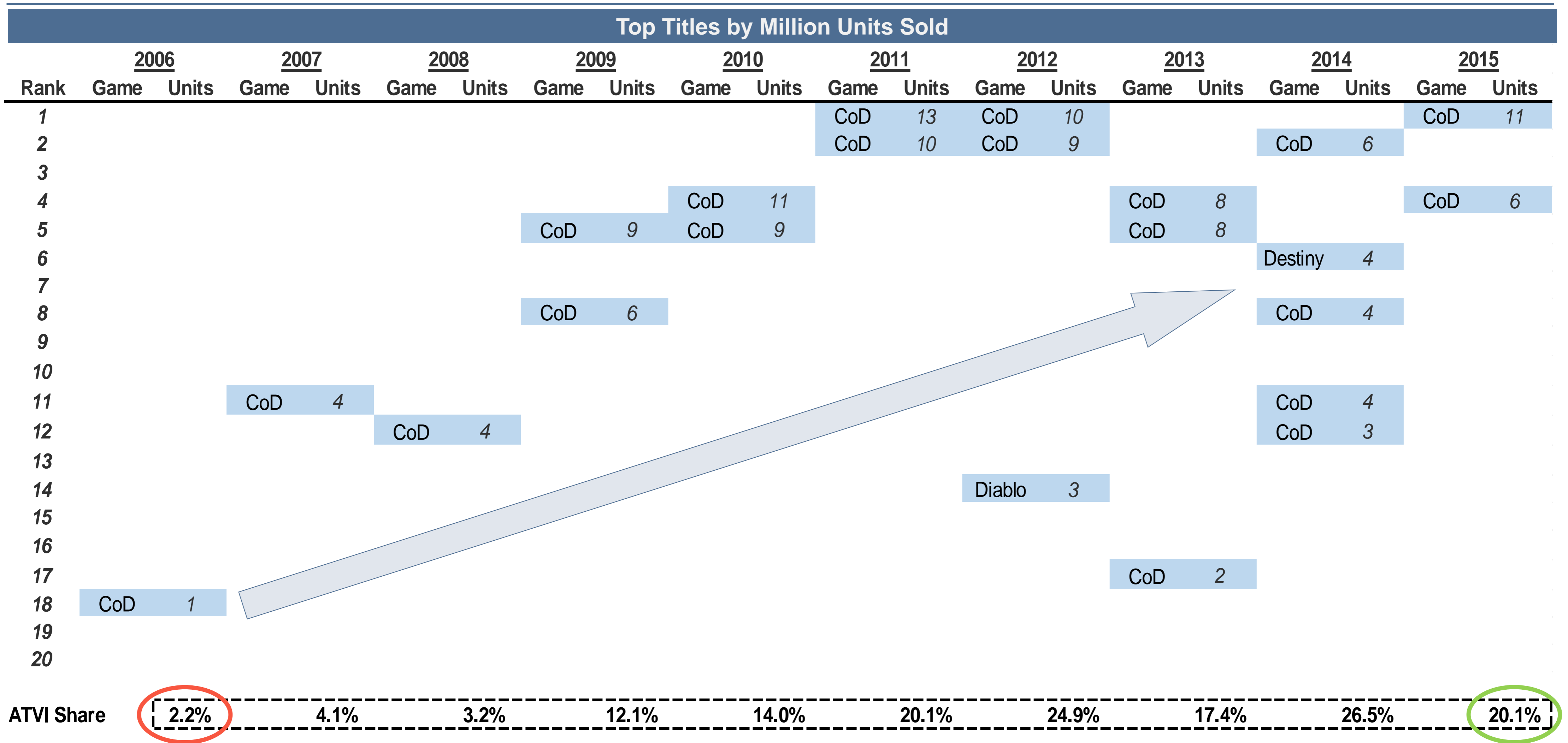


STRONG UPCOMING RELEASE SLATE

	Release Date	Game	Release Platforms	Estimated Sales
	Q2 2016	Overwatch	All Consoles and PC	\$500mm+ (Recurring)
	Q2 2016	Teenage Mutant Ninja Turtles	All Consoles and PC	NA
	Q2 2016	Hearthstone Expansion	Mobile and PC	\$100mm+ (Recurring)
	Q3 2016	Destiny Expansion	All Consoles	\$100mm+ (Recurring)
	Q3 2016	World of Warcraft: Legion	PC	\$500mm+ (Recurring, Subscription)
	Q4 2016	Call of Duty: 2016 Edition	All Console and PC	\$1.0B+ (Recurring)
	Q4 2016	Skylanders Sequel	All Consoles and PC and Mobile	\$250mm+ (Recurring)
	2017	Destiny 2	All Consoles	\$500mm+ (Recurring)

Upcoming release slate creates substantial revenue opportunity

FRANCHISE SUCCESS – TOP 20 GAMES



Focused creation of “EPIC” games

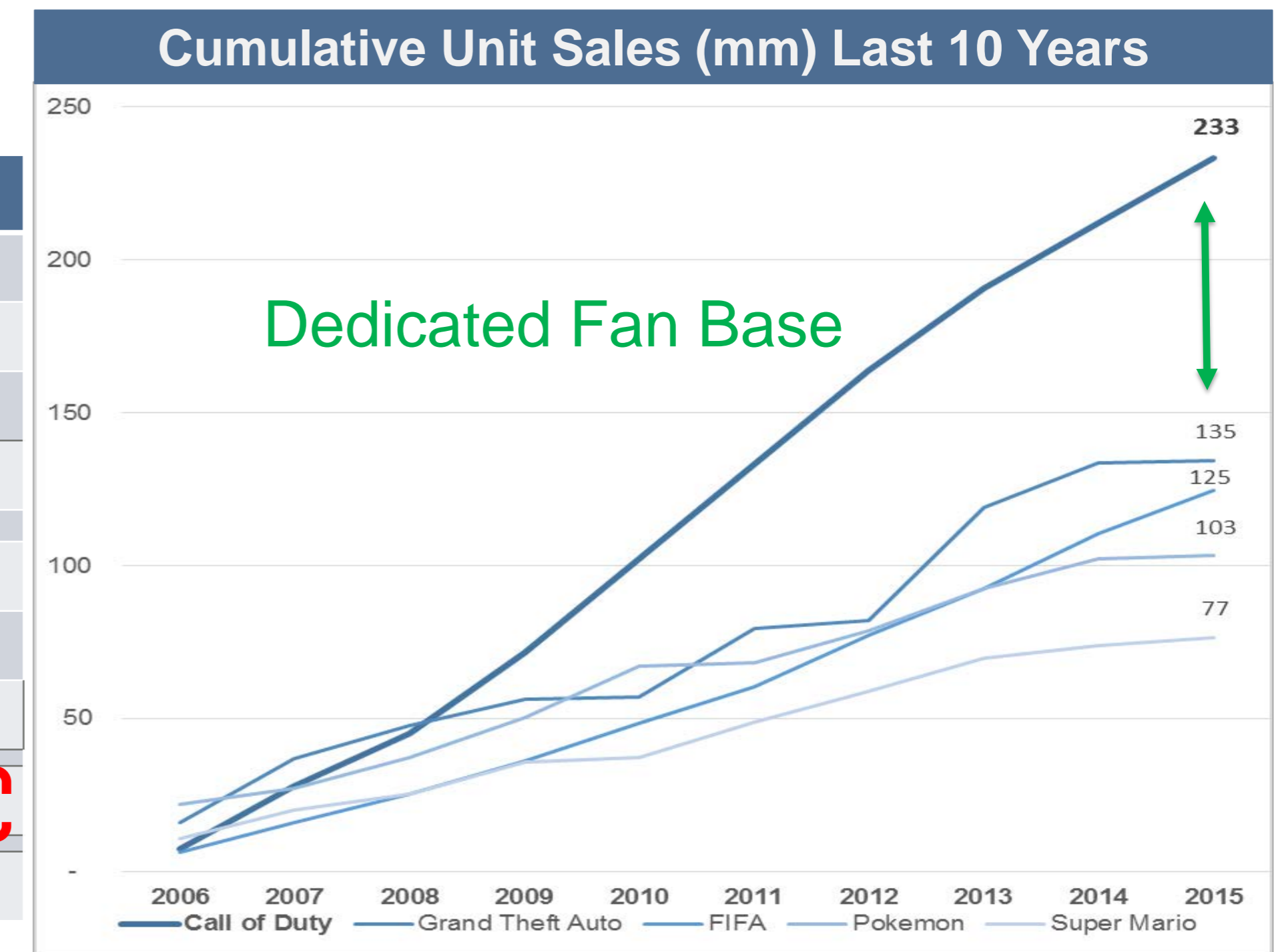
FRANCHISE VALUE – CALL OF DUTY

- Call of Duty “CoD” has generated over **\$15B in sales**
- In 2016 CoD will have **sold more units than any** other franchise in the history of video games
- **CoD sold 50%+ more units** in 2015 than FIFA which was the 2nd largest franchise by units sold
- **Economics improving** from downloadable content (map packs, supply drops) & shift to digital distribution

Franchise	Forbes Value
Star Wars (post The Force Awakens)	\$42B
Harry Potter	\$25B
Call of Duty	\$15B
James Bond	\$8B
Lord of the Rings	\$6B



CoD Economics	Historical	Future
Units (mm)	20	20
Price/unit (\$)	\$48	\$48
Downloadable Content	0	8
Total Rev/Unit	\$48	\$56
Revenue	\$960	\$1,120
COGS	(163)	(134)
Development Costs	(200)	(200)
NPV of each release	\$433	\$577
IRR	87%	105%

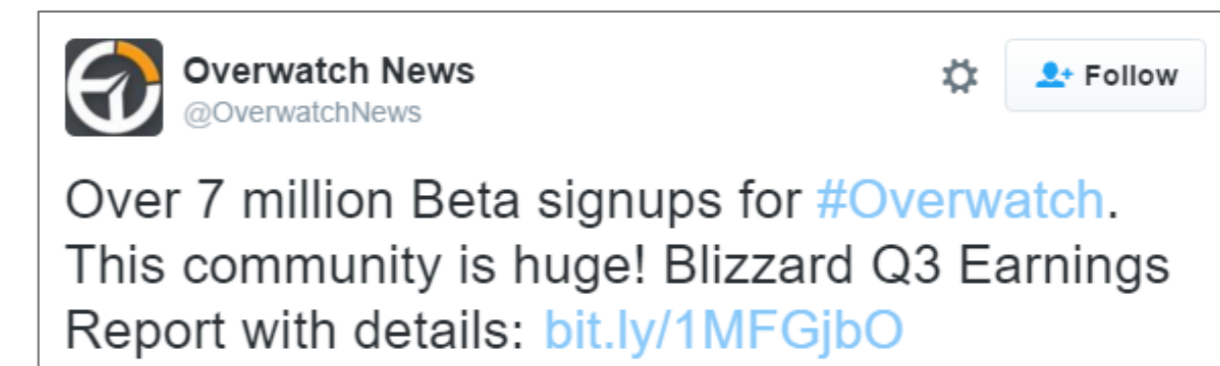


Call of Duty is the most valuable franchise of the decade

OVERWATCH – THE FUTURE

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- Blizzard's first new franchise in 17 years – first developed for simultaneous release on Console and PC
- Developed using elements of Blizzard's cancelled *Titan* MMORPG project
- More than **8 million** people have signed up to participate in the **PC-only Overwatch Beta**
- Designed game with eSports and competitive play in mind – game to be released in May 2016
- Micro-transaction integration with “Loot Boxes” and opportunity to purchase 1000+ character features
- Multiple release options for PS4, Xbox One, and PC: Base Version for \$60 and Collector's Version for \$130
- Digital downloads (and pre-loading) offered for PS4, Xbox One, and PC



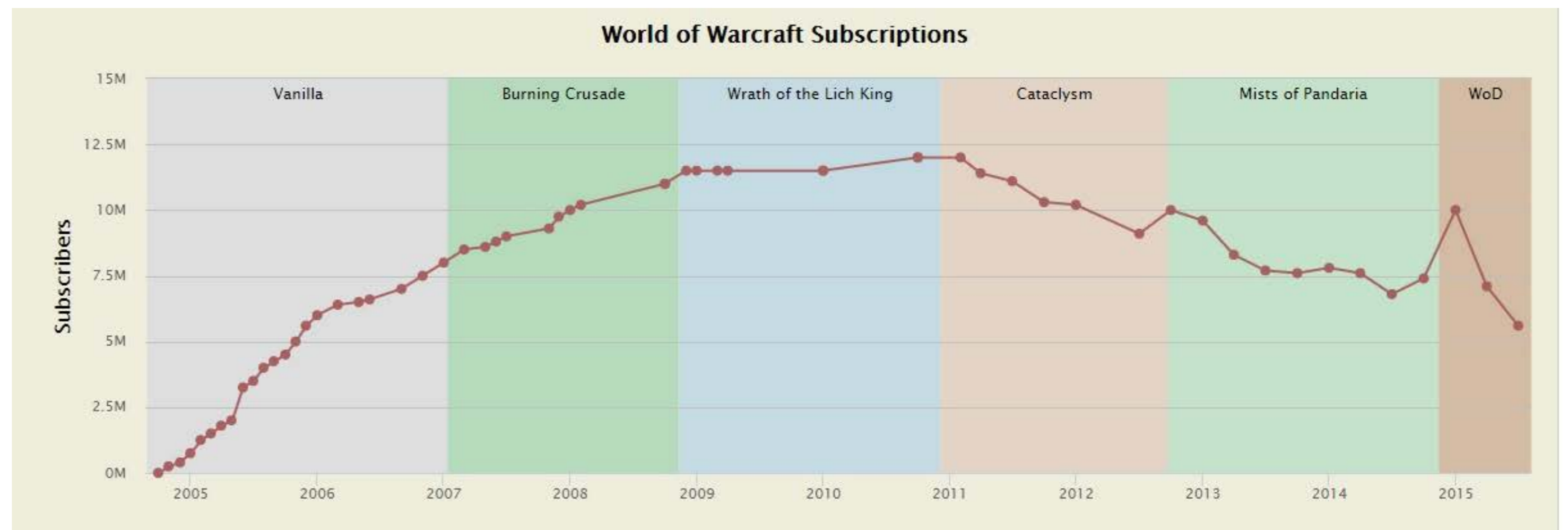
“While you can’t just make a game an eSport, if I had to guess the next big eSport game it would be Overwatch – Blizzard has such a loyal fan base, and they know how to make great games.”
– Founder, eSports Franchise

WORLD OF WARCRAFT – THE LEGACY

- Blizzard's released World of Warcraft in November 2004; it was Blizzard's most ambitious project and aimed to capitalize on the success of its Warcraft franchise through the use of the popular multiplayer online game model
- World of Warcraft was PC-only and monetized users through an initial game purchase of \$60, expansion pack purchases of \$50, and a \$15/month subscription fee
- World of Warcraft was as popular overseas as it was in the US with more than half of the subscribers post-2010 coming from outside North America (including millions of players in China)
 - Overseas popularity highlights the cross-border value of the franchise



“World of Warcraft is generally viewed as the most successful MMORPG of all time – Blizzard created a masterpiece – now, 12 years after its release it still has millions of people that play worldwide.”
– Developer, Independent Studio



