

Activision Blizzard, Inc. NasdaqGS:ATVI

FQ1 2015 Earnings Call Transcripts

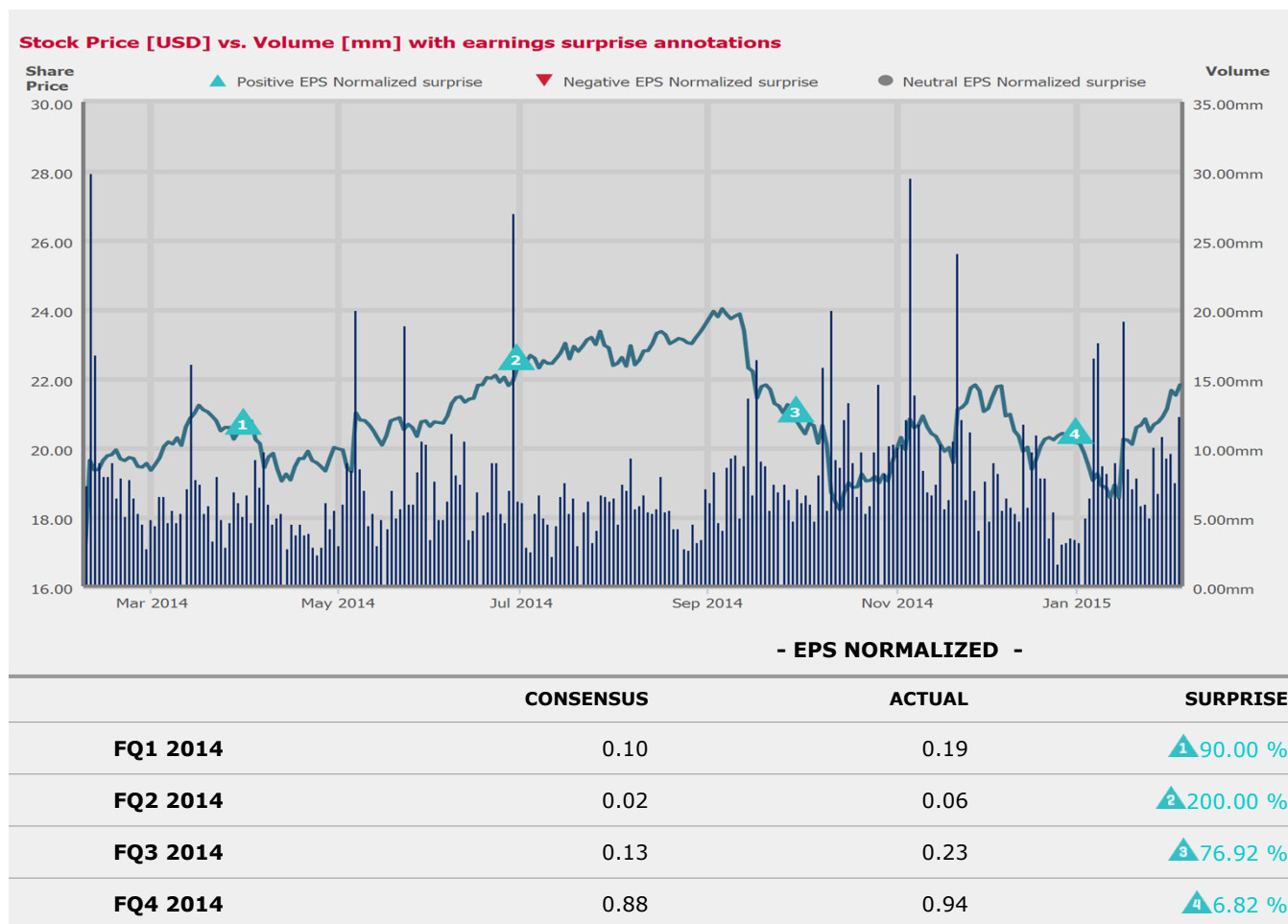
Wednesday, May 06, 2015 8:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-		-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	
EPS Normalized	0.07	0.16	▲ 128.57	0.08	0.07	1.18	
Revenue (mm)	655.36	703.00	▲ 7.27	678.38	650.00	4434.98	

Currency: USD

Consensus as of May-05-2015 8:00 PM GMT



Call Participants

EXECUTIVES

Amrita Ahuja

Dennis Durkin
Chief Corporate Officer

Eric Hirshberg
*Chief Executive Officer of
Activision Publishing Inc &
President of Activision Publishing
Inc*

Michael Morhaime
*Chief Executive Officer of Blizzard
Entertainment Inc & President
Blizzard Entertainment Inc*

Robert A. Kotick
*Chief Executive Officer, President
& Director*

Eric Owen Handler
*MKM Partners LLC, Research
Division*

Thomas Tipl
Chief Operating Officer

Yung Rok Kim
*Piper Jaffray Companies, Research
Division*

ANALYSTS

Andrew E. Crum
*Stifel, Nicolaus & Company,
Incorporated, Research Division*

Arvind Bhatia
*Sterne Agee & Leach Inc.,
Research Division*

Brian J. Pitz
Jefferies LLC, Research Division

Colin Alan Sebastian
*Robert W. Baird & Co.
Incorporated, Research Division*

Douglas Lippl Creutz
*Cowen and Company, LLC,
Research Division*

Presentation

Operator

Good day, and welcome to the Activision Blizzard Quarter 1 2015 Earnings Conference Call. Today's conference is being recorded.

