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Take-Two Interactive Software, Inc. (TTWO) CEO Strauss Zelnick on Q1 2020 Results - Earnings Call Transcript

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FQ1: 08-05-19 Earnings Summary

*Press Release**Slides*

EPS of \$0.2669 beats by \$0.23 | Revenue of \$422.24M (46.45% Y/Y) beats by \$65.59M

Earning Call Audio



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Take-Two Interactive Software, Inc. (NASDAQ:TTWO) Q1 2020 Results Conference Call
August 5, 2019 4:30 PM ET

Company Participants

Hank Diamond - SVP, IR and Corporate Communications

Strauss Zelnick - Chairman and CEO

Karl Slatoff - President

Lainie Goldstein - CFO

Conference Call Participants

Eric Handler - MKM Partners

Matthew Thornton - SunTrust

Ben Schachter - Macquarie Group

Drew Crum - Stifel

Brian Nowak - Morgan Stanley

Todd Juenger - Sanford Bernstein

Mike Olson - Piper Jaffray

Ryan Gee - Bank of America/Merrill Lynch

Mike Ng - Goldman Sachs

Ray Stochel - Consumer Edge

Clayton Griffin - Deutsche Bank

Doug Creutz - Cowen & Company

Alex Giaimo - Jefferies

Operator

Greetings, and welcome to the Take-Two Interactive Software First Quarter Fiscal Year 2020 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Hank Diamond, SVP of Investor Relations and Corporate Communications.

Hank Diamond

Good afternoon. Welcome and thank you for joining Take-Two's conference call to discuss its results for the first quarter of fiscal year 2020 ended June 30, 2019.

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.

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 www.take2games.com.

And now, I'll turn the call over to Strauss.

Strauss Zelnick

Thanks, Hank. Good afternoon and thank you for joining us today.

I'm pleased to report that fiscal 2020 is off to a terrific start with first quarter operating results have exceeded our expectations. We delivered significant net bookings and cash flow growth driven by the performance of Grand Theft Auto Online and Grand Theft Auto V, NBA 2K19, the Borderlands franchise and Red Dead Redemption 2, and Red Dead Online.

As we approach the sixth anniversary of their initial launch, sales of Grand Theft Auto V and recurrent consumer spending on Grand Theft Auto Online once again exceeded our expectations in the first quarter. Net bookings from Grand Theft Auto Online grew year-

over-year, driven by the increased installed base of Grand Theft Auto V units as well as numerous reward bonus programs tied to game mode events and promotions.

Grand Theft Auto V also continues its unprecedented level of success, charting in the top 10 games in five out of the past six months in the U.S., based on combined physical and digital sales according to the MDD Group. The title is now sold in more than 110 million units and remains one of the most revered and successful entertainment experiences across all our forms of all time.

Our industry-leading basketball series continues to set new benchmarks for excellence. NBA 2K19 is now our highest selling sports game ever with selling to-date of nearly 12 million units. During the first quarter, net bookings from NBA 2K19 more doubled, driven by strong recurrent consumer spending and increased unit sales. Recurrent consumer spending on NBA 2K grew more than 140% and was the single largest contributor to that part of our business. Moreover, engagement with NBA 2K19 continues to increase with average games played and daily active users growing 12% and 23%, respectively. This was driven by a variety of factors including an enhanced mix of game modes that appeals for a broader audience and play styles to strong performance of recent sale promotions, new player virtual currency bundles and engaging late-cycle MyTEAM content. We expect the lifetime net bookings from NBA 2K19 will be the highest ever for a 2K sports title, including both record unit sales and recurrent consumer spending.

Leading up to the eagerly anticipated September launch of Borderlands 3, which Karl will discuss shortly, we've seen a significant increase in sales of our Borderlands catalog offerings. During the quarter, 2K and Gearbox Software released the Borderlands, Game of the Year Edition for PlayStation 4, Xbox One, and PC, which features all new ultra HD visuals, numerous gameplay improvements and all previously released add-on packs. In addition, we launched the ultra HD Texture Pack that increases the visual fidelity of Borderlands: The Handsome Collection on consoles, and provides a graphical upgrade for Borderlands 2, Borderlands: The Pre-Sequel, and all of the add-ons for both titles on PC.

Turning to Rockstar Games' latest, creative and commercial masterpiece, Red Dead Redemption 2 continues to expand its audience and to-date has sold an approximately 25 million units worldwide. On May 14th, Red Dead Online exited its beta phase with a

massive update that brought a host of new gameplay modes including new cooperative story missions, Free Roam activities and the introduction of Poker, along with the range of updates and improvements that strengthen and stabilize the foundational world of the Red Dead Online experience. In addition, throughout the quarter, Rockstar Games released additional content such as numerous new weapons, clothing, emotes and more. Both engagement and recurrent consumer spending in the game continued to gain momentum, and Rockstar plans to continue to enhance and evolve the world of Red Dead Online with ongoing updates to drive growth over time.

On July 1st, Rockstar Games and Twitch announced an exciting new program through which Rockstar Games Social Club members and Twitch Prime subscribers receive free in-game rewards, bonuses and exclusive discounts in both Grand Theft Auto Online and Red Dead Online simply by linking their Twitch Prime and Social Club accounts. Benefits continue for months to come and include special in-game benefits for both Red Dead Online, and Grand Theft Auto Online. Rockstar Games plans for both Red Dead Online and Grand Theft Auto Online with much more content moving forward. And we now expect combined results from these titles to grow in fiscal 2020.

Our first quarter results were also enhanced by Social Point's mobile games, WWE SuperCard and WWE 2K19, as well as Sid Meier's Civilization VI.

One of our key strategic priorities is to continue to drive growth and engagement with our titles after their initial purchase. Our ability to achieve this goal consistently results from our firm commitment to providing consumers with opportunities that are compelling, of the highest quality and that meaningfully adds to their overall gameplay experience. To that end, during the first quarter, recurrent consumer spending exceeded our expectations, growing 55% and accounting for 67% of our total net bookings.