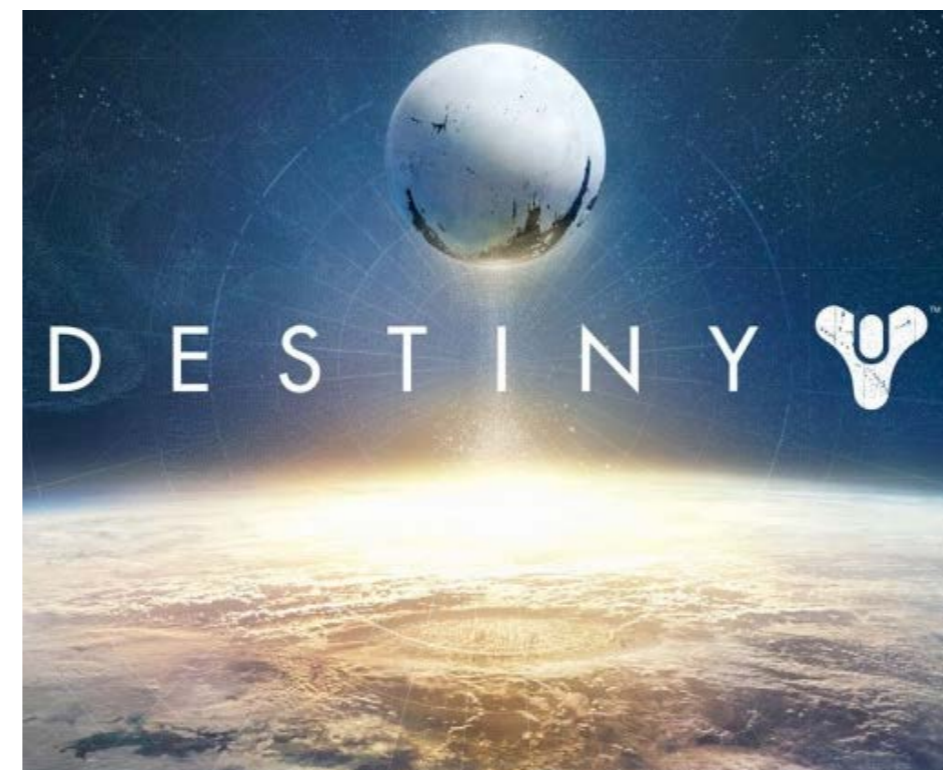
Peak WoW had 12mm subscribers and \$1B+ of annual subscription revenue

DESTINY – OUT OF THIS WORLD POTENTIAL

- Destiny is multiplayer online shooting game developed by “Halo” developer Bungie and published by Activision
 - Destiny is the first game release of a 10 year development agreement between Bungie and Activision – Destiny is console only
- Destiny is estimated to have **25 million registered users** and the average user spends **3 hours daily** in-game
 - Destiny has seen meaningful post-launch growth as its user base has increased to 25 million today from 16 million after launch
- Destiny grossed more than **\$500 million** in retail sales on its release day – the biggest new game launch ever
- There have been 3 additional expansions since Destiny’s original launch in September 2014, the latest expansion (The Taken King) retails for \$40 and saw massive take-up in purchases via digital download
- **Destiny 2** is currently in development and is slated for release in 2017

“Day-one [Destiny] downloads broke PlayStation records, day-one engagement saw the highest number of active players in Destiny’s history, daily player engagement is now well above **3 hours per day** and the Destiny community has climbed to over **25 million registered players.**”

– Activision and Bungie, Press Release



SKYLANDERS – CHILDREN’S GAMING

- Skylanders is a children-focused Activision franchise that uses a toys-to-life model
- Consumers buy the “Portal of Power” and different Skylanders toys used in various adventure, battle, and racing games – figurines save user data and achievements via RFID and memory chips
- Skylanders games are available across console devices, tablets, and PCs
- Annual revenue from Skylanders franchise of \$250+mm through the sale of both toys and software
- The initial game purchase is ~\$70 and additional figurine purchases are ~\$7 to \$15
- Figurine sales are very profitable with incremental gross margins of ~90%



“Skylanders is like the Lego of the modern era, it is so successful with children because it lets you buy physical toys that you can see and interact with in-game, and the kids love that.”

– Franchise VP, Competing Developer

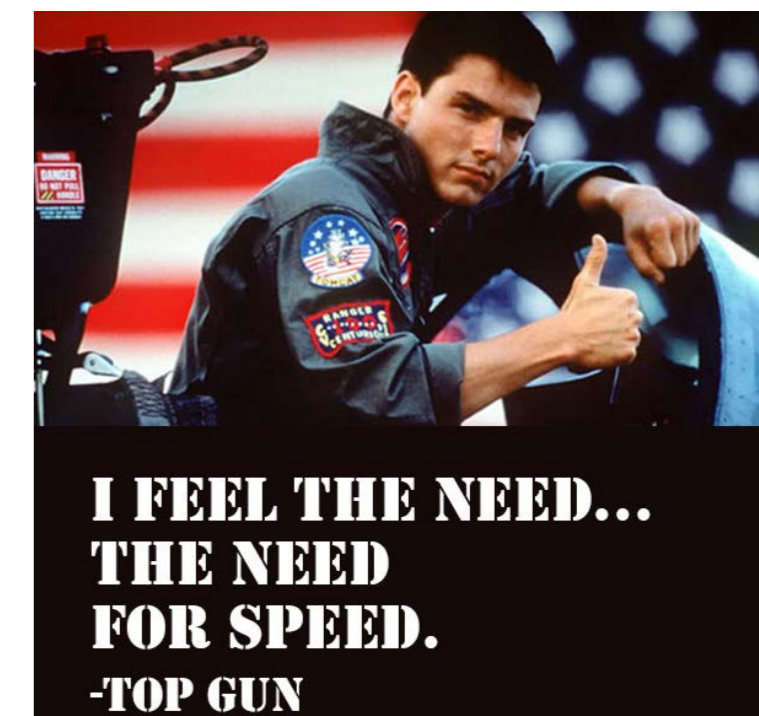




Digital Distribution

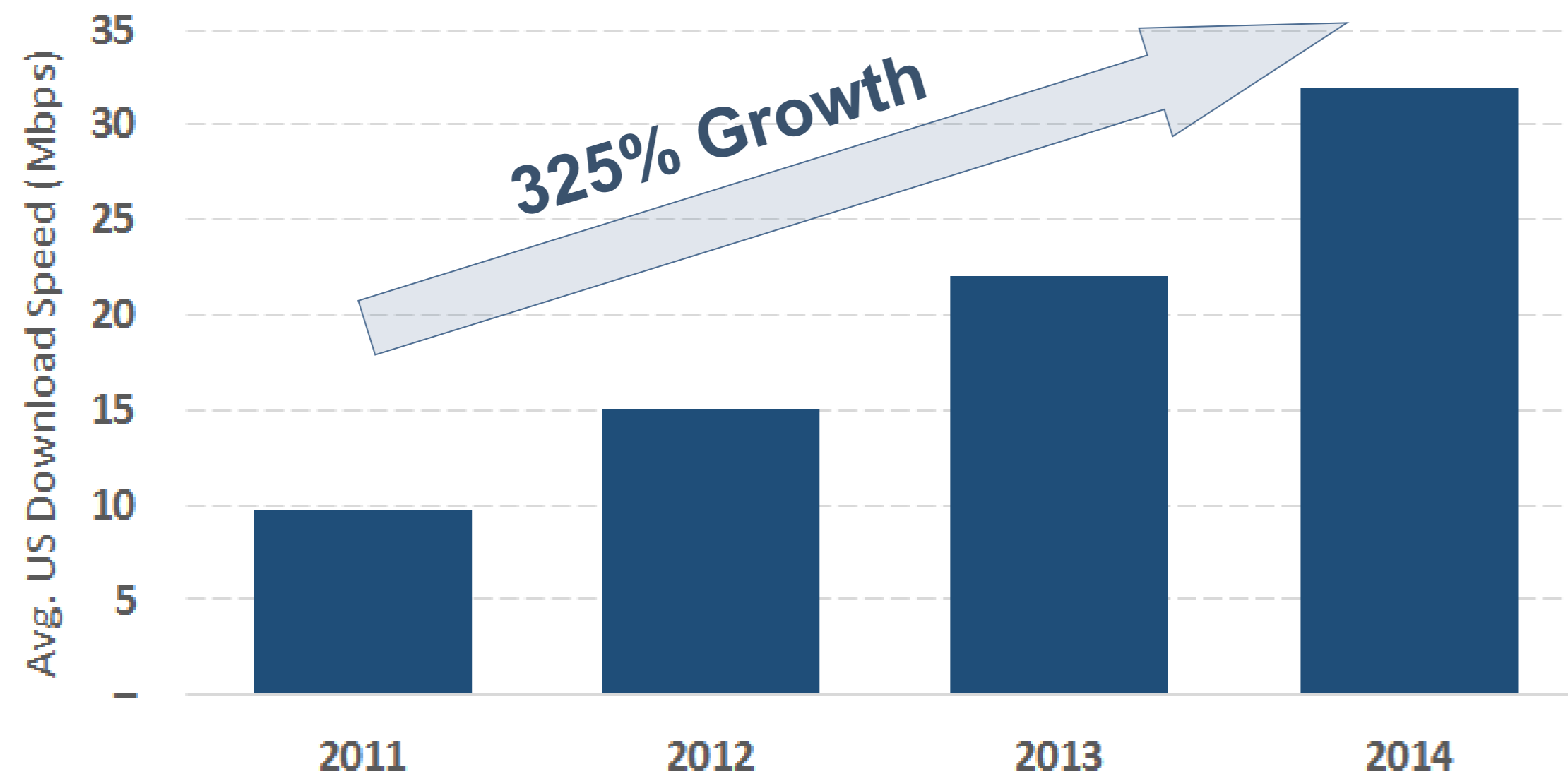
- As of Sept. 2014, according to the FCC, the average download speed in America was 31 Mbps, a figure which has more than tripled since 2011
- According to results in 2015 by speedtest.net, Maine has the slowest average internet connection at 29 Mbps
 - At 29 Mbps the average 15 GB video game would take 1 hour 14 minutes to download
- At the Sept. 2014 national average speed of 31 Mbps the average 15 GB video game takes 1 hour 9 minutes to download
- The digital download burden is further reduced by PS4, Xbox One, and PC “play as you download” features for digital downloads as well as game pre-loading for new releases
- Due to increasing speeds and regulation-driven access requirements to 25 Mbps broadband, download speeds are no longer a bottleneck for digital delivery

“The **actual download speed**, averaged across all participating ISPs, **has tripled** ... from approximately 10 Mbps in March 2011, to approximately 15 Mbps in September 2012, to nearly 31 Mbps in September 2014.”
– *FCC Measuring Broadband Report 2015*

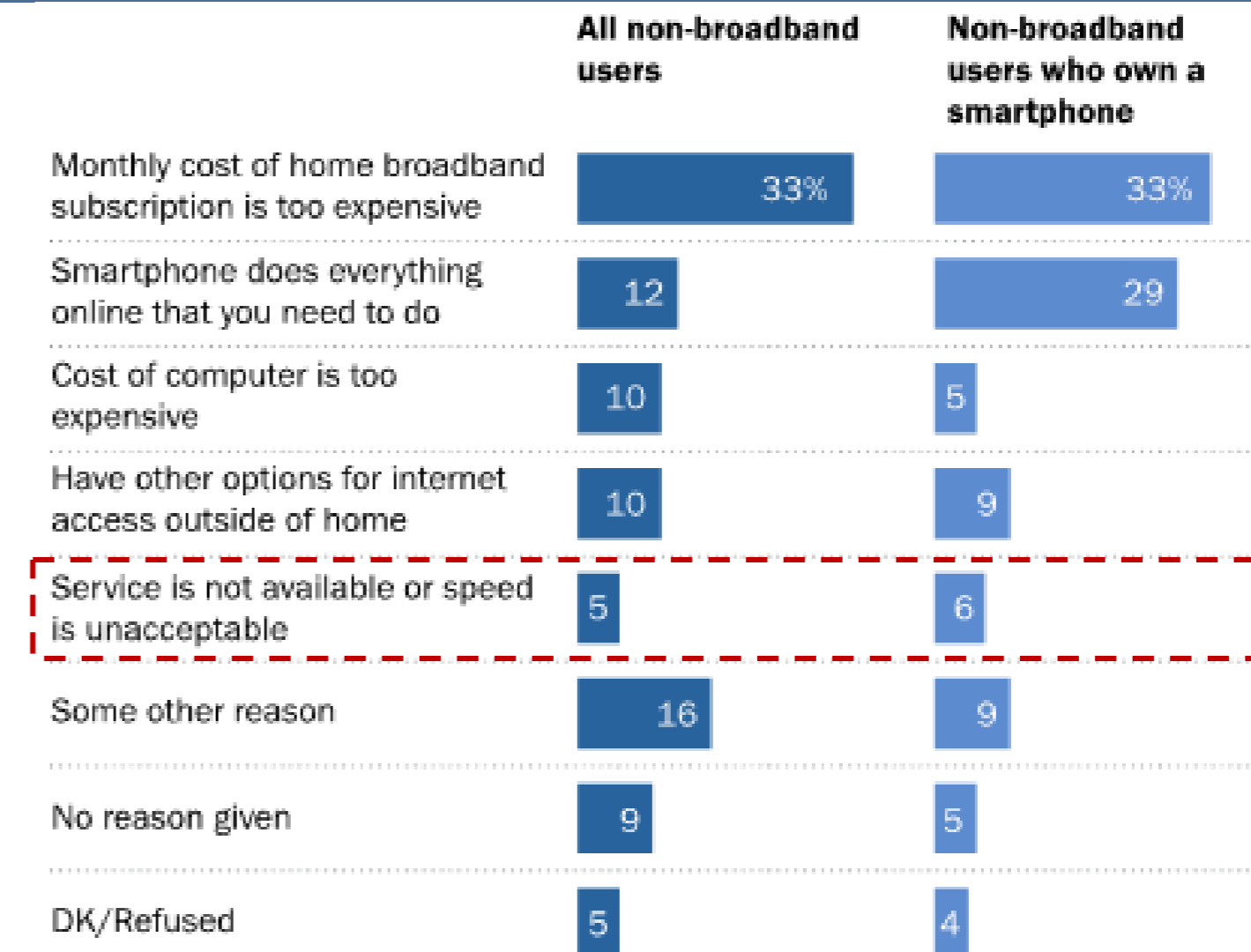


Internet speed improvement provides foundation for digital transition

Average US Download Speed Growth

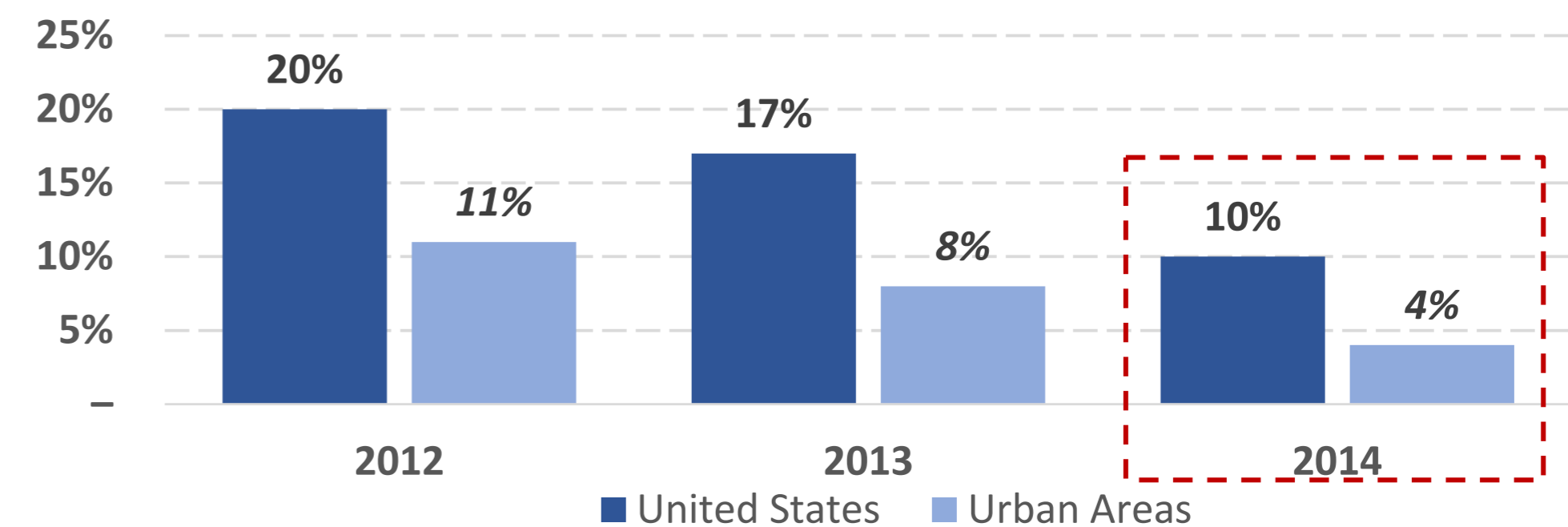


Cost, not access, is the greatest barrier to broadband adoption



“We continue to see **significant growth in broadband speeds** and in the uptake of these higher speeds by consumers.”
 – FCC Measuring Broadband Report 2015

% of Americans without access to >25 Mbps Broadband in 2014





Incremental Monetization

IN-GAME CONTENT – MONETIZING ENGAGEMENT

- ATVI has the opportunity to generate **more revenue per user** via the sale of in-game content
- Common micro-transactions are for in-game currency, different cosmetic features for characters, and expanded game content (e.g. additional maps and levels)
- In-game content is the **largest, most profitable, and fastest growing** revenue source for the Activision and Blizzard divisions

“One of my first assignments [in 2009] was to sell map packs for *Call of Duty: World at War*. We made a ****-load of money. There was **zero expectation to upsell**... Map packs one, two, and three were the top three downloads [on Sony and Microsoft]... We realized, ‘Oh, wow; digital content is a **legit business**.’”