At this time for opening remarks and introductions, I would like to turn today's call over to Amrita Ahuja. Please go ahead, ma'am.

Amrita Ahuja

Good afternoon, and thank you for joining us today for Activision Blizzard's First Quarter 2015 Conference Call. Speaking on the call today will be Bobby Kotick, CEO of Activision Blizzard; Dennis Durkin, CFO of Activision Blizzard; Eric Hirshberg, CEO of Activision Publishing; Mike Morhaime, CEO of Blizzard Entertainment; and Thomas Tippl, COO of Activision Blizzard.

I would like to remind everyone that during this call, we will be making statements that are not historical facts. These are forward-looking statements that are based on current expectations and assumptions that are subject to risks and uncertainties.

A number of important factors could cause the company's actual future results and other future circumstances to differ materially from those expressed in any forward-looking statements, including the factors discussed in the Risk Factors sections of our SEC filings, including our 2014 Annual Report on Form 10-K, which is on file with the SEC, and those indicated on the slide that is showing.

The forward-looking statements in this presentation are based on information available to the company as of the date of this presentation, and while we believe them to be true, they ultimately may prove to be incorrect. The company undertakes no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after today, May 6, 2015, or to reflect the occurrence of unanticipated events.

I would like to note that certain numbers we will be presenting today will be made on a non-GAAP basis, excluding the impact of the change in deferred net revenues and related cost of sales with respect to certain of our online-enabled games; expenses related to stock-based compensation; the amortization of intangible assets; expenses including legal fees, costs, expenses and accruals related to the purchase transaction and related debt financing; and the associated tax benefits.

Please refer to our earnings release, which is posted on www.activisionblizzard.com for a full GAAP to non-GAAP reconciliation and further explanation. There's also a PowerPoint overview, which you can access with the webcast and which will be posted to the website following the call. In addition, we will also be posting a financial overview highlighting both GAAP and non-GAAP results and a 1-page summary sheet.

And now I'd like to introduce our CEO, Bobby Kotick.

Robert A. Kotick

Chief Executive Officer, President & Director

Thank you, Amrita. Usually, I end my remarks by thanking our incredibly talented, extraordinarily committed employees around the world. But today, I'm leading with it because they are in fact the reason we remain one of the world's most successful game companies. And also during this quarter, for the first time, we were recognized by Fortune as one of the 100 Best Companies to Work For. Inclusion on this list is largely determined by employee survey results, and to be recognized as a great place to work by a respected institution like Fortune is gratifying and rewarding. But being acknowledged as a great institution by our own people means more to me than just about anything. And I'd like to thank our wildly talented, inspired, driven and hard-working teams for everything they do to capture the imagination of tens of millions of people day after day.

Our talented teams around the world continue to create experiences that inspire our players, drive deeper levels of engagement in our games by our massive and growing global communities of fans. In the last 12 months, we had over 150 million active users around the world playing our games for more than 12 billion hours and spectators watching over 1 billion hours of linear content based on our games. In the hour we'll spend on this conference call, we expect over 1 million people to interact with Activision Blizzard franchises alone. And in the past year, our communities grew by more than 25%.

This deepening level of engagement with a widening base of players across our franchises is what drove another successful quarter. We delivered better-than-expected Q1 results, increased our 2015 non-GAAP revenue outlook to \$4.425 billion and our earnings per share outlook to \$1.20 per share. On a non-GAAP basis, we delivered record higher margin digital revenues of over \$0.5 billion, a first quarter record on an absolute basis and an all-time high on a percentage basis.

As we celebrate our 35th anniversary, we continue to create extraordinary entertainment for our fans. We couldn't be more excited to continue to do so for another 35 years. Our greatest achievement continues to be our ability to attract and retain the most talented employees around the world and because of that, I have never been more excited or confident about our future.

And now I'll turn the call over to Dennis.

Dennis Durkin
Chief Corporate Officer

Thanks, Bobby. Good afternoon, everyone. Today, I will review our better-than-expected Q1 financial results, our outlook for Q2 and our increased outlook for 2015.

Q1 was a great quarter that displayed strong trends on our year-round monetizing franchises. We overperformed our non-GAAP February guidance by over \$60 million on revenue, \$100 million on operating income and \$0.11 on EPS. Even though we had a relatively lighter slate in Q1 this year, non-GAAP revenue and EPS were flat to Q1 last year on a constant FX basis given strong digital trends. Non-GAAP digital revenues comprised a record percentage of overall revenues, up 800 basis points year-over-year.