In addition to virtual currency for NBA 2K, Grand Theft Auto Online and Red Dead Online, recurrent consumer spending was enhanced by a variety of other offerings. In the free-to-play category, Social Point remains a meaningful contributor to our results through its two biggest mobile titles, Dragon City and Monster Legends, as well as World Chef and Tasty

Town. In May, our Barcelona-based studio successfully launched Word Life and a new crosswords game and continues to invest in its broad and innovative pipeline of new games, planned for launch in the coming years.

Recurrent consumer spending on WWE SuperCard exceeded our expectations, and the title has now been downloaded nearly 19.5 million times and remains 2K's highest grossing mobile title. And recurrent consumer spending in NBK 2K online in China also outperformed, growing 75%, driven by the launch of NBA 2K Online 2 in August last year. Total combined registered users for NBA 2K Online 2 and its predecessor currently stand at 46 million, and the franchise remains the number one PC online sports game in China. Asia, and China in particular, continues to be a significant long-term growth opportunity for our business.

Lastly add-on content grew nearly 135%, led by our offerings for the Borderlands franchise, and Sid Meier's Civilizations VI. As a result of our better-than-expected first quarter operating results and increased forecast for the balance of the year, we're raising our outlook for fiscal 2020, which is anticipated to be another great year for our organization. Looking ahead, we have the strongest development pipeline in our history, including sequels from our biggest franchises, as well as exciting new IP.

Take-Two remains exceedingly well-positioned creatively, strategically and financially to capitalize on our industry's many opportunities, and to deliver growth and returns for our shareholders over the long-term. With the promise of new consoles along with emerging platforms, distribution channels, business models and markets, we have tremendous potential to engage and expand further our global audience to our development team's passion and vision for creative excellence.

I'll now turn the call over to Karl.

Karl Slatoff

Thanks, Strauss. I'd like to begin by thanking our teams for delivering a strong start to the fiscal year.

Turning now to our recent and upcoming releases. On July 23rd, Rockstar Games held a grand opening of The Diamond Casino & Resort for Grand Theft Auto Online. The Diamond is the one stop destination for quality entertainment, high-end living and a range of experiences that you won't find anywhere else. Players can engage in the classic casino activities such as Three-Card Poker, Blackjack, Roulette, and a variety of slot machines or watch virtual horse racing at the inside track lounge, guest booking for high-end fashion and choose from a variety of new clothing accessories in the casino store. Diamond also offers the most luxurious penthouse residences in all of Los Santos, and owners have the ability to customize the penthouse and enjoy VIP memberships at the resort including exclusive lounges, high limit tables, aircraft and limousine services and more. This highly engaging update also features a series of new story based cooperative missions, open-[world] [ph] activities and additional opportunities to earn special rewards.

The Diamond Casino & Resort update was Grand Theft Auto Online's biggest launch ever, celebrating record player engagement and daily active users, weekly active users and monthly active users.

Now that Red Dead Online has exited the beta phase, Rockstar Games will continue to add more free content to the game. Following the massive content drop in May, later this summer, the world will evolve again with the introduction of specialist roles, including tracking down wanted criminals as a bounty hunter, searching the world for treasure and other exotic items to sail as a collector or building a business as a trader.

Throughout the year, Rockstar Games will continue to support both Red Dead Online and Grand Theft Auto Online with many more updates in order to drive engagement and player growth.

On July 23rd, 2K the Rise and Fall expansion pack for Sid Meier's Civilization VI on iOS through Aspyr. 2K also announced that they will bring all the previously released add-on content for Sid Meier's Civilization VI to both iOS and Nintendo Switch later this year. Civilization VI is the fastest selling title in the history of the series with selling to date of more than 5.5 million units worldwide.

On August 27th, Private Division will release *Ancestors: The Humankind Odyssey* for digital download on PC. The title is the first release from Panache Digital Games, the studio co-founded by Patrice Désilets, the original creative director of the *Assassin's Creed* franchise. In *Ancestors: The Humankind Odyssey*, players are challenged to survive and evolve in the harsh yet beautiful land of Africa, spanning from 10 million to 2 million years ago. *Ancestors* fixture will also be available for digital download on PlayStation 4 and Xbox One in December.

On September 6, 2K Visual Concepts will launch *NBA 2K20*, the next annual offering from our industry-leading basketball simulation for PlayStation 4, Xbox One and Nintendo Switch and PC. The title will also be available through Google Stadia when the platform launches in November 2019. The *NBA 2K20* Standard and Digital Deluxe Editions will feature six-time NBA All-Star, three-time All-NBA First Team, three-time NBA All-Defensive and 2012 Olympic gold medalist Anthony Davis on the cover. The *NBA 2K20* Legend Edition will feature three-time NBA Champion, 13-time NBA All-Star, 2008 Olympic gold medalist and 2006 NBA Finals MVP, Dwayne Wade on the cover. *NBA 2K20* will feature the most expansive soundtrack in the history of the series with 50 tracks from artists such as Drake, Meek Mill, Billie Eilish, Post Malone and the late Nipsey Hussle. Additional sounds will be dynamically added throughout the year across genres spanning hip-hop, R&B, electronic, pop and rock.

On September 13, 2K and Gearbox Software will launch *Borderlands 3* for PlayStation 4, Xbox One and PC. The title will also be available from Google Stadia when the platform launches in November 2019. The *Borderlands* franchise which combines exhilarating action of a first person shooter with a rich progression and loot systems of a role playing game has sold-in more than 48 million units worldwide to-date.

In June, at E3, more than 8,000 consumers were able to experience *Borderlands 3*, and the reaction was phenomenal. Throughout the show, there was enormous excitement around our massive, high-energy booth, which featured larger than life tattoos and photo ops, a 100 gameplay stations and 100-seat demo theater. The global media attendance lot at *Borderlands 3* was more than 53 E3 award wins and nominations, including Best-in-Show announcement from IGN, IGN, GameSpot, Destructoid, Ars Technica, the E3 Games Critics and more.