– Former Brand Manager at Activision

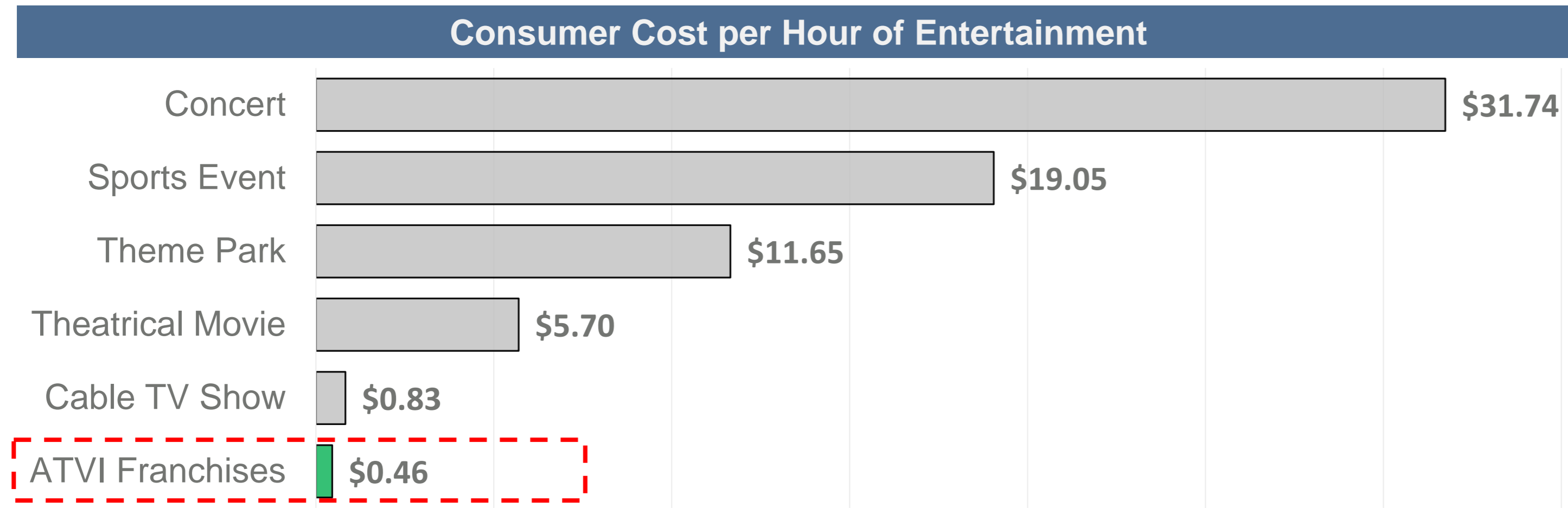
“I worked with a Haas graduate on a new venture to provide extra game content through Coinstar [kiosks]. We thought it would be sixteen year-olds spending \$15 to \$20 a year... We found some consumers were spending over \$1,000 per month. It was **mainly 27 or 28 year-olds spending \$50 a month, on average**.’”

– Co-Founder of Activision

Annual Sales of Activision and Blizzard			
Non-GAAP Revenues (\$mm)	2013	2014	2015
Digital Game Downloads	865	998	1,028
% growth		15%	3%
In-Game Content	700	1,200	1,600
% growth		71%	33%
Total Digital Online Channels	1,565	2,198	2,628
% growth		40%	20%
Retail Channels	2,454	2,208	1,637
% growth		-10%	-26%
Total Activision and Blizzard	4,019	4,406	4,265
% growth		10%	-3%

Secular shift in ability to monetize user engagement

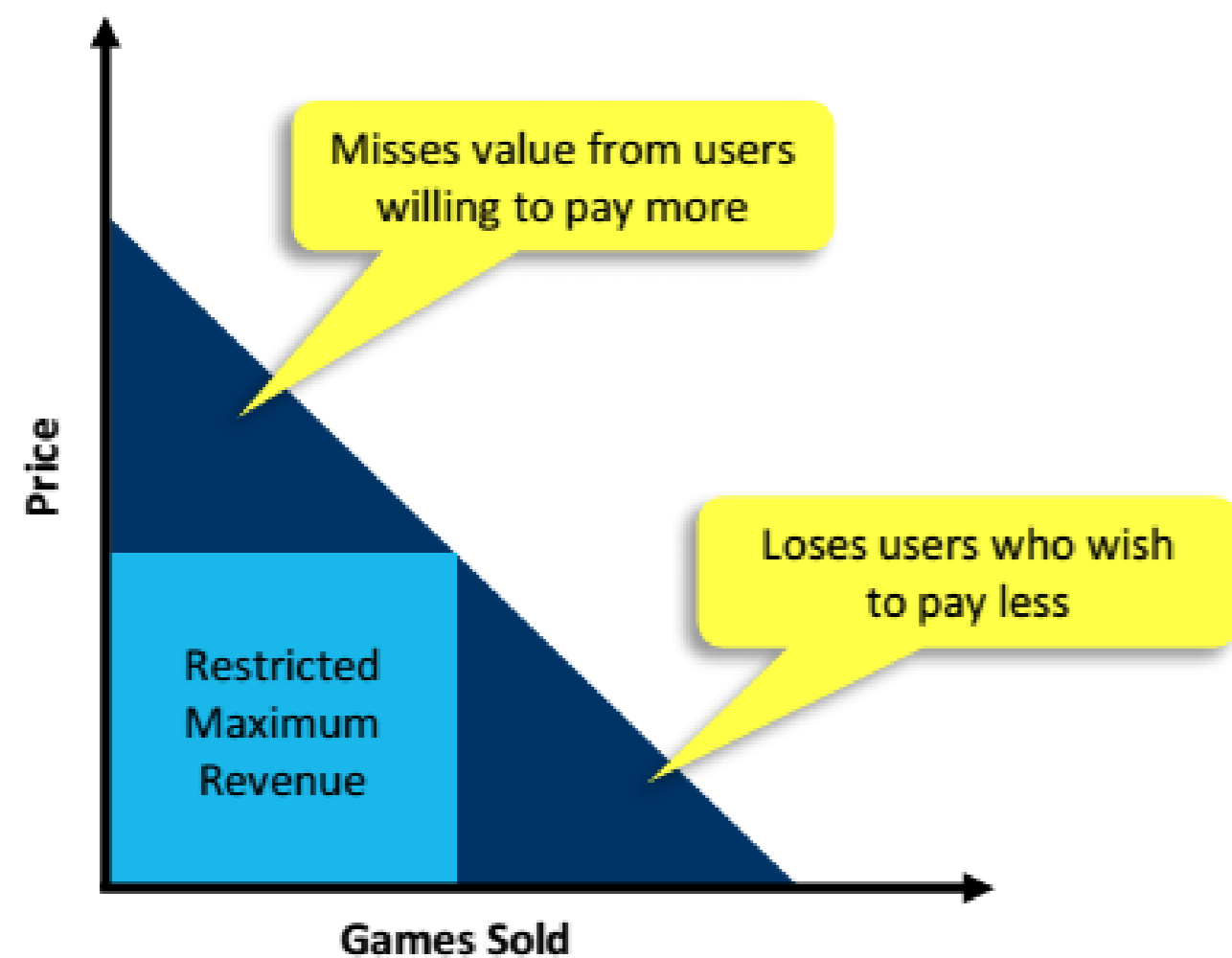
REVENUE MAXIMIZATION – GREATER VALUE CAPTURE



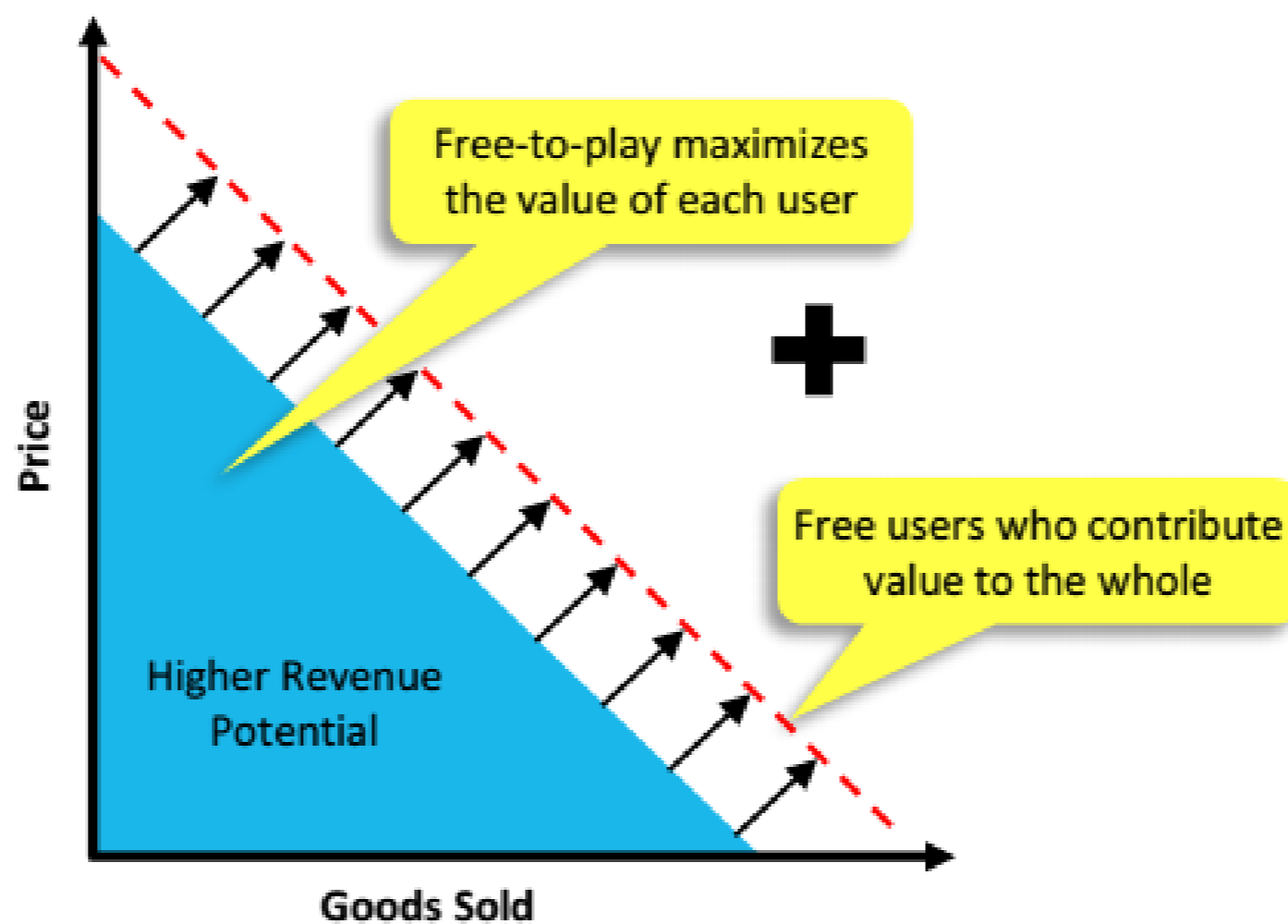
- ATVI has the capacity to earn **more revenue** from its **most engaged users**
- Utilizing the competencies of KING, ATVI can develop successful free-to-play games that reach an **even larger audience**

Free to Play Games and Micro-transactions – Revenue Maximization

Traditional Game Economics



Free-to-Play Game Economics



- With digital distribution and in-game purchases, ATVI can directly **control pricing and discount offerings** to maximize revenue

eSPORTS DRIVE IN-GAME TRANSACTIONS

Data on Top eSports (Through October 2015)						
Title	Release	Publisher	Genre	Total Prize Pool (\$mm)	Events	YTD In-Game Revenue (\$mm)
DOTA 2	2013	Valve	Battle Arena	25.9	172	156.8
League of Legends	2009	Riot	Battle Arena	4.6	243	1,064.3
Counter-Strike: Global Offensive	2012	Valve	Shooter	4.1	476	131.7
SMITE	2014	Hi-Rez	Battle Arena	3.0	29	45.1
Call of Duty: Advanced Warfare	2014	Activision	Shooter	2.5	369	224.0

“We continue to believe that **eSports is another long-term growth pillar** for the Company, and our recent acquisition of Major League Gaming has accelerated our strategic plans. eSports helps fuel one of the underlying drivers of our strong financial performance, which is a **deepening engagement with our fans.**”