Turning to our financial results. Please refer to our earnings release for full non-GAAP to GAAP reconciliations. Also, the numbers I'll be quoting are compared to the prior year unless otherwise noted. For the quarter on a GAAP basis, we generated revenues of \$1.3 billion, up 15% year-over-year; an operating margin of 43%, up from 37% last year; and a record quarterly GAAP EPS of \$0.53, up 33% year-over-year and up \$0.16 versus our February guidance.

For the quarter on a non-GAAP basis, we generated revenues of \$703 million, an operating margin of 29% and EPS of \$0.16. Of the \$0.11 in non-GAAP EPS over performance versus guidance, about \$0.05 was related to timing for costs that shifted out of the quarter and about \$0.06 was related to strong franchise momentum, including digital sales and engagement trends with our large community of fans.

Activision Publishing had a strong Season Pass, downloadable content and expansion attach rates on both Call of Duty and Destiny. Console full game downloads represent a high-teens share of total units and continued to increase year-over-year. Blizzard Entertainment had a steady and strong performance on Hearthstone with ongoing engagement on the Q4 expansion, Goblins vs Gnomes.

As mentioned during our February earnings call and consistent with our experience following prior expansions, we saw a decline in World of Warcraft subscribers. Subscribers ended the quarter at 7.1 million. World of Warcraft's revenue performance at constant FX has been more stable, driven by continued strong uptake on value-added services and price increases in select regions, which partially offset the subscriber declines particularly in the east.

Moreover, Blizzard has successfully expanded their portfolio over the recent past and continues to do so. Growth from franchises like Hearthstone and Diablo had boosted Blizzard's top line and had pushed Blizzard's non-World of Warcraft revenue streams from 30% of total revenue in 2013 to 40% of total revenue in 2014, even while the World of Warcraft revenues also increased in that period. And new

franchises like Hearthstone and Heroes of the Storm are expected to further expand non-World of Warcraft revenues to more than 50% share of the Blizzard business in 2015. So strong recurring franchise diversification is in process inside the Blizzard portfolio, which sets us up for a bright 2016 and beyond.

Turning to specific P&L items. Please note that all percentages are based on revenues except for the tax rate. For Q1, GAAP product costs were 20%, operating expenses were 37% and operating margin was 43%. GAAP and non-GAAP interest expense was \$50 million and our GAAP tax rate was 20%. Our GAAP and non-GAAP fully diluted weighted share count was 741 million, including participating securities. On a non-GAAP basis for the quarter, product costs were 21%, operating expenses were 50% and operating margin was 29%. Our adjusted EBITDA margin was 32%. Our non-GAAP tax rate was 24%.

In terms of cash flow, in Q1, we generated strong cash flow with non-GAAP adjusted EBITDA of \$223 million, operating cash flow of \$209 million and free cash flow of \$188 million after CapEx. We also repaid \$250 million of our term loan in February and next week, on May 13, we plan to pay a \$0.23 per share cash dividend or approximately \$167 million in aggregate to shareholders of record as of March 30.

Turning to the balance sheet. As of March 31, we had approximately \$4.5 billion in cash and investments, of which over \$1 billion was held domestically. We had total debt of \$4.12 billion and net cash of \$360 million.

Turning to FX. Please note that as discussed on our February call, currency fluctuations continue to be a headwind that we will monitor. In Q1, the year-over-year impact of the strengthening dollar was \$68 million on revenue and \$0.03 on EPS. As mentioned, both revenue and EPS would have been flat year-over-year at constant FX. In summary, Q1 was a very strong start of the year for Activision Blizzard. So now let's turn to our slate and our outlook for Q2 and for the balance of 2015.

Our expected Q2 slate from Activision Publishing includes additional downloadable content releases from Call of Duty and Destiny and continued live operations during the open beta for Call of Duty Online in China. Blizzard Entertainment's Q2 slate is a robust offering across the portfolio, including Hearthstone's new adventure, Blackrock Mountain; Hearthstone's important iOS and Android smartphone releases; Diablo III's launch in China; StarCraft: Legacy of the Void's closed beta; and Heroes of the Storm's launch in June. In Q2, we also expect to begin the ramp in sales and marketing spending for our major releases in the back half the year.

Now to the numbers. For Q2 on a GAAP basis, we expect net revenues of \$930 million, product costs of 20% and operating expenses of 52%. We expect GAAP and non-GAAP interest expense of \$50 million, a GAAP tax rate of 25%, a GAAP and non-GAAP share count of 745 million and EPS of \$0.21. For Q2 on a non-GAAP basis, we expect revenues of \$650 million, product cost of 19% and operating expenses of 63%. We expect a non-GAAP tax rate of approximately 26% and non-GAAP EPS of \$0.07.