In addition, during the month of June, 2K worked with our first-party partners to offer an array of low to no cost engagement opportunities, including the release of a new DLC campaign for Borderlands 2, entitled Commander Lilith & the Fight for Sanctuary, which provides a narrative lead into the events of Borderlands 3. In addition, Borderlands: The Handsome Collection was added to Xbox Game Pass and was included in the PlayStation Instant Game Collection for the month. On PC, our entire Borderlands 2 catalog was made available at a steep discount for our retail partners. These efforts, together with the launch of the Borderlands Game of the Year Edition in April have resulted in selling of over 6 million units of Borderlands titles, and over 4 million players enjoying the critically acclaimed Commander Lilith DLC.

Later this month, Borderlands 3 will be at gamescom in Germany and PAX West in Seattle, where we will share details on an expansive post launch content plan that will keep players engaged in new experiences, well past September 13th. The consumer excitement leading up to next month launch of Borderlands 3 is incredibly strong. And we very much look forward to the next chapter in the highly successful Borderlands 3 franchise.

On October 22nd, 2K's popular WWE series will be back when WWE 2K20 launches for PlayStation 4, Xbox One and PC. Developed by Visual Concepts WWE 2K20 includes several franchise firsts, alongside streamline gameplay in a variety of popular modes. Current Raw Women's Champion Becky Lynch and WWE superstar Roman Reigns will serve as the game's cover superstars and ambassadors for its worldwide marketing campaign, Step Inside, which invites players to enter the world of WWE superstars and face a variety of new and exciting challenges in the virtual ring.

On October 25th, Private Division will release The Outer Worlds. Developed by Obsidian Entertainment, The Outer Worlds marks the reunion of Tim Cain and Leonard Boyarsky, the original creators of Fallout, who are introducing an entirely new single player Sci-Fi RPG experience. Launching on PlayStation 4, Xbox One and PC, The Outer Worlds is a dark and witty player-driven story set in the colony at the farthest reach of the galaxy. In addition, the play will be coming to Nintendo Switch following the launch on the other

platforms. At E3 in June, The Outer Worlds received four nominations from the Game Critics Award for Best of E3, more than any other game and won the award for Best Original Game.

Throughout fiscal year 2020, we will continue to support our titles with innovative, post-launch content designed to drive engagement. In addition, Social Point and 2K will continue to broaden our offerings for mobile devices.

Looking ahead to fiscal year 2021, Private Division announced Disintegration a new Sci-Fi, first-person shooter from V1 Interactive, the studio co-founded by Marcus Lehto, former creative director at Bungie and co-creator of Halo. The title will be fully unveiled later this month at gamescom. Private Division will have more exciting news and announcements in the coming months.

Turning to eSports, the second season of the NBA 2K League, our joint venture with the NBA concluded this past weekend. Just prior to playoffs, the league announced that Tencent would be their first distribution partner in China, and stream condensed playoffs and finals games to the hundreds of millions of daily users across Tencent Sports, Tencent Video and Tencent News. NBA 2K League content has generated more than 243 million video views across all NBA and NBA 2K League social media platforms. In addition, NBA 2K League viewership, both live and on demand continues to rise with the second season seeing 34% increase in views over season 1. We are very excited about the continued progress and growth of the League, which has a long-term potential to enhance engagement and to be a driver of profits for our Company.

Looking ahead, we will continue to focus on delivering the highest quality entertainment and to provide new and innovative ways to enhance players' experiences with our games. To that end, we are investing heavily in opportunities to grow our scale, increase our presence in mobile and capitalize on emerging distribution channels and business models, such as free-to-play, streaming and subscription. The successful execution of this strategy will continue to engage our customers and generate growth and profits for our company over the long term.

I'll now turn the call over to Lainie.

Lainie Goldstein

Thanks, Karl, and good afternoon, everyone.

Today, I will discuss our first quarter results and then review our financial outlook for the second quarter and fiscal year 2020. Please note that additional details regarding our actual results and outlook are contained in our press release.

As Strauss mentioned, fiscal 2020 is off to a terrific start with first quarter operating results that exceeded our expectations. Total net bookings grew 46% to \$422 million, as compared to our outlook of \$310 million to \$360 million. This outperformance was driven primarily by better than expected results from Grand Theft Auto Online and Grand Theft Auto V, NBA 2K19 and the Borderlands franchise. Recurrent consumer spending grew 55% and accounted for 67% of total net bookings, as compared to our outlook of over 20% growth.

Recurrent consumer spending exceeded our expectations due primarily to the outperformance of Grand Theft Auto Online and NBA 2K. Digitally-delivered net bookings grew 51% and accounted for 91% of the total as compared to our outlook of over 20% growth. This result exceeded our expectations due the outperformance of recurrent consumer spending and higher than forecasted mix of digital-delivered full game sales. During the first quarter, 75% of current generation console games were delivered digitally, up from 53% last year.

Turning to some details from our first quarter income statement. GAAP net revenue grew to \$540 million and cost of goods sold increased to \$241 million. Operating expenses increased by 33% to \$247 million due primarily to higher marketing and R&D costs. And GAAP net income was \$46 million or \$0.41 per share as compared to \$72 million or \$0.62 per share in the first quarter of fiscal 2019. Adjusted operating cash flow increased to nearly \$47 million and we ended the period with \$1.54 billion in cash and short-term investments.

Now, I will review the highlights of our fiscal 2020 financial outlook, starting with the second quarter. We project net bookings to range from \$860 million to \$910 million, up from \$583 million in the second quarter last year. The increase is driven primarily by the

release of Borderlands 3. The largest contributors to net bookings are expected to be the NBA 2K20, Borderlands 3, Grand Theft Auto Online and Grand Theft Auto V, Red Dead Redemption 2 and Red Dead Online, and Social Point's mobile offerings.

We project recurrent consumer spending to grow by over 20%. This growth is expected to be driven by NBA 2K, Borderlands 3 and Red Dead Online as well as modest growth from Grand Theft Auto Online. We expect digitally-delivered net bookings to increase by more than 40%. Our forecast assumes that 48% of our current generation console games will be delivered digitally, up from 47% in the same period last year.