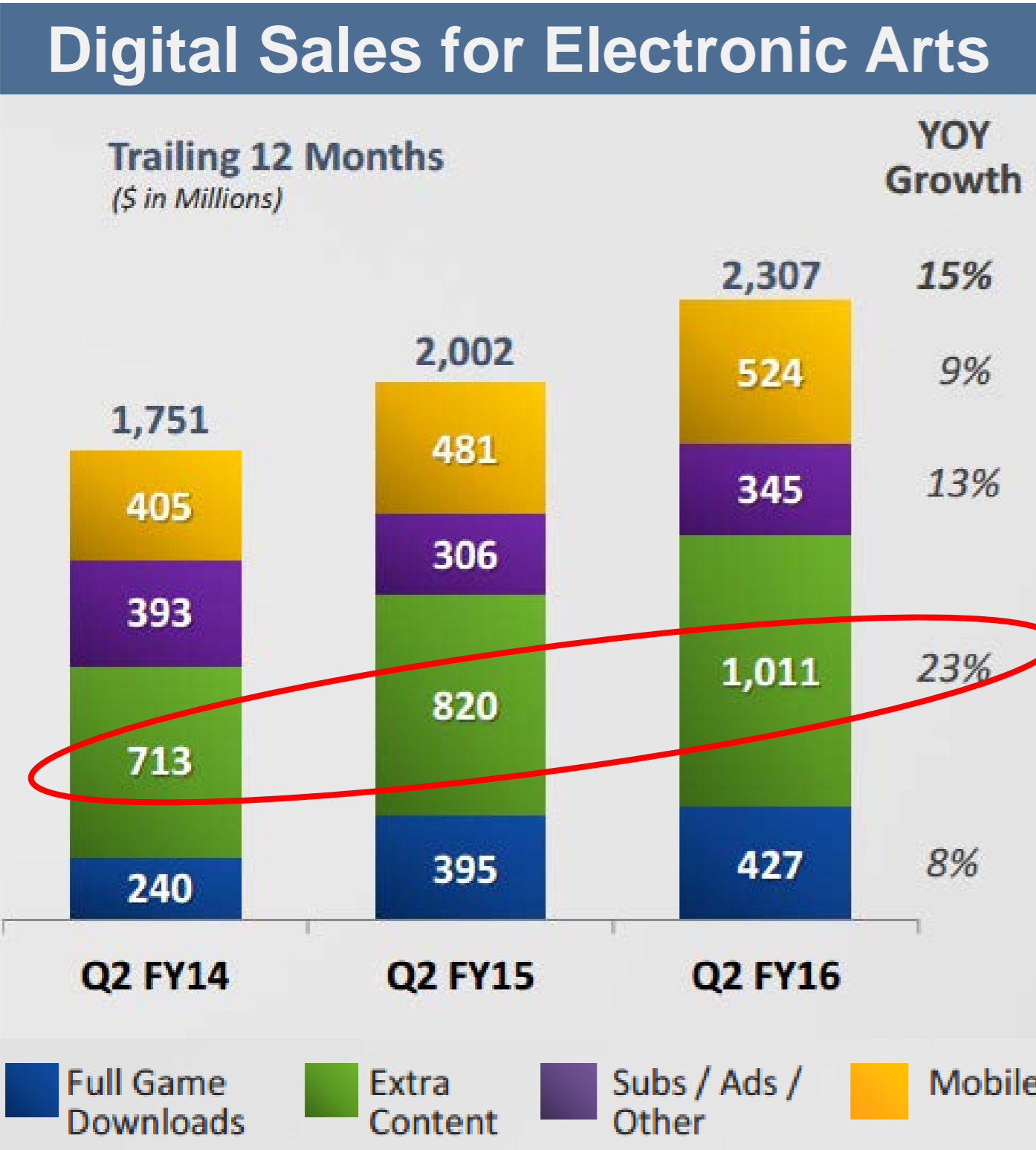
- Bobby Kotick, CEO of ATVI (2/11/2016)

- Currently, **eSports are a leading driver** of in-game transaction revenue growth and increased user engagement hours
- The ability to upsell in digital games via **micro-transactions was a major theme** of the 2016 Game Developers conference
- ATVI’s upcoming new franchise, **Overwatch is designed with the eSport experience in mind**



COMPETITOR MICROTRANSACTION STRATEGY

- A majority of competitor growth is also coming from **monetization after initial user purchase**
- ATVI is growing in-game purchases at a **faster rate, off of a 60% larger base**
- In-game purchases create a larger revenue base and **reduce volatility in earnings**



“... extra content around our premium services have become a **larger and larger portion of our business**. Almost a little more than 50% of our business is delivered digitally and that's been growing dramatically over time and it's been a **key driver in our profitability**.”
 – Blake Jorgensen, CFO of Electronic Arts (3/1/2016)

“...our extra content business continues to grow each year, and it becomes an amazing cushion for us as we think about the risk of any one title. **We're far less riskier** than we were in history, because if any one title doesn't do quite as well, we typically have this nice **cushion based on the annualized revenue items that run through our P&L**.”
 – Blake Jorgensen, CFO of Electronic Arts (3/1/2016)

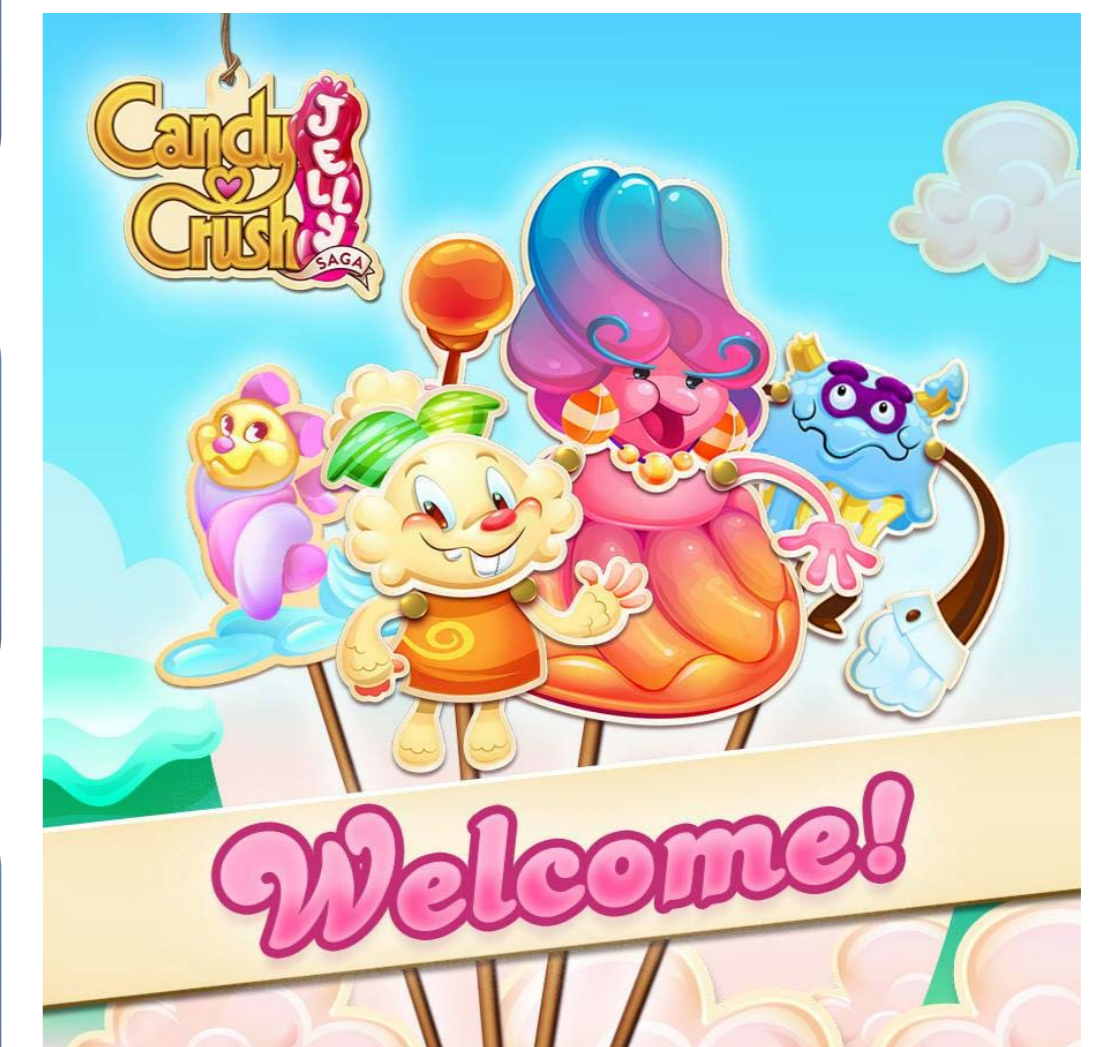
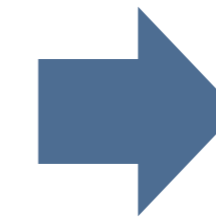
Source: Electronic Arts investor presentation and transcripts



King Digital

MOBILE GAMING ROYALTY

- King Digital (“KING”) is a leader in mobile, casual gaming
- KING games are approachable but can reach levels of intense difficulty
- ~420mm monthly active users (MAUs)
- Approximately 3% of KING users make **in-game purchases – substantial white space**
- KING’s core competency is adapting existing game mechanics to **drive engagement and monetize dedicated users**



“Cycling [to a new game] is so important for every mobile developer. **KING is the perfect example...** They are all about the **user experience** and using their **existing audience.**”
– Product Manager at EA Mobile

“KING is excellent at toggling difficulty and they are always testing... KING adjusts difficulty by each user and by how long since the user last played... **It is all about engagement.**”
– Data Consultant at TGG Group

“There are over two billion gamers now. But most of them are casual. They might never play Call of Duty, but **Candy Crush is great for them.**”
– Co-Founder of Activision

“KING is great at moving users from the core market to the sequels... The **sequels are more difficult and better monetize users.**”
– Product Manager at EA Mobile

M&A – KING DIGITAL ACQUISITION (2/23/2016)

- ATVI announced its acquisition of KING for **\$18.00 per share (\$5.9B equity value, \$5.0B enterprise value)** on 11/2/2015
- The 100% cash deal was funded via ATVI's **offshore cash balance**
- The bid represented a 20% premium to prior price and a **20% discount to the IPO price**
- M&A talks started in April 2015; during this period, an undisclosed Chinese consortium **offered \$19.50 per share for KING**
- Including the benefits of cost synergies and advertising, the KING deal could **pay for itself in under four years (25% unlevered FCF yield)**

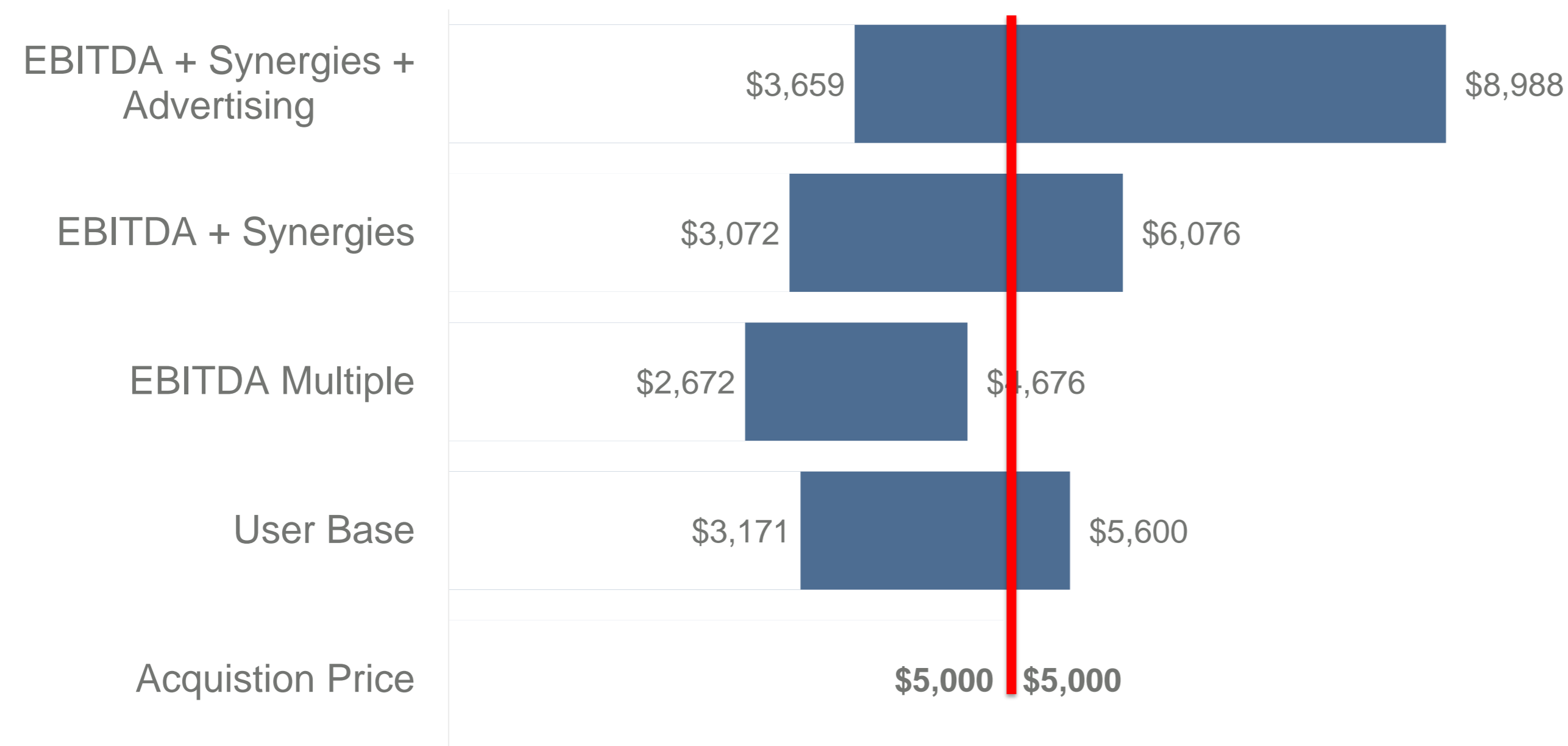
KING Historical Annual Results (\$mm)			
	2013	2014	2015
Non-GAAP Revenue	1,890	2,293	2,035
Adjusted Gross Profit	1,300	1,553	1,356
EBITDA	723	751	668
FCF	554	560	490
Gross margin	69%	68%	67%
EBITDA margin	38%	33%	33%
TEV / Revenue			2.5 x
TEV / EBITDA			7.5 x
FCF Yield			9.8%

ATVI acquired KING at an attractive price with upside potential

ESTIMATES OF KING'S VALUE TO ATVI

Assumptions (\$mm)	Low			High		
	EBITDA	Multiple	TEV	EBITDA	Multiple	TEV
Synergies	\$100			\$200		
Advertising Contribution	370			840		
EBITDA	668	4.0 x	2,672	668	7.0 x	4,676
EBITDA + Synergies	768	4.0 x	3,072	868	7.0 x	6,076
EBITDA + Synergies + Advertising	1,138	3.5 x	3,983	1,708	6.0 x	10,248