Our expected Q3 and Q4 slate from Activision Publishing is one of the strongest we've ever had, including the biggest addition to the Destiny universe yet, Call of Duty: Black Ops III, which we are very excited about; a new innovative release for Skylanders; and the return of one of our most beloved IPs with Guitar Hero Live as well as further ramp up of our audience playing Call of Duty Online in China. Blizzard Entertainment will bring additional content and live service updates to World of Warcraft, Hearthstone and Heroes of the Storm as well as bring Overwatch into closed beta.

Now to our 2015 full year numbers. For 2015 on a GAAP basis, we expect revenues of \$4.25 billion, an increase of \$110 million versus our guidance in February; product cost of 23%; and operating expenses of 50%. For both GAAP and non-GAAP, we expect interest expense of \$202 million. Our GAAP tax rate is expected to be 22%. We expect 750 million fully diluted shares both for GAAP and non-GAAP, and GAAP EPS is expected to be \$0.98, up \$0.09 from our February guidance. For 2015, on a non-GAAP basis, we expect revenues of \$4.425 billion, \$25 million higher than our February guidance; product cost of 24%; operating expenses of 45%; and an operating margin of 31%, 100 basis points better than our February guidance. Our non-GAAP tax rate is expected to be 24%.

For the year, we are raising our full year outlook by \$0.05 to \$1.20. As I mentioned earlier, strong business momentum in Q1 amounted to \$0.06 of EPS favorability, which is partially offset by \$0.01 of FX

headwind given the further strengthening of the dollar since we last gave guidance in February. See our accompanying earnings materials for FX assumptions.

So in summary, the transition to digital continues inside of our business, helping to further drive our year-round engagement and monetization model where our community can play and invest in their experiences throughout the entire year. Along with these digital trends, our strategic investments in new franchises, platforms and geographies are paying off and set the stage for growth ahead.

Now I will turn the call over to Eric to discuss Activision Publishing.

Eric Hirshberg

Chief Executive Officer of Activision Publishing Inc & President of Activision Publishing Inc

Thanks, Dennis. Activision Publishing is off to a great start and in Q1, we significantly outperformed last year's results with revenues up 28% year-on-year. We have 2 of the top 5 video game franchises globally year-to-date. We continue to have 3 of the top 5 next-gen games life-to-date with Call of Duty: Advanced Warfare remaining the #1 title on next gen as it has since its launch 6 months ago. Including toys, Skylanders is also the #1 console franchise and title globally in Q1, outsold the #1 action figure line globally and of course, was the #1 kids console franchise and title globally.

Over the past few years, we have methodically and effectively expanded our portfolio, which now includes 3 industry leading franchises, each one of which keeps players engaged all year round. This engagement creates a virtuous cycle: great content leading to large engaged communities, leading to our ability to monetize those communities by providing more great content. This is why we have the biggest Q1 online player community in our history, up double-digit percentages year-over-year. And it is also why based on our current trajectory, Activision Publishing will likely deliver our biggest year yet of digital revenues.

So let me share a few more specifics by franchise, starting with Call of Duty. In the first quarter, revenue was up by double-digit percentage year-over-year due to the strong sell-through of Advanced Warfare and growing online revenues per user across our recent Call of Duty titles. Sales of Season Pass and Map Packs were up significantly, and we introduced a new consumable digital mechanic in Advanced Warfare, which drove engagement and allowed our players to invest more deeply in their online experience.

We recently revealed Call of Duty: Black Ops III from our award-winning studio Treyarch. Nearly 100 million players have played Black Ops and Black Ops II, making Black Ops the most played series in Call of Duty history. In fact, Call of Duty: Black Ops II, originally released in 2012, continues to exhibit record-setting engagement this long after release with millions of actively engaged players who are now eager for the next installment of the series.

Black Ops III is Treyarch's first 3-year development cycle, and they've been making the most of it with unparalleled depth of content across 3 modes of play. The campaign can be played as full single player game or as a co-op game with up to 4 players. The multiplayer experience is the deepest we've ever offered in Call of Duty, and the mind blowing third mode, Call of Duty Zombies experience that features its own XP progression system for the first time.

Another benefit of the 3-year cycle is that we've been able to get the press hands-on with the game earlier than ever before, and their response has been phenomenal. In fact, positive media sentiment is double what it was last year, and mind you, last year was our previous high-water mark. We're confident that anyone who gets their hands on the game will agree, which is why we're going to have hands-on multiplayer at E3 as well as this year, our first beta in years. Fans who preorder the game now on Xbox One or PlayStation 4 or PC will have access to the beta.

On to Call of Duty Online, which commenced open beta in January in China, the largest gaming market in the world. We're seeing good early trends especially with high engagement from core first-person action players. As we said on our last call, this is a game and a business model that will take time to ramp, and we're now working with our partner, Tencent, to expand our audience base. We continue to be enthusiastic both about the opportunity in China and about the long-term prospects for our game.