We expect GAAP net revenue to range from \$855 million to \$905 million and cost of goods sold to range \$415 million to \$442 million. Operating expenses are expected to range from \$312 million to \$322 million. At the midpoint, this represents 37% increase over the last year, driven primarily by higher marketing R&D costs. And GAAP net income is expected range from \$118 million to \$130 million from or \$1.04 to \$1.14 per share. For management reporting purposes, we expect our tax rate to be 17% throughout fiscal 2020.

Turning to our outlook for the full fiscal year, we are raising our outlook as a result of better than expected first quarter operating results and increased forecast for the balance of the year. We now expect net bookings to range from \$2.6 billion to \$2.7 billion, up from our prior outlook of \$2.5 billion to \$2.6 billion. Compared to the prior year, we expect the NBA 2K and WWE 2K to grow offset by lower results from Red Dead Redemption 2 and Grand Theft Auto V and Grand Theft Auto Online. The largest contributors to net bookings are expected to be NBA 2K, Grand Theft Auto Online and Grand Theft Auto V, Borderlands 3, Red Dead Redemption 2 and Red Dead Online, The Outer Worlds and WWE 2K. We expect the net bookings breakdown from our labels to be roughly 60% to 2K, 30% Rockstar Games and 10% Private Division and Social Point and other. And we forecast our geographic net bookings to be about 65% United States and 35% international.

We now expect recurrent consumer spending to increase in the mid teens, up from our prior outlook of low-single-digit growth, driven primarily by higher expectations for Grand Theft Auto Online and NBA 2K. Importantly, we now expect combined results from Grand Theft Auto Online and Red Dead Online to grow in fiscal 2020. This growth excludes the

value that was allocated to recurrent consumer spending from the Red Dead Redemption 2 Premium Edition. We now project digitally-delivered net bookings to grow in the high-teens. This is up from our prior outlook of low-double-digit growth, driven primarily by our increased forecast for recurrent consumer spending and a higher mix of digitally-delivered full games out. Our outlook assumes that 55% of current generation console games will be delivered digitally, up from 38% last year.

We expect to generate more than \$450 million in adjusted operating cash flow and we plan to deploy approximately \$90 million of capital expenditures. We expect GAAP net revenue to range in \$2.83 billion to \$2.93 billion and cost of goods sold to range from \$1.3 billion to \$1.34 billion. Total operating expenses are expected to range from \$1.07 billion to \$1.09 billion. As a midpoint, this represents a 15% increase over the prior year, driven primarily by higher marketing, R&D and personnel costs. And we expect GAAP net income to range from \$425 million to \$454 million or \$3.71 to \$3.96 per share.

In closing, fiscal 2020 is off to a fantastic start and is poised to be another outstanding year for Take-Two, driven by the talent of our creative teams and our management's unwavering commitment to operational excellence. We have a strong financial foundation that enables us to pursue a variety of opportunities to enhance our strategic positioning, and increase our ability to deliver growth and margin expansion over the long term.

Thank you. I'll now turn the call back to Strauss.

Strauss Zelnick

Thanks, Lainie and Karl. On behalf of the entire management team, I'd like to thank our colleagues for their hard work and delivering an excellent start to the year. To our shareholders, I'd like to express our appreciation for your continued support. And we'll now take your questions. Operator?

Question-and-Answer Session

Operator

[Operator instructions] Our first question comes from the line of Eric Handler with MKM Partners. Please proceed with your questions.

Eric Handler

Good afternoon. And thank you for the question. Two things. First, I wondered if you could talk about Red Dead Redemption Online. And maybe you could give a few metrics about engagement or the ramp in revenue that you have seen since the game has come out of beta and gone live. And then, secondly, wondered if you could give a little color about the Private Division? Obviously, you made a recent announcement for one game coming out in fiscal '21. But, at this point, how many games have you signed up for Private Division, and how big of an opportunity do you see that to be over the next 12 months?

Strauss Zelnick

So, on Red Dead Online, we exited the beta phase on May 14th with a huge update and created a lot of opportunity to enjoy the online world. We also introduced poker at that time. In addition, throughout the first quarter, Rockstar released additional content, including new weapons, clothing emotes and others which I mentioned earlier. We're not giving out any statistics. However, we're really thrilled with the sales of Red Dead Redemption 2 at over 25 million units and we're excited about the continuing momentum with Red Dead Online. We've also said that we expect the Rockstar Online, which is both Red Dead Online and Grand Theft Auto Online should be setting a new record this year. So, couldn't be more excited. And Karl will talk about Private Division.

Karl Slatoff

So, for Private Division, we've announced three titles to date. Private Division has been in existence for quite some time and we tend to only announce things when we are ready to announce things about games themselves. We have a lot of other activity that we haven't talked about with Private Division. But those are the three games that we've announced. Ancestors with Patrice Désilets, Panache Games; we have The Outer Worlds with Obsidian; and we also have we just announced recently of Disintegration with V1, which is Marcus Lehto studio. So, that's all we have to say at the moment, but you should expect more in the future.

Operator

Our next question comes from the line of Matthew Thornton with SunTrust. Please proceed with your question.

Matthew Thornton

Congrats on the strong results. Maybe just first on Borderlands. Can you help us maybe -- as we think about recurrent revenue on Borderlands 3, how can we think about -- or maybe compare and contrast Borderlands versus Red Dead this year? Obviously last year I think you talked about Red Dead having about a 17% of tax rate of premium SKUs. Obviously the beta took a couple quarters, there wasn't a lot of [MTX] [ph] per se, it sounds like Borderlands 3 will get a DLC but just comparing and contrasting on the recurrent revenue for the key frontline release that will be really helpful. And then, just I'll throw it out there, any high level commentary you'd be willing to offer on the out year's plays would be great as well? Thanks, guys.