Enterprise Value Ranges of KING

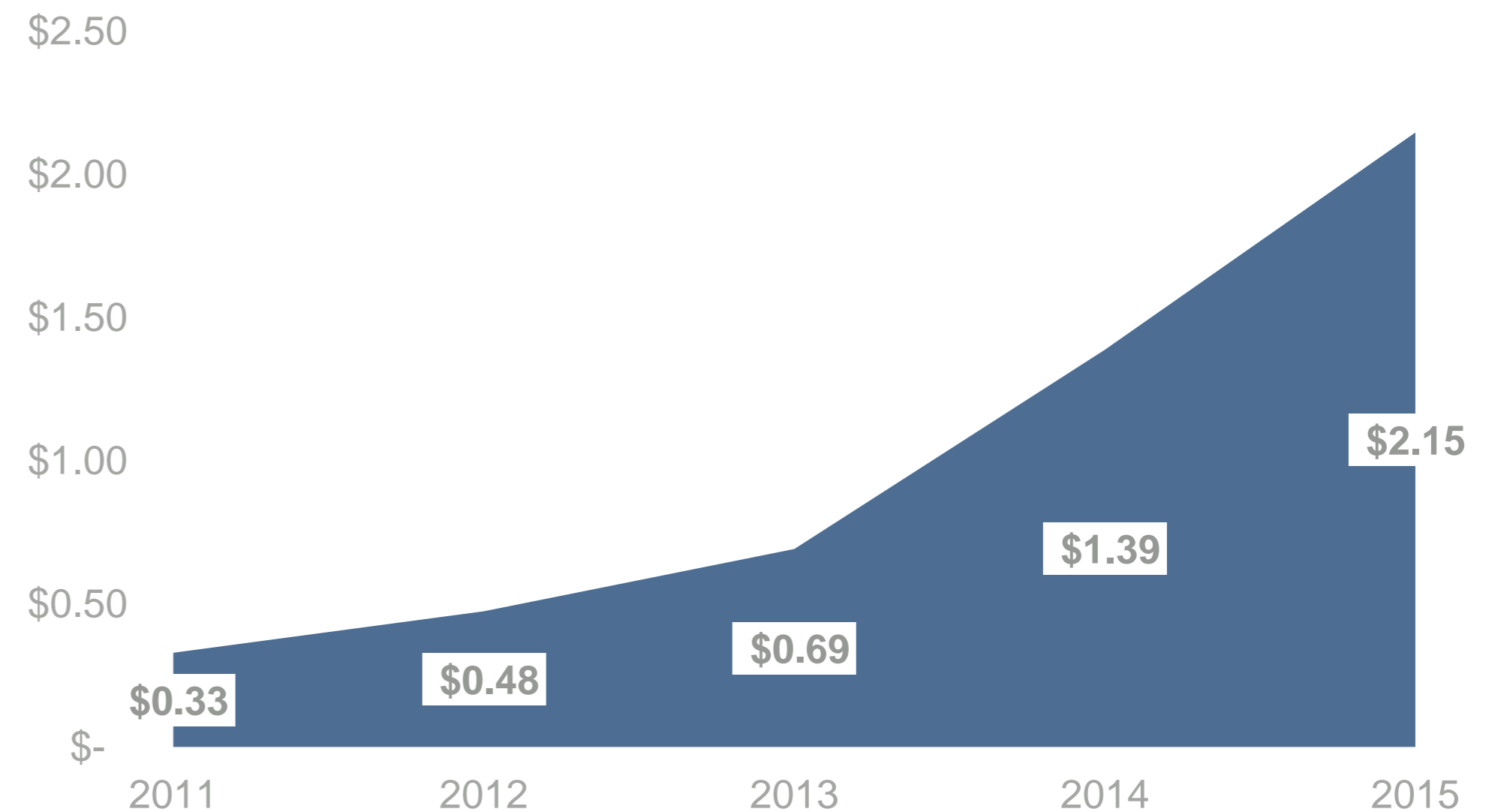


- Sell side analysts are estimating **\$200mm to \$300mm** in annualized cost synergies
- New in-game advertising technology will **drive substantial revenue from existing KING franchises**
- According to our contacts, a primary motivation for the merger is to **expand ATVI brands to mobile**
- Our cases do not include any “blue sky” benefits of cross-selling, but the **upside optionality is real**

KING ADVERTISING OPPORTUNITY

- KING has an **additional revenue opportunity** to introduce in-game ads at a **high incremental margin**
- For comparison, Zynga currently generates **>\$2/MAU**
- Advertising spend on video games grew at a 19.1% CAGR from 2009 to 2014; **growth of 15%+ expected**
- The industry is focused on making ads **less intrusive** and more **integrated with the user experience**

Zynga's Annual Ad \$ per MAU



KING Ad Potential	Bear	Bull
Current MAUs (M)	370	420
Ad Revenue per MAU	\$1.00	\$2.00
Incremental EPS	\$0.28	\$ 0.63

Building a new advertising platform is **“my top priority.”**
 – Software Developer for KING’s Defold Engine

“Advertising is now **more sophisticated and user friendly.** We use an option where users can watch a video ad to get in-game currency... It puts users in control and it **doesn’t feel like spam.**”
 – CEO of Mobile Studio

Advertising on KING delivers base case upside of \$0.49 per share

Sources: Zynga 10-K, ATVI and KING merger presentation, PWC, primary industry research

KING'S VALUABLE USER BASE & DATA

- The KING deal provides ATVI with expertise in building popular, profitable mobile games
- The acquisition also grants instant access to an **existing audience** and prior users' data for **cross-selling**

Industry Assumptions / Estimates	Calculation	Low	High
KING's Monthly Active User Base (mm)	A	370	420
Cost to Acquire a Mobile Download	B	\$3.00	\$4.00
Downloads Not Played	C	50%	50%
Continuing Users	D	70%	60%
Downloads Resulting in Active Users	C x D	35%	30%
Cost to Acquire Active Users	B x C x D	\$8.57	\$13.33
Total Value of User Base (\$mm)	A x B x C x D	\$3,171	\$5,600

"It costs **\$3 to \$4** [in ad placements] **just to get a download**. Then you expect to **lose 50%** before they even play. After that 60% to 70% actually stick around."
 – Project Manager at EA Mobile (formerly at Zynga)

"A big part of the opportunity is to explore the **intellectual property that exists** at Activision Blizzard and **see if it makes sense in that network**."
 – Bobby Kotick, ATVI CEO (11/2/2015)

"KING has a **super-rich, super-clean data set**... It was one of the best we ever worked with... They **know more about their customers** more than almost anyone... Even big consumer product companies"
 – Consultant TGG Group

"Frankly, Activision sucked at making mobile games... But this is typical, Activision will **sit and wait with big money** and then make a move when it all makes sense. That's how they **avoided Facebook gaming**. With the acquisition, Activision automatically gained mobile knowledge and how to **extend existing brands** into the mobile universe..
 – Former Brand Manager at ATVI, Current CEO of Mobile Studio

ATVI understands the value of KING's data and know-how

Sources: ATVI and KING merger presentation, primary industry research



Valuation

Base Case Model Assumption Overview

Revenue Assumptions:

- Activision: No growth in 2016 – CoD flat YoY; 2017 growth driven by Destiny 2 launch
- Blizzard: 2016 revenue uptick from the launch of Overwatch, 2017 decline due to release schedule, mitigated by Overwatch micro-transactions
- KING: YoY comparable revenue down 7%, rest due to partial year acquisition; 2017 growth from implementation of paid advertising
- Distribution: 10% of sales, in-line with historical averages

Cost Assumptions:

- Cost of Sales: 600 bps of cost reduction through 2018 due to transition to digital and decreased retail channel product costs, royalties and IP licensing costs in-line with higher run-rate recent historical figures
- Product development costs remain in-line with historical average, and grow with sales
- Sales and marketing costs remain in-line with historical average, and grow with sales
- G&A costs remain in-line with historical average, and grow with sales
- \$200mm of KING synergies realized by 2018 due to cost cutting

		Base Case Price Sensitivity				
		2018 EPS				
		\$2.25	\$3.00	\$3.44	\$4.00	\$4.50
EPS Multiple	12x	\$27.00	\$36.00	\$41.28	\$48.00	\$54.00
	14x	\$31.50	\$42.00	\$48.16	\$56.00	\$63.00
	16x	\$36.00	\$48.00	\$55.04	\$64.00	\$72.00
	18x	\$40.50	\$54.00	\$61.92	\$72.00	\$81.00
	20x	\$45.00	\$60.00	\$68.80	\$80.00	\$90.00

ATVI – BASE CASE FINANCIAL MODEL

ATVI Base Case Financial Model										
Year Ended Dec 31,	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
Revenue										
Activision	\$2,828	\$3,072	\$2,894	\$2,685	\$2,699	\$2,699	\$3,104	\$3,259	\$3,389	\$3,525
% Growth		9%	(6%)	(7%)	1%	–	15%	5%	4%	4%
Blizzard	1,243	1,609	1,123	1,721	1,565	2,015	1,914	2,201	2,298	2,390
% Growth		29%	(30%)	53%	(9%)	29%	(5%)	15%	4%	4%
King	–	–	–	–	–	1,550	2,500	2,600	2,704	2,812
% Growth	–	–	–	–	–	(22%)	61%	4%	4%	4%
Distribution	418	306	324	407	356	471	502	546	569	615
Total Non-GAAP Revenue	\$4,489	\$4,987	\$4,341	\$4,813	\$4,620	\$6,735	\$8,020	\$8,606	\$8,960	\$9,342
% Growth		11%	(13%)	11%	(4%)	46%	19%	7%	4%	4%
Direct Sales Costs										
Cost of Sales - Online and Product Costs	1,376	1,378	1,246	1,259	1,113	1,515	1,604	1,549	1,434	1,401
Cost of Sales (Online and Product) - % of Revenue	31%	28%	29%	26%	24%	23%	20%	18%	16%	15%
Cost of Sales - Software royalties and amort.	160	220	173	404	342	391	411	452	471	490
Cost of Sales - Intellectual property licenses	71	62	60	21	21	55	68	74	77	80
Total Cost of Sales	\$1,607	\$1,660	\$1,479	\$1,684	\$1,476	\$1,962	\$2,083	\$2,074	\$1,981	\$1,971
Cost of Sales as % of Revenue	36%	33%	34%	35%	32%	29%	26%	24%	22%	21%
Gross Profit	\$2,882	\$3,327	\$2,862	\$3,129	\$3,144	\$4,774	\$5,937	\$6,532	\$6,979	\$7,372
% Gross Profit Margin	64%	67%	66%	65%	68%	71%	74%	76%	78%	79%
Operating Expenses										
Product Development	589	586	552	549	622	808	962	1,033	1,075	1,121
% of Sales	13%	12%	13%	11%	13%	12%	12%	12%	12%	12%
Sales and Marketing	543	571	598	704	726	1,010	1,203	1,291	1,344	1,401
% of Sales	12%	11%	14%	15%	16%	15%	15%	15%	15%	15%
G&A	392	472	358	349	330	539	642	689	717	747
% of Sales	9%	9%	8%	7%	7%	8%	8%	8%	8%	8%
Less: Synergies	–	–	–	–	–	(100)	(150)	(200)	(200)	(200)
Total Operating Expenses	\$1,524	\$1,629	\$1,508	\$1,602	\$1,678	\$2,257	\$2,657	\$2,812	\$2,936	\$3,070
% of Sales	34%	33%	35%	33%	36%	34%	33%	33%	33%	33%
Operating Income	\$1,358	\$1,698	\$1,354	\$1,527	\$1,466	\$2,516	\$3,280	\$3,720	\$4,043	\$4,302
% Margin	30%	34%	31%	32%	32%	37%	41%	43%	45%	46%
Adjusted EBITDA	\$1,433	\$1,789	\$1,359	\$1,592	\$1,548	\$2,646	\$3,416	\$3,862	\$4,192	\$4,457
% Margin	32%	36%	31%	33%	34%	39%	43%	45%	47%	48%
Interest Expense	(2)	(7)	53	202	200	235	220	220	220	220
Taxes	274	355	301	268	277	629	820	930	1,011	1,076
% Tax Rate	20%	21%	23%	20%	22%	25%	25%	25%	25%	25%
Net Income	\$1,086	\$1,350	\$1,000	\$1,057	\$989	\$1,652	\$2,240	\$2,570	\$2,812	\$3,007
EPS	\$0.93	\$1.19	\$1.14	\$1.44	\$1.34	\$2.21	\$3.00	\$3.44	\$3.77	\$4.02

TRADING COMPARABLES

Trading Statistics

Company	Share Price	52 Week	% of 52	Mkt. Val	Enterprise	EBITDA Multiple			P/E Multiple			FCF Yield		
	4/5/2016	High	Week High	of Equity	Value	CY16E	CY17E	CY18E	CY16E	CY17E	CY18E	CY16E	CY17E	CY18E
Activision Blizzard (Consensus)	33.71	39.93	-15.6%	24,777	27,160	12.9x	11.2x	9.8x	18.8x	16.4x	14.5x	5.0%	6.2%	7.3%
Activision Blizzard (Base Case)	33.71	39.93	-15.6%	24,777	27,160	10.3x	8.0x	7.0x	15.2x	11.2x	9.8x	6.1%	8.2%	9.5%
Game Developers														
Electronic Arts	65.45	76.92	-14.9%	20,244	17,556	12.4x	10.9x	9.5x	21.4x	18.6x	15.8x	6.0%	7.2%	8.8%
Take Two Interactive	36.93	38.52	-4.1%	3,132	2,215	8.9x	6.7x	6.2x	21.1x	18.4x	17.5x	5.9%	12.0%	6.9%
Zynga	2.30	3.13	-26.4%	1,985	1,104	26.4x	13.5x	10.3x	nmf	40.4x	27.5x	5.4%	9.6%	11.7%
Console Makers														
Microsoft	54.56	56.85	-4.0%	431,531	386,781	11.3x	10.4x	9.4x	19.8x	17.8x	15.7x	6.0%	6.9%	7.6%
Sony	25.69	32.95	-22.0%	32,405	30,611	5.1x	4.1x	3.8x	23.5x	16.3x	13.5x	-2.2%	3.4%	8.7%
Nintendo	16.92	25.80	-34.4%	16,271	9,081	26.2x	14.9x	8.2x	90.8x	44.6x	24.7x	4.7%	4.0%	11.9%
Average:						14.4x	9.8x	7.8x	32.0x	23.9x	17.8x	4.6%	7.3%	9.3%
Median:						11.3x	10.4x	8.2x	21.2x	18.4x	15.8x	5.9%	7.2%	8.8%













APPENDICES



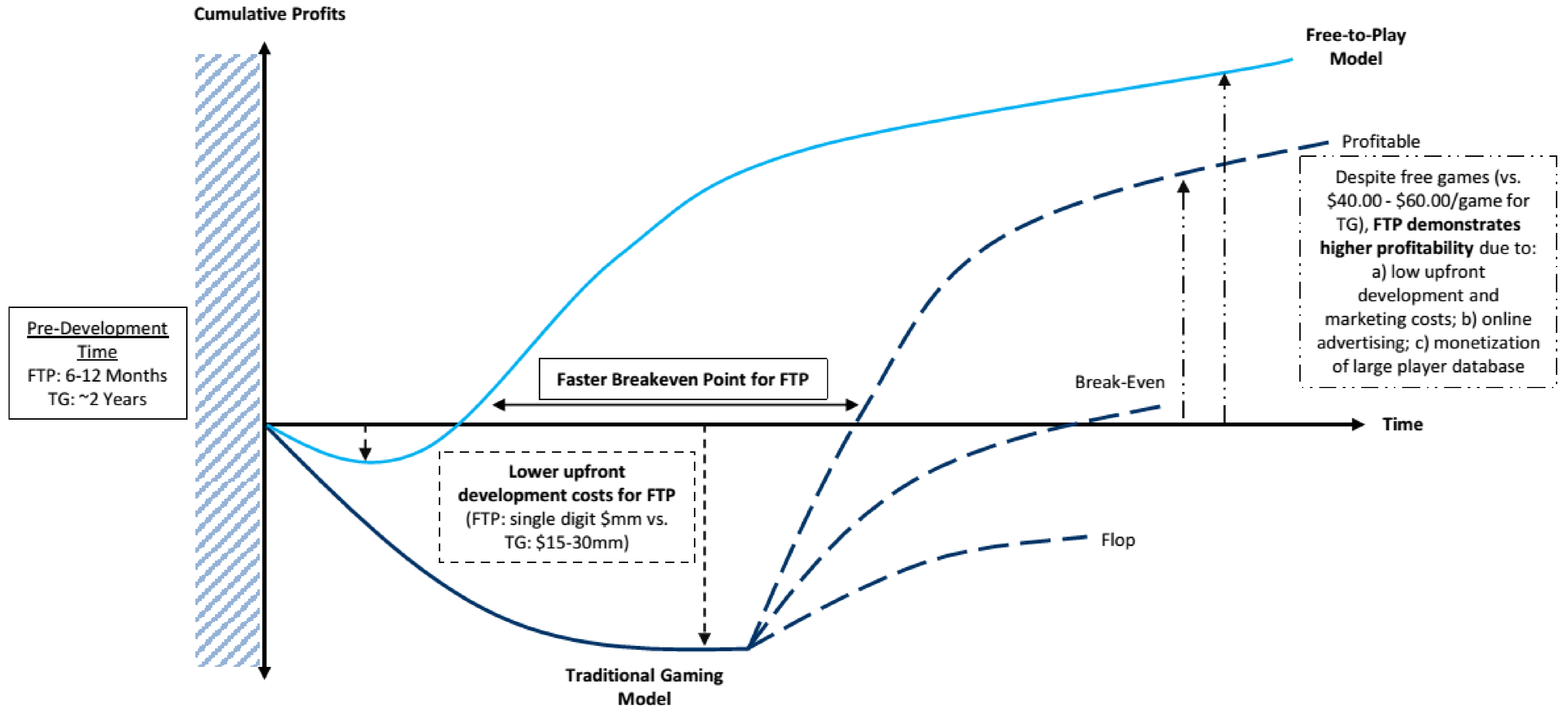
Market and Industry Information

ANNUAL VIDEO GAME REVENUE BY COUNTRY (DEC. 2015)