Turning now to Destiny, which continues to have incredible online engagement from millions of active players. In fact, these players are still playing on average about 3 hours a day as they have been since launch with strong digital sales and expansion attach rates. In all, Destiny has now received 299 awards, including 31 wins for Game of the Year, most recently adding Action Game of the Year from D.I.C.E. and Game of the Year at the BAFTAs. And every day, our great partner at Bungie continues to make the game and online experience better.

Later this month, we plan to launch Destiny's second major expansion pack, House of Wolves, yet another great piece of content to keep our fans engaged. In the fall, we'll have a major release which will be the biggest content addition yet to the Destiny universe and you'll hear more about that soon.

On to Skylanders, the industry's top console franchise and title of the year so far. Skylanders has its own unique engagement and monetization loop, real world toy purchases that enable new and different play experiences in the game and which roll out in waves for our fans throughout the year. As with our other franchises, Skylanders average revenue per user has grown year-over-year. And while the toys to life category that we created is increasingly competitive, we believe it remains highly attractive and one that we will continue to lead with industry best innovation and game play. We'll have more details to share soon about the next installment in the Skylanders franchise, which will once again bring fresh innovation to the category and expand the audience even further.

Finally, Guitar Hero. In April, we announced a fall 2015 return for the beloved franchise, which has been played by over 40 million gamers. Consumers' affinity for the brand remains incredibly strong, and we spent years developing meaningful creative innovation. The new Guitar Hero game is one game with 2 ways to play: Guitar Hero Live lets fans rock real crowds with real reactions; and Guitar Hero TV is the world's first playable music video network, which offers hundreds of songs and additional content to constantly engage our players. The game will be available across consoles, smartphone and tablet devices. The fan and media response to our reveal has been overwhelmingly positive, and we couldn't be more excited to share additional details later this summer.

Overall, we had a great start to 2015 across our portfolio of titles, and we look forward to sharing more news with you at E3. So thanks, and I'll now turn the call over to Mike to talk about Blizzard.

Michael Morhaime

Chief Executive Officer of Blizzard Entertainment Inc & President Blizzard Entertainment Inc

Thanks, Eric. Compared to last year's launch of Hearthstone, Diablo III: Reaper of Souls and presales for Warlords of Draenor, this year's Q1 was relatively quiet for Blizzard Entertainment. Despite this, we continue to have strong performance in terms of engagement. Without any major launches, Battle.net still ended the quarter with the largest Q1 player community in our history, up double-digits percentage-wise year-over-year. This reflects ongoing strength across our portfolio of games.

On the World of Warcraft front, we launched the first Warlords of Draenor update in Q1, adding new content, Twitter integration and more. This update increased stability in the last few weeks of the quarter. Warlords of Draenor brought more players back than any previous expansion and showed that even long time lapsed players will return when the right content is offered. On that note, we recently revealed the next major update for the game, which will add a ton of new content that will appeal to players across a range of play styles. That's currently on our public test realm, and we're looking forward to getting it into players hands as quickly as possible.

We also announced the WoW Token System. Players who purchase a WoW token priced at \$20 can exchange that token with another player for gold. The player who received the token can then redeem it for 1 month's game time or a set amount of play time in China. This provides 2 benefits. It enables players to pay for their subscriptions with their gold, and it provides players with a secure method for purchasing gold in-game. We just launched World of Warcraft Tokens in April so it's too early to see the long-term impact, but many players welcome this service and have been using it actively.

This was also a big quarter for Heroes of the Storm, our highly anticipated online team brawler. More than 11 million people have signed up for the closed beta test, which went live in January. We're seeing a lot of

anticipation in the gaming community, and we're continuing to collect great feedback from our beta testers as we drive towards the launch on June 2.

To showcase the action and depth that the game offers, we recently sponsored a collegiate eSports tournament, which we dubbed Heroes of the Dorm. Thousands of players formed teams at over 460 schools across the U.S. and Canada. And similar to March Madness, we created a 64 team bracket after a few qualifying rounds. Those teams then battled their way to the finals, which were televised live by ESPN. This was the network's first-ever live telecast of a collegiate eSports event. The competition was intense throughout the tournament, and we saw the formation of many potential Heroes of the Storm college rivalries. I'd like to congratulate the Cal Berkeley Golden Bears on their championship victory. We also saw widespread positive commentary across a range of online communities about the event. This is a testament to the fact that Heroes of the Storm is not only fun to play, it's fun to watch. We think it has great potential as a spectator sport.

Q1 was also an important quarter for Hearthstone. Despite no new content releases, engagement and revenues were steady quarter-over-quarter and in fact, have remained relatively stable since launch. The performance for the quarter was driven by a sustained pickup of Goblins vs Gnomes. Players have really enjoyed the mechanics of the new cards, and we've seen some incredibly creative deck strategies.