Karl Slatoff

Hi. It's Karl. In terms of Borderlands 3, we haven't discussed too much about our plan for recurrent consumer spending. But as with most our games if not all of our gamers, we have a robust plan around delivering post launching game content. So, we engage with consumers. And it will be quite a bit different than Red Dead Online. For the most part, we talk about DLC content, a story-driven, mission-based content, there'll be some cosmetics for Borderlands 3, but it is a different kind of experience. As we said before, 2K is going to be announcing more about that in the not too distant future. So, you'll get some more -- a little bit more clarity on exactly what we have to offer. But, it's history, and we don't really talk about engagement and attach. But I think most of the people on the call know that Borderlands has a very strong history of delivering a lot of downloadable content, and having great success with that. So obviously, we're very excited about that plan.

Lainie Goldstein

About R&D spend?

Karl Slatoff

Yes. In terms of our out years release schedule, we've basically disclosed everything that we can -- we've already disclosed everything that we're talking about now. I'm sure there's nothing more to say about that. Other than the fact that we do have -- and you can see it in our numbers, we have talked about R&D expenses going up, particularly this year, which will be indicative of investment in new titles. So, that is in fact, what's going on. And we've got a very robust -- maybe our most robust line -- pipeline of all times or new IP. A lot of that's driven in Private Division, but there's new IP throughout the entire Company as well. So again, you'll be hearing more about that soon in the future.

Operator

Our next question comes from the line of Ben Schachter with Macquarie Group. Please proceed with your question.

Ben Schachter

Hey, guys. Congrats on the continued great execution. Two questions, one, you raised the year by more than the beat on the quarter. So, what specifically are you seeing? And then, perhaps related to that, Rockstar stated that the casino expansion was the biggest ever? And I think they were referring to overall players on day one and during the week? Can you help translate that into how it impacts the monetization and how that influences guidance for the year? And then, separately, Strauss, heading into the launch of cloud services, the new consoles next year, and obviously the continued growth of mobile, how do you think platform fees may evolve? Should we expect the platform owners to operate similarly to what was seen in the past, or do you think things are going to change? Thanks.

Lainie Goldstein

For the fiscal year guidance increase, it is driven primarily by the first quarter beat, but we've also updated our forecast for the remainder of the year. And primary increases are GTA V, GTA Online and Borderlands 3.

Strauss Zelnick

And in terms of the new casino update, this has been our biggest ever for Grand Theft Auto Online, which is saying a lot. And what we've seen already is record player engagement in daily, weekly, and monthly active users with a lot of more content coming. So, it's looking just fantastic. And of course, we're up year-over-year in the quarter, which is great. Turning to platform fees, look, with competition, I think, you have to expect that we will do much better in terms of take rates. You're already seeing that some recently launched platforms have announced lower fees. And if you go from an oligopoly environment to a broadly competitive environment, I think that has to be your expectations. And I would just note that obviously that benefits the Company directly as those fees decline. And that's not even counting. That doesn't even count, of course, the volumes. So I think it's going to be sort of the food is both tasty and plentiful, which is nice.

Ben Schachter

If I can sneak one more, just Lainie, I think you mentioned CapEx was \$90 million. Could you remind me where it was last year and what are you spending the bulk on this year? Thanks.

Lainie Goldstein

Last year, it was \$60 million for the year, this year the increase is driven by some development kits, as well as some build out to some new office throughout the organization.

Operator

Our next question comes from the line of Drew Crum with Stifel. Please proceed with your question.

Drew Crum

Okay. Thanks. Hey, guys. Good afternoon. So, Strauss, understand you guys don't provide specific guidance on individual titles, but coming off a very strong performance for NBA 2K19, just conceptually, what are your thoughts around perennial titles and I guess sports included, and how they perform late in the hardware cycle and whether or not they're more susceptible to weaker sales as consumers look ahead to purchasing new

consoles? And then, I guess separately for Lainie, maybe I'll ask Ben's question a little bit differently here. You're guiding Rockstar Online to be up in fiscal 2020, does that include growth for GTA Online? Thanks.

Karl Slatoff

Thanks Drew for your question. We've been blessed by the amazing work that Visual Concepts and 2K do on NBA 2K, and we're having a record-setting year again this year with NBA 2K19, which is sold in over 12 million units and recurrent consumer spending was about 140% in the quarter, just amazing with extraordinary growth in average games played and daily active users really across the board. And I attribute that to not only that we have the industry-leading sim game but there -- you can inhabit this game and enjoy its sort of the lifestyle that it offers for -- in addition to playing the sim game itself. I think, six, seven years ago, basketball was a three-month experience and now it's a 9-month, 10-month experience and we think it's going to grow to be a full one-year experience.

To address your question particularly, no, the last console cycle had no negative influence on us and frankly not really much on the industry because the entire platform business is diversifying and the PC format, particularly since that's now all digital, has transformed that business. That can be 40%, 50% of a release or the console release now if you're out on all those platforms. And that will continue to grow. So, we expect that the new console generation will be significant net positive and there is nothing about an annualized sports title that would play out in different way.

Lainie Goldstein

For Rockstar Online, for the fiscal year 2020 growth, yes, we expect the two games together to grow. But GTA Online for the full year will be down over last year. Q1 and Q2 are up over the prior year. So, it's still really early in the year, so we'll see how the rest of the year plays out. But right now, the two together are up.

Operator

Our next question comes from the line of Brian Nowak with Morgan Stanley. Please proceed with your question.

Brian Nowak

Thanks for taking my questions. I have two, just to come back to Red Dead Online, another incredible quarter out of GTA Online. I was wondering if you could just talk to us all that any differences you noticed in player engagement or player behavior in Red Dead Online that could change the way you think about the long-term monetization opportunity for Red Dead as opposed to again with GTA which just continues to surprise to the upside? And the second one on mobile, Karl I think last quarter you talked about there were 10 games in development at Social Point. Just any update there and how you think about the timing of those releases and what's the impact from those in the full year guide for this year? Thanks.

Strauss Zelnick

Well, thanks. With a game like Red Dead where you can engage significantly with the characters in the games, we think there are wonderful opportunities for the players to experience the Red Dead Online world on an ongoing basis, especially as new content has dropped. And we don't -- we tend to focus on the experience. First, we want to make something that consumers love and engage with, and then monetization follows. But we do feel there are and will be plenty of opportunities to create recurrent consumer spending, based on the format of the Red Dead Online world.