	RANK	COUNTRY	POPULATION	INTERNET POPULATION	TOTAL REVENUES IN US DOLLARS
	1	China	1,376,049,000	726,554,000	22,227,194,000
	2	United States of America	321,774,000	287,537,000	21,962,491,000
	3	Japan	126,573,000	115,751,000	12,328,860,000
	4	South Korea	50,293,000	42,664,000	3,978,476,000
	5	Germany	80,689,000	71,175,000	3,654,669,000
	6	United Kingdom	64,716,000	59,933,000	3,533,493,000
	7	France	64,395,000	55,110,000	2,460,172,000
	8	Canada	35,940,000	31,785,000	1,811,271,000
	9	Spain	46,122,000	36,524,000	1,564,223,000
	10	Italy	59,798,000	39,144,000	1,505,800,000

FREE TO PLAY MONETIZATION – BUSINESS MODEL

Free to Play Games – Capital Efficiency and Profitability Over Time



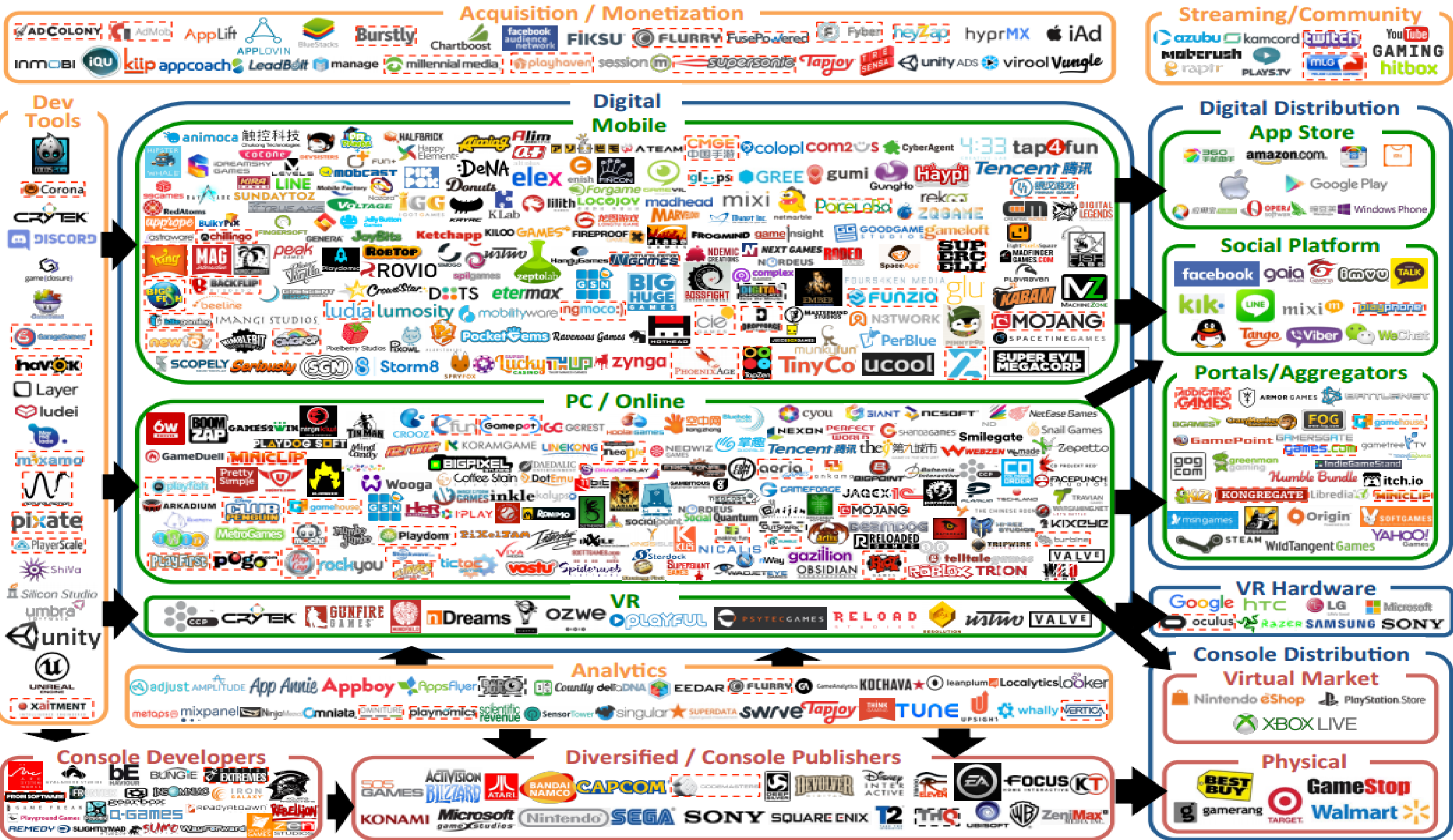
CONSUMER & ADVERTISING SPEND BY MEDIA

Global Consumer Spending on Media (\$mm)								Historical CAGR	Expected
Category	2013	2014	2015E	2016E	2017E	2018E	2019E	('09-'14)	CAGR
Broadband	393,274	429,280	463,826	500,510	539,361	581,203	624,613	12.9%	7.8%
In-Home Video	310,783	323,408	331,922	347,781	358,950	370,244	381,648	4.6%	3.4%
Audio	65,613	64,593	65,882	67,501	69,271	71,226	72,974	0.0%	2.5%
Cinema	33,853	34,992	37,123	39,225	41,211	43,013	45,257	4.2%	5.3%
Consumer Magazines	37,019	35,829	35,139	34,643	34,328	34,157	34,061	-2.5%	-1.0%
Newspapers	69,642	69,330	69,265	69,528	69,935	70,485	71,143	0.0%	0.5%
Consumer Books	70,750	72,357	72,976	74,020	74,794	75,425	75,968	0.8%	1.0%
Educational Publishing	39,955	40,980	41,624	42,138	42,629	43,241	43,929	1.2%	1.4%
Video Games	71,189	81,123	89,975	98,548	106,020	112,457	117,632	8.6%	7.7%
Total	1,092,078	1,151,892	1,207,732	1,273,894	1,336,499	1,401,451	1,467,225	6.1%	5.0%

Global Advertising Spend by Media (\$mm)								Historical CAGR	Expected
Category	2013	2014	2015E	2016E	2017E	2018E	2019E	('09-'14)	CAGR
Digital	109,686	127,345	146,617	168,538	190,822	211,955	231,442	16.1%	12.7%
Television	173,314	183,501	189,445	202,511	208,960	223,099	233,876	6.1%	5.0%
Audio	30,946	31,043	31,102	31,271	31,396	31,541	31,674	2.1%	0.4%
Cinema	2,119	2,141	2,236	2,389	2,588	2,821	3,077	4.5%	7.5%
Out-of-Home	30,627	31,747	33,220	34,824	36,468	38,337	40,334	5.0%	4.9%
Consumer Magazines	24,148	23,232	22,501	21,903	21,382	20,923	20,549	-1.4%	-2.4%
Newspapers	76,046	73,100	71,382	70,389	70,088	70,281	70,825	-2.8%	-0.6%
Video Games	2,784	3,411	4,142	4,906	5,614	6,281	6,910	19.1%	15.2%
Total	449,670	475,520	500,645	536,731	567,318	605,238	638,687	5.6%	6.1%

DEVELOPER

CONSUMER



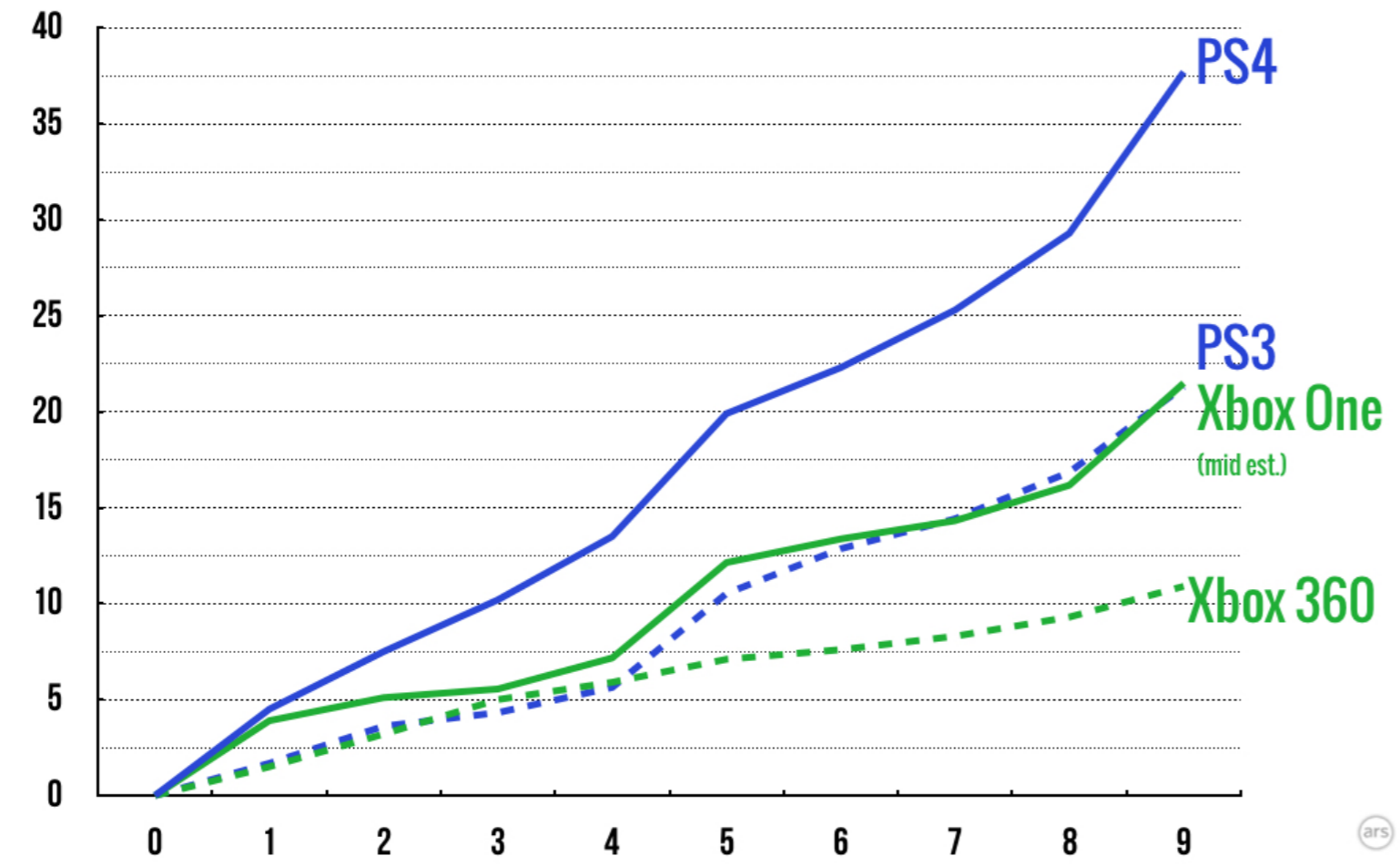
Denotes acquired company Denotes shuttered company



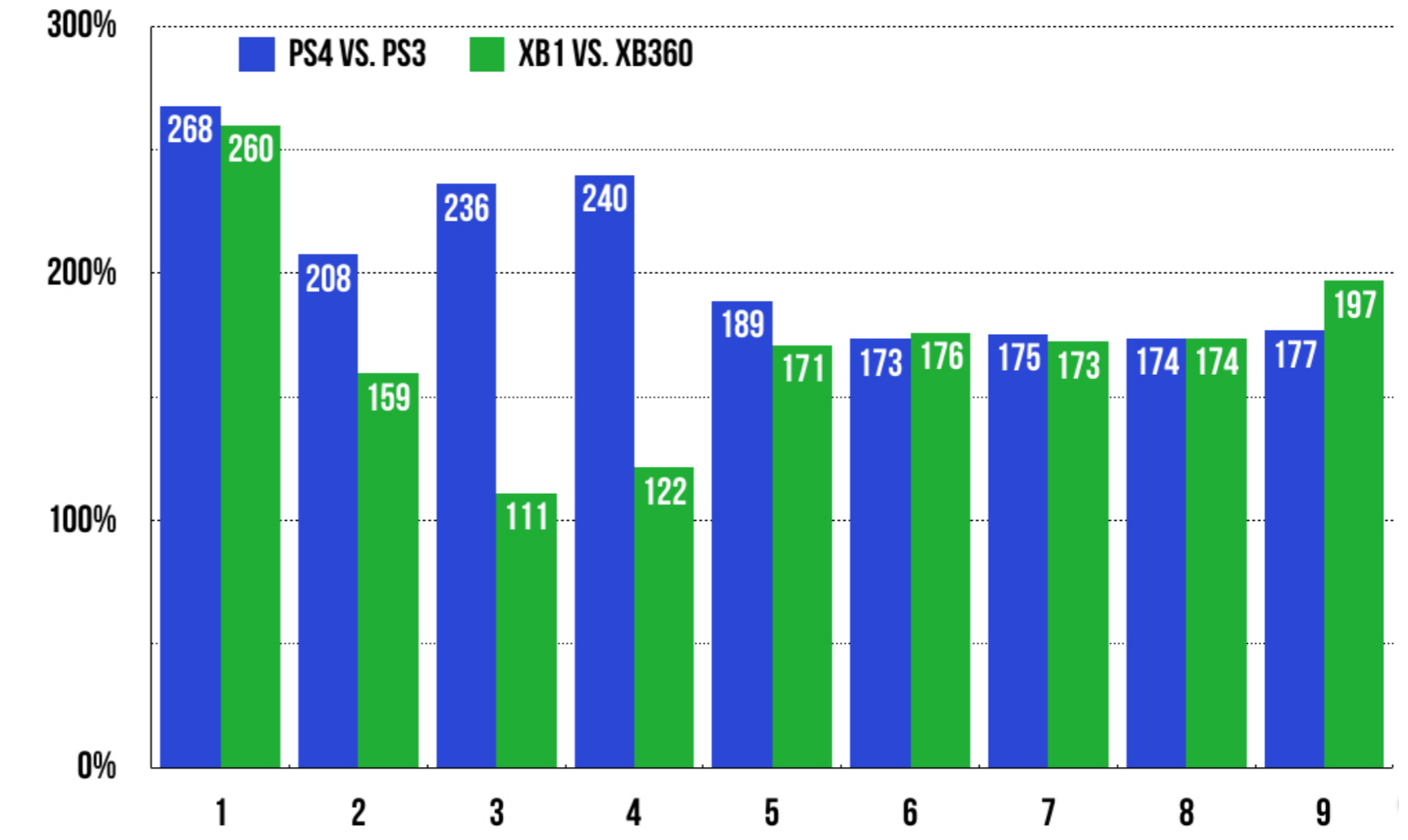
The Console Cycle

CONSOLES – RUMORS OF DEMISE... EXAGGERATED

Worldwide Console Shipments (Quarters after Launch)(mm)