During the last 2 weeks of March, we held presales for our second adventure, Blackrock Mountain. We were pleased to see that enthusiasm for the new content was even stronger than it was with Curse of Naxxramas last August, with 40% more sales in the same time frame. That enthusiasm continued with the launch of Blackrock Mountain in April, which was followed by the iPhone and Android phone versions of Hearthstone a few weeks later. The mobile phone versions pushed Hearthstone to the #1 spot for game downloads in over 25 countries across North America, Europe and Asia and quickly drove the game to a new milestone of more than 30 million players. Hearthstone continues to be very popular with players worldwide, and we're already hard at work on our next release for the game.

We also recently started beta testing the Chinese version of Diablo III together with NetEase in March. There has been a lot of anticipation for the game in China with about 3 million players signing up for the closed beta test. Two weeks ago, we launched the open beta test, opening up the game to everyone else in China. Chinese players are able to access the base experience for free and can buy much of the content from Reaper of Souls via an add-on, which is already available for purchase across 2 offerings priced at \$32 and \$64. In fact, we just announced with NetEase that Diablo III has already achieved over 1 million unit sales in China, which is a fantastic reception from the community. We look forward to building on that momentum as we drive towards the commercial launch.

Lastly, at the end of the quarter, we kicked off the closed beta test for Legacy of the Void, the final chapter of StarCraft II. We know the StarCraft community is eager to play through the conclusion of the story, and we've already seen great positive feedback about the game's new multiplayer features. Archon Mode, which allows 2 players to team up and share control of an army, has gotten a very enthusiastic response. We're excited about this feature in particular because it greatly increases accessibility for the game. As I mentioned previously, Legacy of the Void will be a standalone expansion that doesn't require either of the first 2 releases. So it will be easier to have -- for players to get into the game and experience all of the latest content.

On the eSports side, Season 1 of the StarCraft II World Championship Series came to an exciting conclusion with our finals event in France at the beginning of April. Season 2 is now underway, and the finals are set to take place at the Metro Convention Centre in Toronto at the end of June. It's a thrill to see the top StarCraft II players in the world compete for a spot in the Global Finals, so I hope you'll tune in online if you can't make it in person.

To recap, we had a great start to the year. With more games in more genres and on more platforms than ever before, it doesn't look like things will be slowing down anytime soon. We announced that BlizzCon 2015 will take place at the Anaheim Convention Center on November 6 and 7, and tickets for the event sold out quickly once again. We're going to have a lot to talk about at the show as well as in the months ahead.

So now I will turn the call over to Thomas.

Thomas Tipl

Chief Operating Officer

Thanks, Mike. Before we open the call to Q&A, I'll take a moment to summarize the key takeaways from today's call.

First, 2015 is off to a great start. We over-delivered the plan for Q1 and raised our full year guidance, which now projects year-over-year EPS growth from operations. And even more important for the long-term prospects of our business, we saw a 25% increase in the size of the player community that engages with our games.

That leads me to the second key takeaway from today's call. We are successfully transitioning our business to a digital year-round engagement model where our community can play and invest in their experiences not just at launch but throughout the year. This is important because it allows us to improve the player experience by delivering fresh content on a frequent basis, while at the same time creating value for our shareholders through deeper and higher margin monetization of the audiences we serve.

Lastly, our strategic investments in new franchises, platforms and geographies continued to pay off and along with growing engagement and better monetization, sets the stage for growth ahead. We are well on the way to expanding our franchise portfolio from 5 to over 10 with 4 new intellectual properties already in market. The 2 IPs we launched last year, Destiny and Hearthstone combined, now have over 50 million registered players and nearly \$1 billion in non-GAAP revenues life-to-date. We have 2 new free-to-play franchises in beta, Call of Duty Online and Heroes of the Storm. We also recently announced that this fall, the beloved Guitar Hero franchise will return with product innovation that we couldn't be more excited about, and Overwatch is on the horizon with a beta this fall. We have an increasing focus on mobile and tablet with Hearthstone's release on iOS and Android smartphones and Guitar Hero Live's planned released to also include mobile and tablet at launch.

Finally, we are positioned for growth in new geographies and in particular, in the large and fast-growing China market. We now have 6 franchises in market in China: World of Warcraft, StarCraft, Hearthstone, Heroes of the Storm, Diablo and Call of Duty Online, up from 2 at the end of last year -- sorry, at the beginning of last year rather.

So now let's take a few questions.

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Eric Handler at MKM Partners.

Eric Owen Handler

MKM Partners LLC, Research Division

First, for Mike. With regards to Hearthstone, I think you touched on this briefly. But with the addition of the smartphone SKUs, how has that increased player engagement as well as impacted monetization? And then I wonder if you have the data about how many players are actually playing on multiple devices?