Karl Slatoff

In terms of Private Division Social Point, as you know our two main titles continue to perform very, very well. And we have announced that we've had approximately 10 games in development, that hasn't really changed. Games can come in, can come out. But that sort of reflects where the capacity is for that division, in terms of having things in different stages of the pipeline, at any given point. We did launch Tasty Town in January, so a global launch, and we also launched Word Life in May. So, not every game make it, but the good news is we've got games that are actually coming out and are worthy of global launch. So, we continue down that path. And like I said, you can expect to see new games coming out of Social Point all the time, but that 10 number is still a good number.

Operator

Our next question comes from the line of Todd Juenger with Sanford Bernstein. Please proceed with your question.

Todd Juenger

Notwithstanding the long list of double digit growth rates in the quarter, I did see those, but I'd love to talk a little bit about growth over the horizon. And I guess, Strauss or Karl, or whoever wants to take it, if there's not that many examples, I can think of companies in your business of your size or bigger that are able to organically grow over time consistently. I just wonder, do you guys subscribe to a view that as a certain size, it gets harder and harder for a company in your business to grow? Do you think that's a false skew? And it begs a follow-on, I'll just keep it to one or two. But, can – does it mean that you guys will have to perhaps start introducing more than one frontline title other than NBA 2K a year? Does online services sort of change that need or replace extra releases and that sort of growth algorithm? And what does that mean for your organization? Just thinking over the horizon of how you keep this going? Thanks.

Strauss Zelnick

Well, I really appreciate it. And yes, you're right, you know, law of big numbers, as the numbers get bigger, of course, growing at the same rate will become more challenging. But we have this wonderful situation in the marketplace, which is that the sector has extraordinary tailwinds, and we expect those to continue. And that's driven by the growth in the cohort that enjoys video games. Remember people consume for the rest of their lives, the entertainment that they love the age of 17, the video game business is about 30 years old, 35 years old effectively, and the average player age today is around 37 or 38. So, plenty of room for growth as people age, more people come into the market, but people don't stop playing video games. So for 20 or 25 years, demographics will grow, will cause the industry to grow and industry participants who do a good job will benefit from that.

We're also seeing growth from geographies that we are currently not involved in, for example, Africa and India, to a lesser extent, Russia, the Middle East, and of course, China where we currently have a meaningful business, but we think there's a lot of growth opportunity there as well.

And third, growth in new business models, new technologies such as streaming and new kinds of games are just observed. 10 years ago, there was no mobile business and today that's \$60 billion marketplace. And at the same time, that sprung up and grown, the core console and PC businesses continue to grow at a rapid clip. So, this industry is the most rapidly growing industry in entertainment and that's not going to change for the next 10, 20, 25 years.

Now with that backdrop, can we fail to execute, of course we can. So, what are we doing about it? First, our focus is on being the most creative, the most innovative, and the most efficient company in the business. We take that incredibly seriously and the reflection of that are the quality of what we do most of the time, and the reflection of that is in the financial results that we're able to deliver more often than not.

Right now, we are increasing -- to your specific question, we are increasing our investment in development. We are increasing our R&D investment. We do expect to enhance our release schedule. We launched Private Division, we bought Social Point. And I think you can expect opportunities are both driven organically and driven inorganically.

So finally, when we took over this company roughly 12 years ago, we had \$700 million in net revenue. This year, we're projecting to \$2.5 billion, \$2.6 billion in net bookings. That is primarily organic growth. We've done a few acquisitions, but primarily that's organic growth. And I'd be low to give you a prediction of an annual growth rate. I can't really do that. But what I can tell you is we're duty bound to deliver new IP every year and new releases of franchise IP; we're duty bound to deliver the biggest and best titles in the business and it's our job to create hits and more often than not, we do that. If we do that, we're going to have a great set of results. And if we can add on some inorganic growth, which is also part of our current strategy, selectively and in a highly disciplined way, then we can deliver even more growth. And one of the -- I always like to say, you can listen to the words, but it's always better to look at the actions because that's probably what will be repeated. And our actions are we deliver hits and we deliver organic growth.

Operator

Our next question comes from the line of Mike Olson with Piper Jaffray. Please proceed with your question.

Mike Olson

Hey. Good afternoon. As you mentioned, GTA is performing better than expected. And I'm sure the majority of that outperformance has to do with development of compelling content from Rockstar. But, just curious, while you don't directly monetize some of the things that have been going on with [indiscernible] et cetera, how much of the strong recent interest in the title is from those types of kind of outside activities positively impacting GTA Online and also helping maintain player engagement or reengage the base?

Strauss Zelnick

We do think it's had a big impact along with the exposure of GTA and the popularity of GTA and Twitch, which has led to this relationship with Twitch Prime that we are super excited about. So it is -- we are all astonished and delighted that six years after the initial release, Grand Theft Auto V and Grand Theft Auto Online are even bigger cultural phenomena than ever. But as you pointed out, what's that driven by. That's driven by the content that Rockstar continues to deliver to the audience and the respect that Rockstar shows its audience, and the desire to keep being on the cutting edge of entertainment. That's our goal around here, and Rockstar personifies the execution of that.

Mike Olson

And then, as previously discussed on the call here, you've got some interesting Private Division titles coming out this year and next. I know it's really hard to say and you don't want to give specific guidance, but maybe just qualitatively, what's kind of the best way for investors to think about potential contribution from those titles, like how additive do you think they can be versus some of your other titles?

Strauss Zelnick

The structure of those titles economically are as we -- if we are able to create hits, they have the same pound for pound economic benefit than any of our other titles around here. So, there is a great opportunity. But that opportunity would be delivered to the extent that we deliver hits. And we never claim success before we have it, ever. That said, our expectations are high. The buzz is very strong. The team there, led by Michael Worosz,

takes the quality part of our strategy exceedingly seriously. They are very disciplined, they are very, very selective. And we're grateful that we get to work with some of the best creators on earth.

Operator

Our next question comes from the line of Ryan Gee with BAM. Please proceed with your question.