New Generation Console Sales as % of Prior Generation

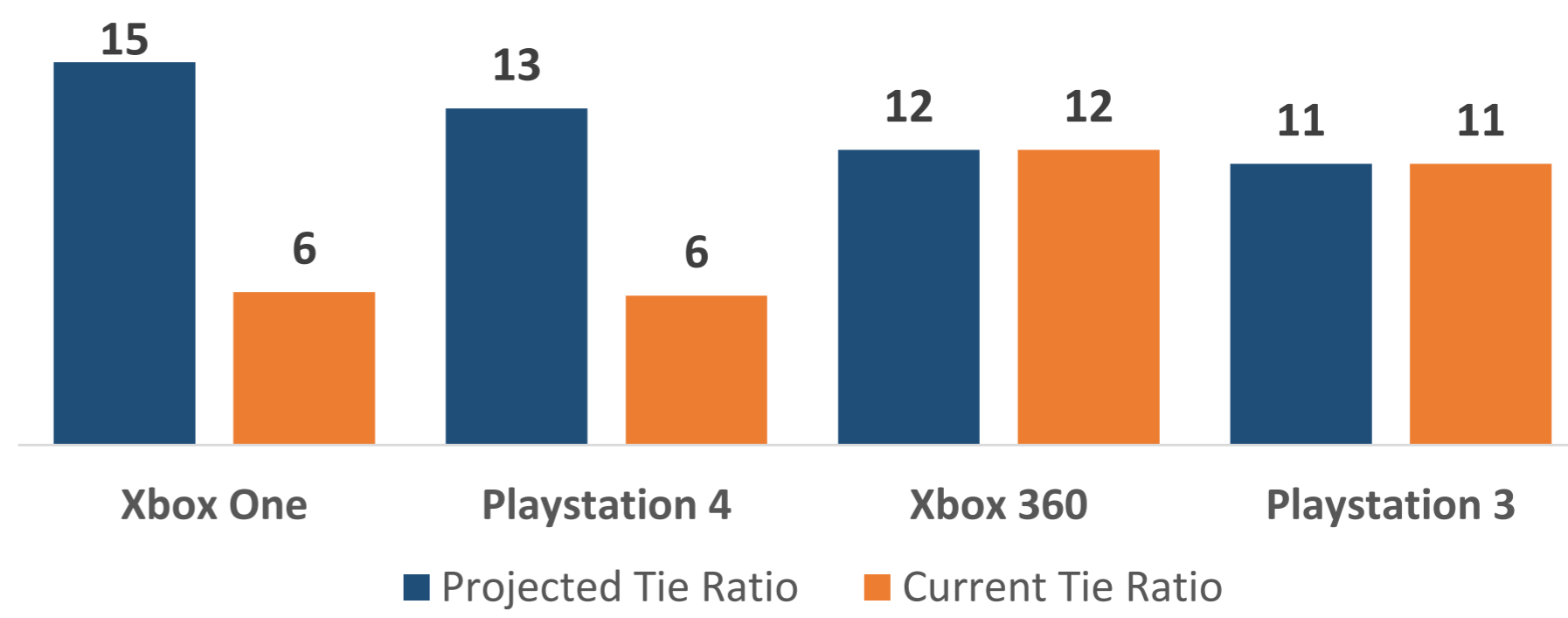


China Ends 14 Year Console Ban in Mid-2015

News > Business > Business News
China completely lifts 14-year ban on games consoles
 China's gaming market is expected to be \$22.2 billion this year
 Doug Bolton | @DougBolton | Sunday 26 July 2015

“Consoles aren’t going away, they have a cult-like following. The biggest change you’ll see in the next 3 or so years is the move to digital game downloads, which is a big opportunity for video game companies like ATVI.”
 - VP of Marketing, AAA Studio

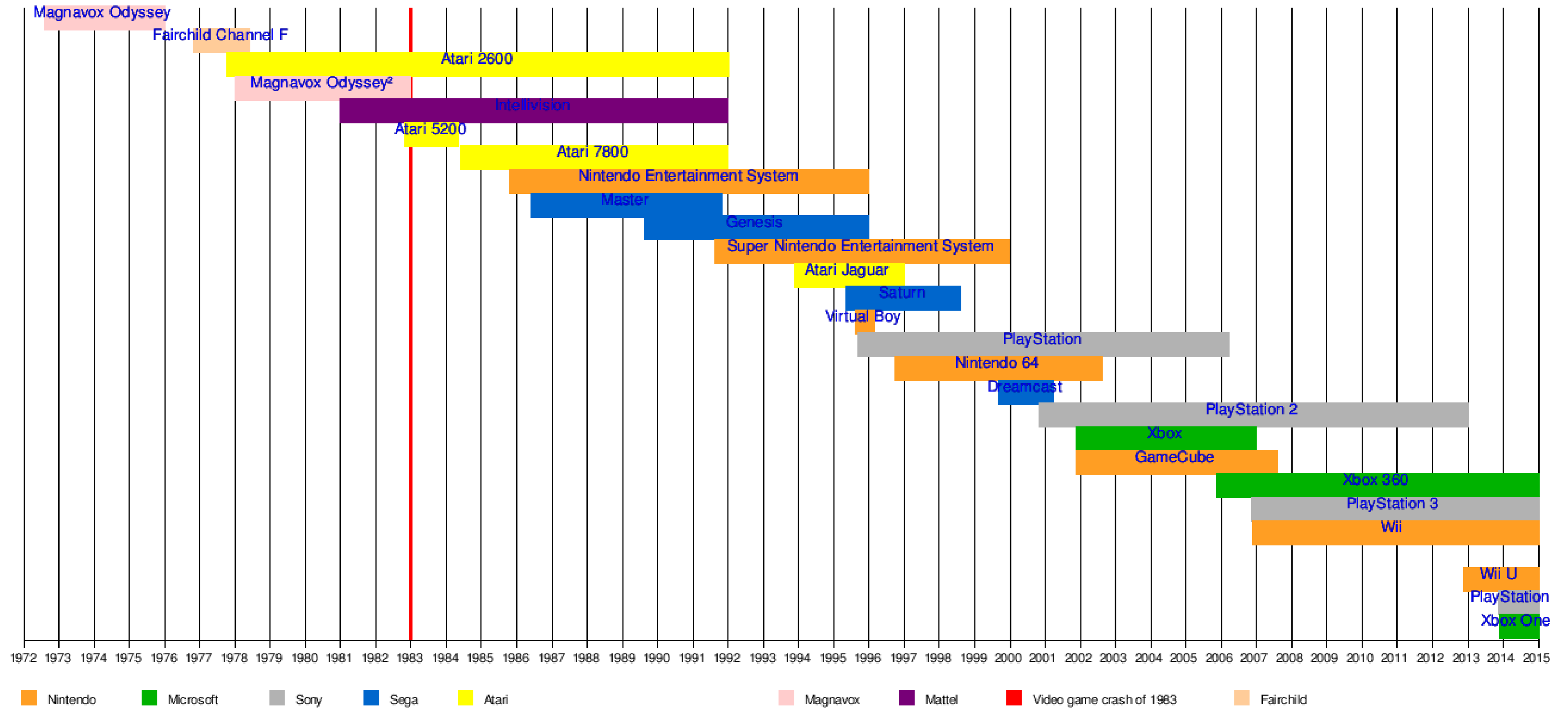
Projected Game Sales (Tie-Ins) by Console



Next-gen console penetration provides foundation for sales growth

Sources: Arstechnica.net, VGChartz.com

HISTORICAL CONSOLE CYCLES

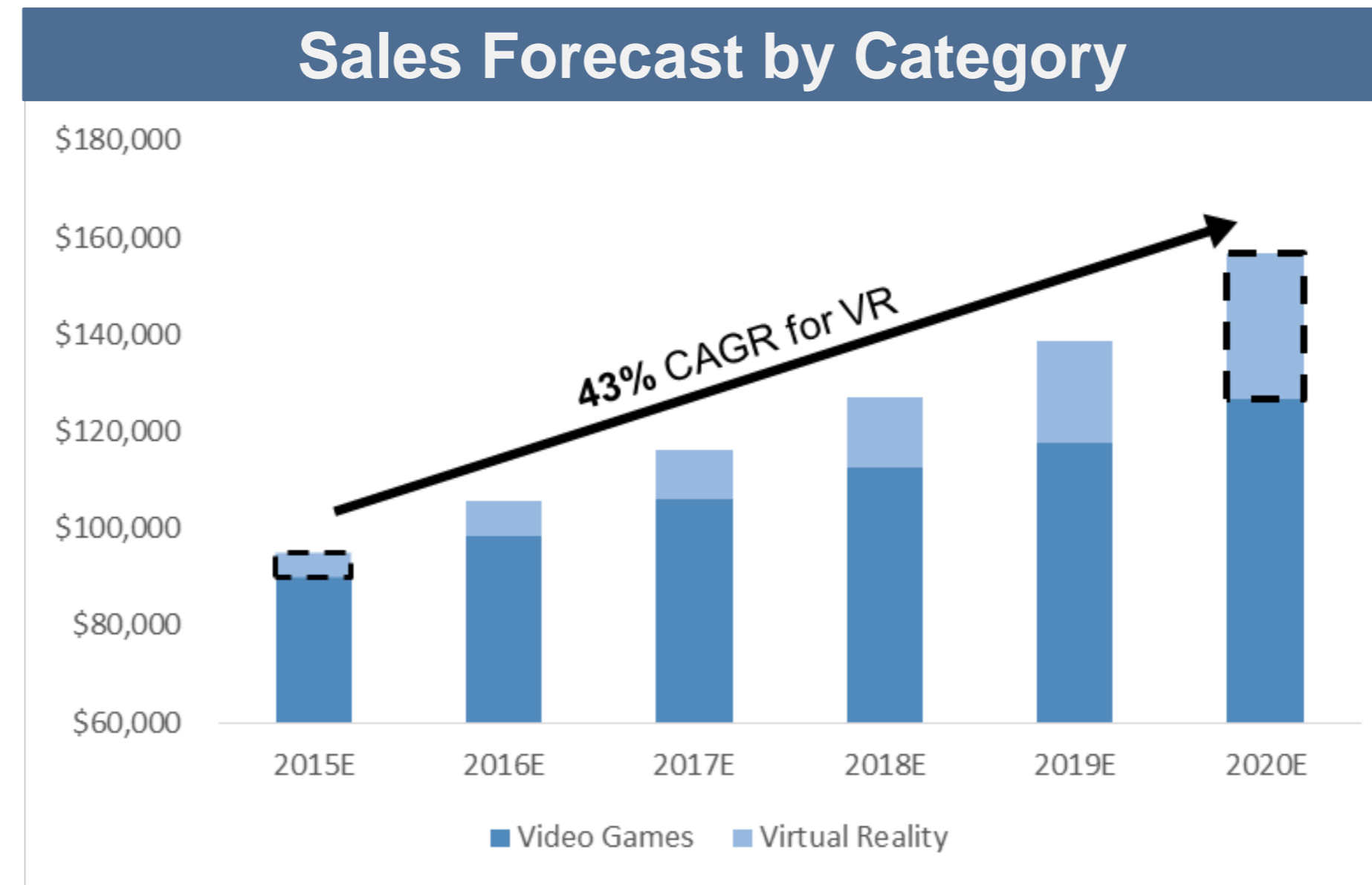




VR and eSports – Upside Optionality

VIRTUAL REALITY – THE NEXT FRONTIER

- Virtual reality expected to reach **55M users in 2016**
- Most of the investment is still being spent on headset development but **games are 2nd largest category**
- Existing console owners are most likely to be first-movers and have a **higher willingness to spend** on hardware & games