Michael Morhaime

Chief Executive Officer of Blizzard Entertainment Inc & President Blizzard Entertainment Inc

Okay. Thanks for the question. The response to the phone version has really been very positive globally. We've seen an increase in new players. As I said, it's pushed us past the 30 million player mark. We're very excited about that. Overall, engagement and revenue levels have increased meaningfully with the release of the phone version, and they continue to be strong. So we're not breaking down usage across platforms, but I think it is important to note that Hearthstone is a little bit unique, and that is a shared ecosystem. So many of our players do choose to play across multiple platforms, and they have access to the same cards regardless which platform they're playing on.

Operator

And we'll go next to Colin Sebastian at Robert Baird.

Colin Alan Sebastian

Robert W. Baird & Co. Incorporated, Research Division

Sounds like the initial reception for Black Ops III has been quite positive, and wonder if you could add a little more specific color on how the 3-year development cycle is benefiting the game and then how it will be differentiated from prior versions of Black Ops and even from Advanced Warfare. I think in the surface at least, there appear to be some similarities between the titles.

Eric Hirshberg

Chief Executive Officer of Activision Publishing Inc & President of Activision Publishing Inc

Thanks, Colin. Well, the first and I think most obvious advantage of the 3-year cycle is just pure creative quality. That third year allows us more time to innovate and iterate and more time to polish, and this is Treyarch's first Call of Duty game with that time period to develop. So the first answer is it's just going to be a great game. Secondly, you've heard a lot of talk today about driving engagement being key to our business strategy and as I mentioned, Black Ops is the most played series in Call of Duty's history. But beyond just that pedigree of both Treyarch and the Black Ops series, the 3-year cycle has also allowed us to put a deeper offering on the disk. The MP, the multiplayer game, is going to be the deepest and we think the stickiest we've ever made. The Zombies is going to be deeper than ever, and it's going to have our first XP progression system, which we think will also drive engagement. And of course, the campaign has big innovations in it as well. As I mentioned, you can play it as a single player game or as a co-op game with up to 4 friends. So that drives not only increased engagement but replayability because there's more variability in the experience. In terms of the differences with past Black Ops games and Advanced Warfare, the answer is honestly we're building on successes of all of those games, but we're also bringing a lot of fresh ideas. I understand what you mean when you say you see similarities with Advanced Warfare. I think the movement system in Black Ops III picks up where Advanced Warfare's left off, but improves it and makes it more athletic and intuitive and smoother than ever before. And that's been a big theme we've heard from the press who got hands on with the game at reveal, which we've never been able to do before, which is another good advantage of the 3-year cycle. So I think anyone who gets their hands on the game is going to agree, which is why we're doing hands-on at E3 for the first time,

in MP in a long while as well as our first beta in years. So we're really bullish on the content and think it's going to be a great experience.

Operator

We'll go next to Arvind Bhatia at Sterne Agee.

Arvind Bhatia

Sterne Agee & Leach Inc., Research Division

Quick question on Heroes of the Storm. Just wondering, we appreciate all the commentary, Mike. Just wondering if you could maybe talk about the monetization opportunity here, this year and then just the ramp you're expecting over the coming years and maybe how you differentiate versus your competition.

Michael Morhaime

Chief Executive Officer of Blizzard Entertainment Inc & President Blizzard Entertainment Inc

Thanks. Well, first, we're really excited that the launch is just a few weeks away, occurring on June 2. The team has really worked hard in fine-tuning the experience to make it fast, fun and easy to get into. And I do think that relative to some of the other options in the genre, it is easier to get into Heroes. And I think judging by the response that we've gotten from our recent Heroes of the Storm tournament, I think it's easier to watch as well. The feedback that we've been getting from the closed beta test has been very positive. There's a lot of great buzz around the game. We've had, like I said, over 11 million people signing up for the beta test, so there's a lot of anticipation there. As you know, it's a very popular genre. I think the fact that this is a digital game with long-term content opportunities, we're very optimistic about Heroes of the Storm and how it can grow to become another key game in our portfolio. And I think in terms of how the monetization curve will look, we expect to get started strong on June 2, and we are hoping that, that will grow over time.

Operator

And we'll go next to Doug Creutz at Cowen and Company.

Douglas Lippl Creutz

Cowen and Company, LLC, Research Division

You guys only invest in projects if you believe there's a meaningful needle-moving opportunity, and obviously Guitar Hero was a property that moved the needle for you several years ago. But since then, the market has changed a lot particularly relating to what casual gamers are doing these days. So what do you see in the market now that leads you to believe that this can be a profitable investment for you?