Ryan Gee

So, I wanted to understand the accelerating growth for NBA 2K. I know unit sales are up, but beyond that, how much has its performance there been really a function of getting more players to go online versus really growth in ARPU for the existing players? And if it is the latter, what were some of the significant changes you guys have done and how much room do you think there is to push that ARPU button higher? And then, follow-up, I know you guys called out GTA Online has performed really well since the Casino update in terms of player engagement and users. But I don't recall if you said anything specifically about Red Dead coming out of the beta. So, two months on, what are you guys seeing in terms of players and engagement for that title? Thanks.

Karl Slatoff

So, yes, NBA 2K19 is in fact actually exceeding our expectations. It's really changed over the year. I don't know if you recall that we weren't necessarily projecting that units would be higher than they were a year over -- iteration of iteration, now we are significantly, we're already nearly 12 million units at this point. So, it is certainly growth in units that always helps. And we've got a higher base of people playing a game that creates this virtual circle that obviously has a positive effect on RCS as well. So RCS is up 140% quarter-over-quarter -- year-over-year for this quarter. That's a huge change for us. And yes, of course, number of units in getting more players in had a lot of doing that, but also I think how we're more effectively engaging folks, because if people are engaged and we give them more things to do, then ultimately that leads to positive things from an economic standpoint. And some of the things that we've done, because we've learned from the past is that as Strauss mentioned this before as that we're focused on trying to keep people

engaged throughout the entire year. I mean, through the entire season, certainly through the end -- through the summer in the playoffs, through the end of the season and then also through the summer.

And the way that we do that is, first of all, I think the NBA 2K League has driven more interest and that engages folks ultimately and the League just ended a few weeks ago. And also, just a different mix of game modes that appeals to a broader audience and play styles. There is promotional activity that we've tried over the past few months. New player virtual currency bundles and also some late-cycle My Team content. So, it's really a combination of a lot of things that helps drive people to the game, but also giving them more engagement in the game. And if they are more engaged in the game, they're are going to spend more money ultimately. And there's a lot of dry powder there. I would say, we're still in that early innings of learning how to do this the best way.

Strauss Zelnick

Yes. And with regard to Red Dead Online, we said that post coming out of beta in May, the title has been performing better and better, and gaining momentum. But we don't have any more statistics to share, except to say that it's going well, continuing to go better and that we're very, very optimistic.

Ryan Gee

And if I could just sneak one more in there. Lainie, I believe that Borderlands 3, you guys feel better about it. How should we think about the opportunity for that in fiscal '20 relative to the 25 million plus that I think has sold in life-to-date that you guys recently disclosed?

Lainie Goldstein

So, Borderlands 2, we've sold in to-date 22 million units. And it's always our aim to grow each sequel of our franchises from iteration to iteration. And the consumer excitement is incredibly strong. So, we're really excited about the title. And when we looked at our numbers through the remainder of the year, we were able to bring up the forecast based on what we've been seeing.

Operator

Our next question comes from the line of Mike Ng with Goldman Sachs. Please proceed with your question.

Mike Ng

I just have one for, Karl, and one for Lainie. Karl, you mentioned that the Borderlands franchise sold in about 48 million units to date, and I think that's up from 41 million, as recently as February. Could you talk a little bit about how the 7 million units or so sold in the last 5 to 6 months, inform your view about Borderlands 3, if at all, and has that increased your confidence about the title? And then, for Lainie, I think you mentioned the combined results for RCS for GTA Online and RDR will grow this year, excluding the premium unit headwind, including that, would it still grow? Thanks.

Karl Slatoff

So, first, for Borderlands 3, we are very excited about where things are right now from a buzz perspective but also from an economic performance perspective. We probably would have never anticipated that our catalog sales for the previous Borderlands releases would have accelerated as much as they did and that didn't come without real effort and real planning. But I think the response has been -- has certainly outweighed our expectations. So, I would say, if anything in the past couple of months of activity which not just starting with the various marketing -- team of 2K has undertaken. But the actual -- just the promotional activity that we've had and the reaction from consumers where they're actually opening up their checkbooks and spending money, that bodes very, very well for Borderlands 3. So, we're very excited about that.

Lainie Goldstein

So, in terms of Rockstar Online, yes, we said it would grow without the special edition VC allocation, and it's not growing at this moment including it, but it's still early in the year. So we'll see how the year stretches out.

Operator

Our next question comes from the line of Ray Stochel with Consumer Edge. Please proceed with your question.

Ray Stochel

So, digital grew and recurrent spending grew a lot. Is there any way that we can think about the gross margin contraction in the quarter? It looks like some heavy software development costs and royalties. And then, separately, on the expense side, is there any timing that you're calling out around marketing, either pushed or pulled forward in the period? Thanks.

Lainie Goldstein

So, in terms of digital and recurrent consumer spending, it is continuing to help grow the gross margin, and you'll see that on the full year. In the quarter, we have a new release coming out and with that we have additional software expense and development costs. So, that would be a little bit higher in the quarter. In terms of the expenses in, Q1, there was a little bit of marketing that didn't happen during the quarter, that's going to get pushed out for the remainder of the year. You'll see the biggest marketing in Q2 and Q3 around our biggest releases and then it'll come down a little bit in Q4.

Operator

Our next question comes from the line of Clay Griffin with Deutsche Bank. Please proceed with your question.

Clay Griffin

Look, I know you all like for your labels to take the lead and announcing new content and fully appreciate all the color you guys have given on GTA Online for the year. But, I guess, can you just help us think about maybe the relative scale and scope of the content that's planned for this year, perhaps relative to the past couple of years?

Karl Slatoff

Lots more.

Clay Griffin

Okay, great. And then, I guess, just with Stadia, can you maybe talk about the relative ease or difficulty in taking Red Dead and even Grand Theft Auto to that platform from a technical perspective? It would seem like the single player experience at the very least could potentially be very successful there.