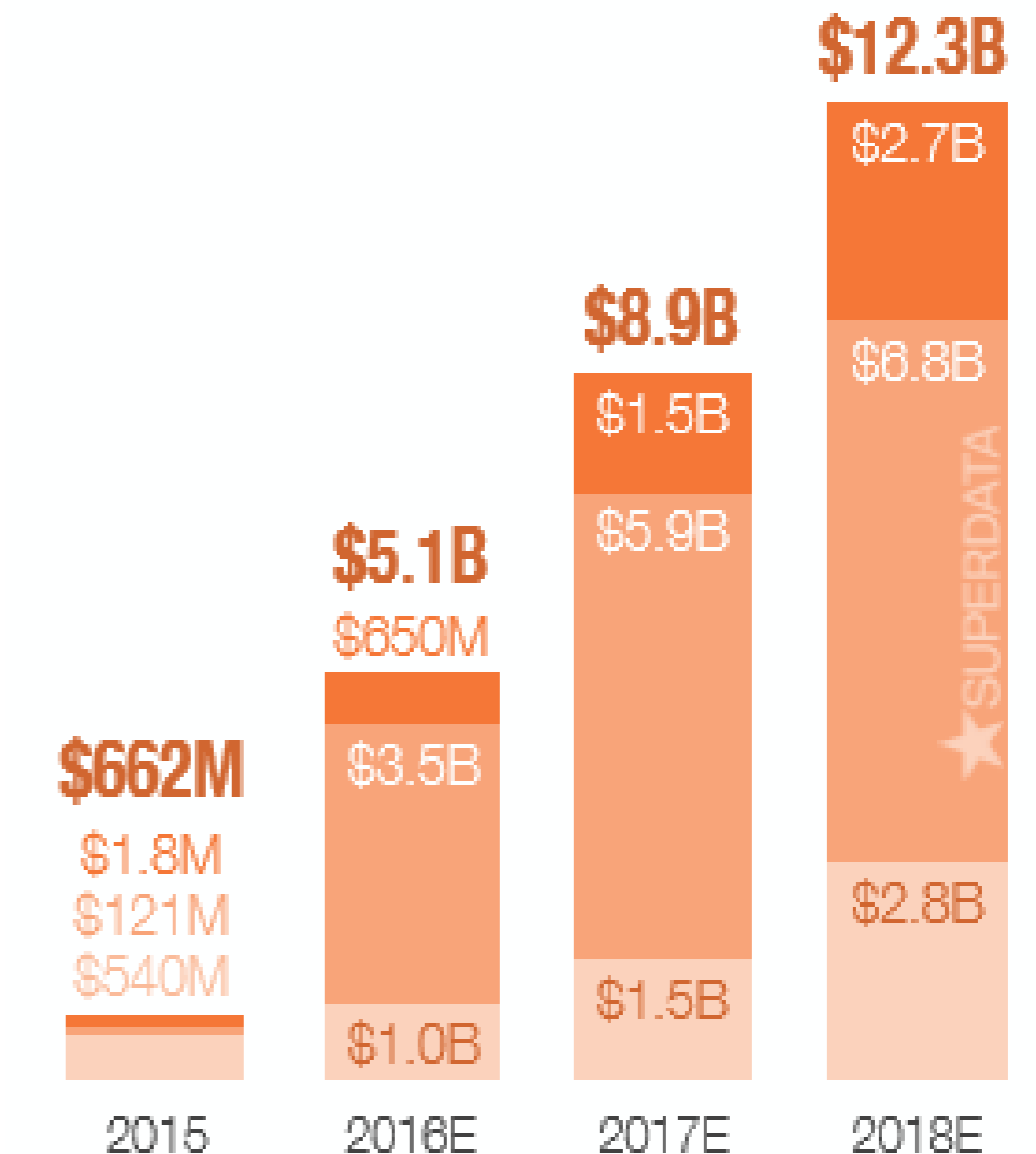
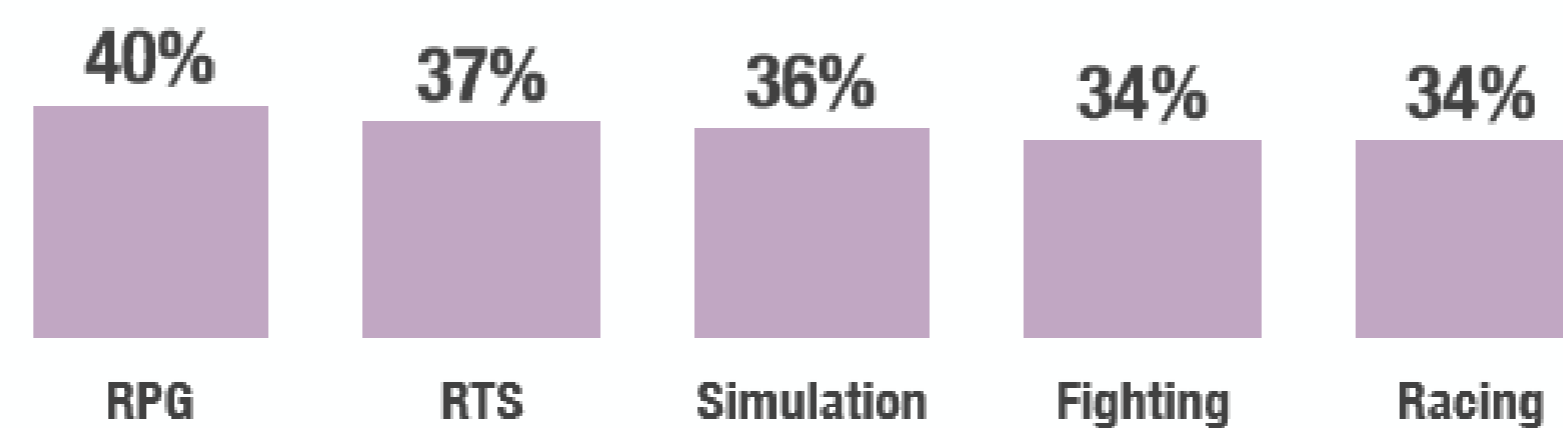
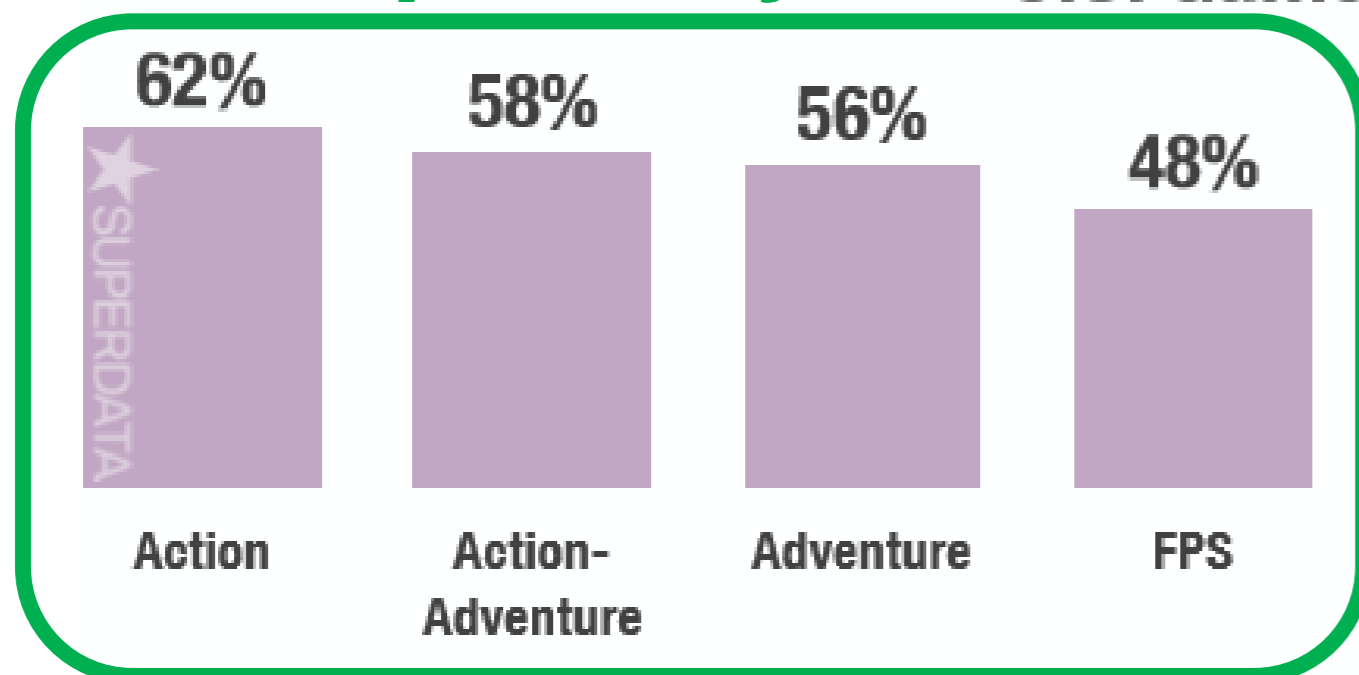
\$5.1B

Total worldwide market for the Virtual Reality gaming hardware, software and peripherals market, 2016E

Mobile PC Console

ATVI's specialty

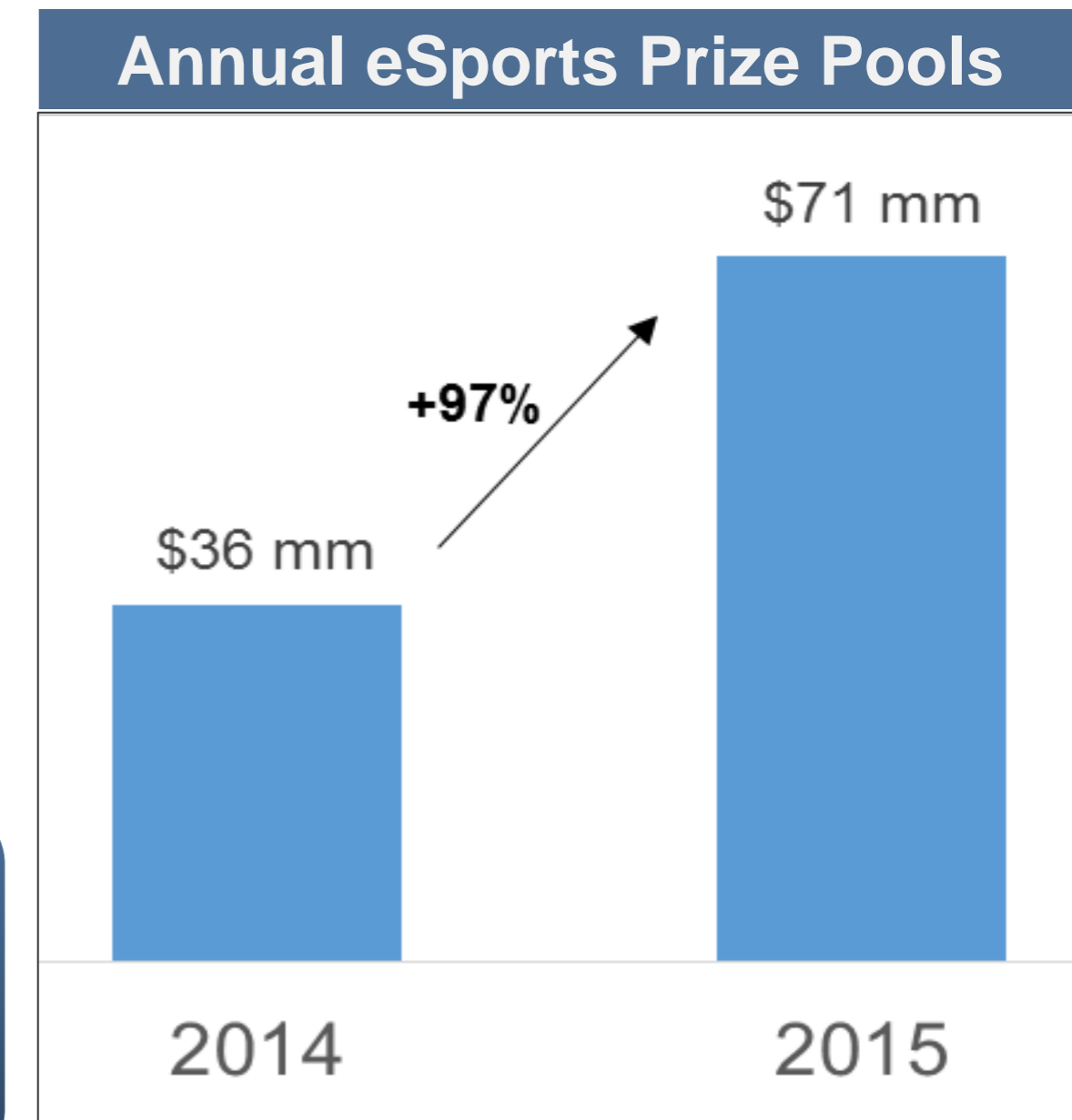
U.S. Gamer interest by VR Genre¹



eSPORTS – AUDIENCE & PRIZE MONEY

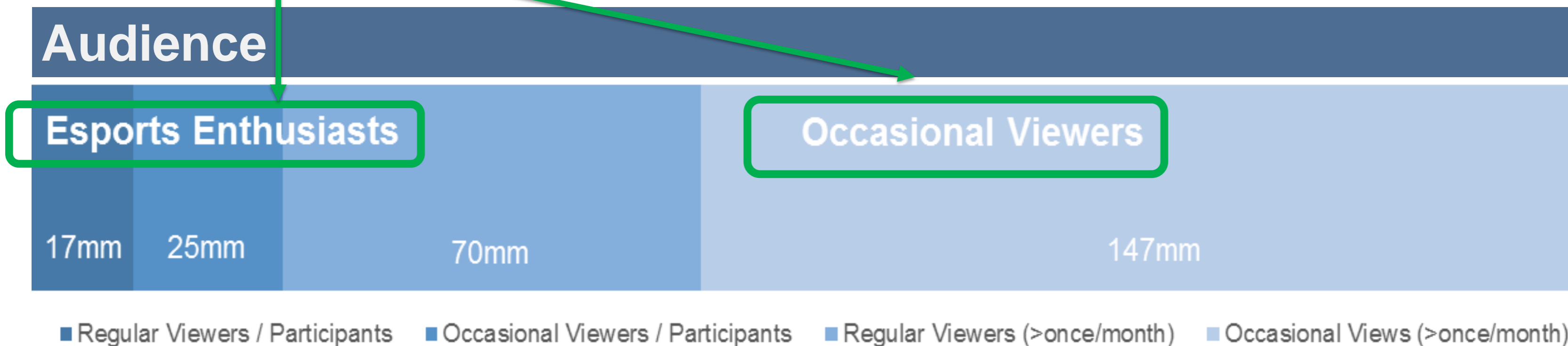
2015 Event	Total Purse (\$mm)	Winner's Share (\$mm)
World Series of Poker	\$60.0	\$7.7
Top eSports Event	\$18.4	\$6.6
Wimbledon	\$16.0	\$2.9
The Masters	\$10.0	\$1.8

40%
 of viewers **DO NOT** play the games themselves
 ↓
 Spectator Sport



Represents significant broadcasting opportunity

“There are more people who tuned into the League of Legends World Championship than those who watched the NCAA National Championship. eSports are the next big thing.”
 – Development Manager, Amazon



2015 Event	Views (mm)
Superbowl	111
Top eSports	36
NCAA FB Final	26
NBA Finals	19
World Series	17

- In 2015, gamers played over **14 billion hours** of ATVI content; fans consumed over **1.5 billion hours** of video content of ATVI games
- In the 2014-2015 NFL season, fans watched 7 billion hours of televised games, generating roughly \$7 billion in broadcast fees
- ATVI acquired Major League Gaming for \$46M in Jan. 2016 to **increase its competitions' audience**
- ATVI has the internal resources and talent to make more hit eSports games and to grow its own network/league
- eSports content (not including video game sales) only generates **~\$2 per fan** (~113M viewers) versus **\$56 in revenue per fan** for all sports



- eSports has started to attract **major advertisers**, including The Coca-Cola Corporation (KO), which sponsors an online show devoted to gaming competitions
- Bobby Kotick, CEO of ATVI, is a director of KO; many brand managers for ATVI were consumer product goods executives

At a panel discussion at the 2016 Game Developer's Conference, the three speakers (two executives of major eSports teams and the CEO of AZUBU) unanimously agreed that ATVI's Overwatch would be the next big eSport.

Growth of eSports is attracting major brand attention

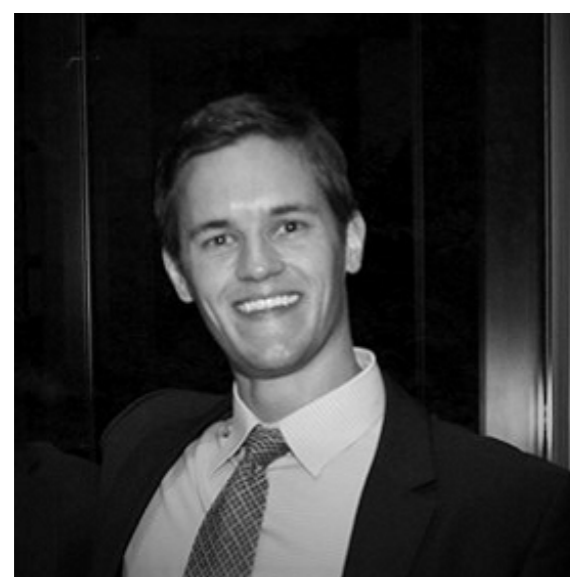
OUR TEAM



Marc Grow is a first year MBA student in Columbia Business School. Marc is the Assistant Vice President of the CSIMA Investment Ideas Club. During the first year Marc interned at Solas Capital Management and will be interning at Fidelity Investments for the summer. Prior to CBS, Marc worked as the CFO of a family office after spending two years as an equity analyst at a VI Capital Management, a value-oriented hedge fund. Marc is a CFA Charterholder and has a BA in Accounting from Whitworth University.



Benjamin Ostrow is a first year MBA student at Columbia Business School. Ben is an Assistant Vice President and editor of Graham & Doddsville, The Heilbrunn Center for Value Investing's newsletter. This summer, Ben will be interning at Owl Creek Asset Management. Prior to Columbia, Ben was an Investment Analyst for Stadium Capital Management, a value-oriented fund focused on small-cap equities. Ben holds a Bachelor of Commerce from the McIntire School at The University of Virginia.



Evan Zehnal is a first year MBA student at Columbia Business School. While at Columbia Business School Evan interned at the Mercator Fund and will be interning for the summer at Maverick Capital. Prior to business school Evan worked within the opportunistic credit investment team at the Canada Pension Plan Investment Board and in the Mergers & Acquisitions group at TD Securities. Evan holds a Bachelor of Commerce from McMaster University in Canada.