Strauss Zelnick

Yes. Technically there, it's relatively seamless. There are some minor challenges, nothing that we can't surmount. We are supportive of Stadia. We feel really good about that release. We've always said that you want to distinguish a distribution technology from a business model, the business model that we're using is one that's tried and true, which is downloading or streaming for sale. And there is not a lot of friction to make our titles available, and Google has been exceedingly helpful. We feel very good about the opportunity. It remains to be seen how the platform works. They're awfully talented and they are very, very committed. So fingers crossed that meets and exceeds consumers expectations

Operator

Our next question comes from the line of Doug Creutz with Cowen and Company. Please proceed with your question .

Doug Creutz

One of the interesting things about this new console cycle is that you and your peers are going to face the need to migrate these large online gaming communities from one gen to another, and one could think there might be some challenges with that especially for titles who don't come on annual basis. As far as Red Dead Online and GTA Online, how are you thinking about that transition? Do you see any particular challenges or opportunities? Is separating the client for the online from the base game something you consider to kind of ease that transition for players? Anything you can say on that would be helpful. Thank you.

Karl Slatoff

From a tech perspective, I mean, one thing to keep in mind is, generations -- if you look at the releases that have happened in the early part of the new generation versus the later part of new generation, it's not necessarily a huge leap. And what you see is generation -- the releases at the end of generation tend to look very different than the releases at the beginning of generation. So, when you're talking about trends with putting games onto releasing games or preexisting games or even games that existed before and you're doing a sequel, bring them to the next -- early on in the generation. There is certainly technical challenge, but you're not necessarily going to be taking advantage of everything that those new generations have to offer. So, it's not as disruptive as you may think. It also presents an opportunity to do something more with something you've got out before. Because one thing is for sure, if you just take something and try to coat it over, it's not necessarily going to generate any buzz. And most of the platforms are really talking about backward compatibility this time around as well. So, that certainly is not going to resonate. So, it is to our challenges, but it's not as disruptive as you may think.

Strauss Zelnick

And just -- I mean, while it's maybe not a perfect analogy, we launched NBA 2K Online 2 in China and NBA 2K Online, the first version is still in market, they are both in market simultaneously. And our recurrent consumer spending is way, way up year-over-year. We have the highest registered user base we've ever had. So, again, I'm not sure it's a perfect analogy, but when you give people something they love and then you continue to support it, and then potentially offer a new version for whether it's a new version of the title itself or new version to reflect a new distribution platform or technology or console cycle, your audience is going to expand.

And your second question about would you ever consider splitting your purchase of a game from an online community. When you use the word ever, we'll consider anything that's good for the consumer and makes sense for us. We're not a rule-based organization. I would just observe though that the metrics around free-to-play are very different than the metrics around console or PC release with a subsequent online event that's ongoing. And it's nice to be in a position where we deliver something with such high quality that consumers are prepared happily to pay an entry price and then will stay

engaged with a title that on a standalone basis could look a lot like a free-to-play title. But by tethering it to the initial release, we pre-qualify the consumer and the economics are obviously vastly more powerful.

So, we're open minded about any business model in the fullness of time. But, I think our current business model is very receptive to the needs of consumers and also speaks to the needs of the producing organization and our creative folks. And as I've said on numerous occasions, whenever you're trying to assess whether a particular business model works in entertainment, look for that intersection of what's good first and foremost for the consumer, and then secondly, what's good for the producer and the distributor. And you have to find the sweet spot that encompasses both of those things or you will have an unstable environment, an environment that either can't support the consumer or can't support the producer or distributor.

Operator

Our next question comes from the line of Alex Giaimo with Jefferies. Please proceed with your question.

Alex Giaimo

Maybe just going back to the question on annualized releases. Do you see an opportunity in the future to bring forward more annualized content outside of WWE and NBA? I know historically you said you don't necessarily believe in non-sports annualized content, but maybe on the sport side, are there any opportunities you're seeing and maybe some other undermonetized sports that might make sense to pursue? And then, quickly if you guys can just provide an update on what you are seeing from the NBA initiatives in China? Thanks.

Strauss Zelnick

So, what we said is, we wouldn't expect to annualize any titles other than sports titles. We have represented other sports in the past, we had baseball, we had boxing, we had hockey, we currently have golf and we are excited about expanding that business to the extent it makes sense for us and for the consumer. But there really aren't that many

powerful sports. And right now the rights are spoken for by some of our competitors. So I don't think you should expect that you're going to see a big array of new titles in the sports environment for us. But we are ambitious and we are open-minded. And if rights became available, I believe we would be at the front of the line given the quality of our development.

In terms of NBA, the NBA in China. Look, NBA is beloved in China and NBA 2K Online in China reflects that. And we think there is a lot of opportunity for growth, particularly in mobile. And as I've said before, I'm of the view, and this has got to be a particularly unpopular view today that the Chinese market will soften, will open up, will be more congenial to all forms of western entertainment. And while that won't happen overnight, we're good participants in the market. We have great local partners, including Tencent. We comply with government restrictions. And we think that it is possible that that market will open up. And we intend to be first in line to the extent that it does. We also would love to see some engagement with regard to the NBA 2K League in China, and we think there is some potential opportunity there with Tencent.

Operator

Ladies and gentlemen, we have reached the end of the question-and answer-session. And I would like to turn the call back to management for closing remarks.

Strauss Zelnick

We'd like to thank you all for your interest and for joining the call. And I think it bears repeating that all of these results are a reflection of the work done by some 5,000 people in our organization worldwide, first and foremost, our extraordinarily creative folks across all four of our label groups and then of course, our business folks who distribute and market the products and account for the numbers and provide legal services and keep all the trains running on time. We have an amazing culture here; we have an amazing array of colleagues. We're all aligned; we're all heading in the same direction. We love what we do; we do so with a smile on our faces. And all of us here are so grateful for the work of all of our colleagues around the world, and I hope that comes across. I just want to also say, it was not clear from this call, we're immensely optimistic about our prospects for the

remainder of this year and for the years ahead. It's a challenge every day, but it's a challenge that we relish and we're proud of what we've been able to do so far. And we all firmly believe this is just the beginning. So, thanks for joining us today.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.