Eric Hirshberg

Chief Executive Officer of Activision Publishing Inc & President of Activision Publishing Inc

Thanks, Doug. Well, yes, a lot has changed in the market in that time and we think for the better in terms of our prospects with Guitar Hero. The first thing is that we think we have a great game innovation and that the franchise needs that. And we said when we put it on ice 5 years ago that we wouldn't bring it back unless we really had a breakthrough creative way to bring it back, and we think that we have that. In terms of the way the market itself has changed, first of all, online social play has transformed gaming over the past 5 years, and GHTV is going to be constantly updated with new content to keep the game fresh and to keep people engaged, and it also allows people to compete online with their friends in a highly social way. We think this has the potential to have the kind of sticky long-tail engagement that defines the rest of our portfolio and our major franchises. Second, the game's been on the market for 5 years and during that time, we've had a console transition. We now have powerful new consoles in the marketplace that give us the opportunity to deliver that rockstar fantasy in a more vivid and visceral way with (sic) [than] ever before. It's just what the Live mode is really going to do. Third is mobile has had explosive growth over the last 5 years with casual players. And one of the breakthrough innovations is that you'll be able to have the entire experience on mobile, and this is a great experience both on the go, on the glass or with the full experience with the guitar in your big screen TV. So we think that's a big innovation for us and a big opportunity for us as well. And finally, as I mentioned at the reveal, we've improved and

innovated on the guitar itself, managing to make it both easier and more accessible to a casual player, while also managing to make it more challenging than ever for an advanced player. So we think we're going to widen the appeal of the game in that score as well. And also, we mentioned we're -- that guitar is going to be forward compatible with any additional games that come out. That's going to be a better consumer experience we think this time around. It's going to focus us on innovating on the software and keeping the game more engaging as opposed to the hardware like last time around.

Operator

And we'll go next to Drew Crum with Stifel.

Andrew E. Crum

Stifel, Nicolaus & Company, Incorporated, Research Division

So as it relates to Destiny, Eric, can you talk about in more detail the plans around the more expansive DLC coming in the fall that you alluded to? And to the extent you're willing to discuss, any updates on future console titles for this franchise?

Eric Hirshberg

Chief Executive Officer of Activision Publishing Inc & President of Activision Publishing Inc

Yes, of course, I would love to, Drew, but we don't have any new announcements today. But obviously, a constant stream of robust content is integral to our plans on Destiny. And I would say both the expansiveness of the universe as well as the innovation that Bungie's established with bringing together the best of both first-person action games with MMORPG has led Destiny to become already, I think, one of the most engaging games ever. As I said, the active Destiny players are still playing for about 3 hours a day, which is just remarkable amounts of engagement from a large and passionate player base. So this points to exactly the kind of model that I spoke about for all of our games: great content, leading to large audiences, leading to our ability to monetize those communities by providing more great content. So the answer is we have a very robust content plan for Destiny starting with our second major expansion pack, House of Wolves, which has already been announced. And then you'll also see content engaging -- content being dropped throughout the summer. And then in the fall, we will have a major release, which will be the biggest addition to the Destiny universe yet across all modes of play. Unfortunately, I don't have more details than that today, but we're confident it's going to be incredibly appealing, not just to our current fans but also to people who haven't yet joined the Destiny universe. It's going to be that big of an expansion.

Operator

And we'll go next to Brian Pitz with Jefferies.

Brian J. Pitz

Jefferies LLC, Research Division

A quick question on digital. What was your mix of digital business in the quarter? And can you provide any commentary on how this is trending?

Dennis Durkin

Chief Corporate Officer

Brian, it's Dennis here. Just regards to digital mix, it's obviously the highest we've ever had on a quarterly percentage. It was at 76% for the quarter. When you look back a couple years ago, our digital mix was in the mid-30s and then for the full year 2013 -- in full year 2014, it got into the mid-40s. Obviously, we're out of the blocks really strong in the beginning of this year. It's really driven by the full game download on the console, which is obviously transitioning over time. We're now seeing it in the high teens in terms of percentage mix of revenue. And then across the business and really across all of our franchise is the add-on digital content and services that we're seeing to drive ongoing player engagement that all of the guys have talked about today. So all of this is really driving that mix up, and we'll see that continue to grow north of 50% across this year and will be a nice tailwind for the business in the coming years.

Operator

And we'll take our final question today from Michael Olson at Piper Jaffray.

Yung Rok Kim

Piper Jaffray Companies, Research Division

This is Yung Kim in for Mike. Activision has made a significant push into eSports between Call of Duty, World of Warcraft, [indiscernible] and Heroes of the Storm. How should we think about the opportunities there? Is it more marketing? Or is it directly monetizable?

Robert A. Kotick

Chief Executive Officer, President & Director

That's a great question. This is Bobby. For starters, what we've always found is eSports has been a great way for us to celebrate our players, and that's really been the principal focus of the company's initiatives. There may be commercial opportunities in the future. In fact, we expect there will be more commercial opportunities in the future. But right now, you have so many players around the world who dedicate so much of their time and their energy and their passion playing our games that we never really want to take that for granted, and this is the way to celebrate them. You've seen a lot of value created so far with star players, and we have players who are earning over \$1 million a year between endorsements and winnings. Then you've seen opportunities for shoutcasters at professional events who are also earning meaningful revenues, and then for our players themselves who are narrating their own game play and are now starting to develop millions of fans. And then we have gamers who are competing in prize events like Blizzard's Heroes of the Storm that we just hosted last weekend. We gave away college scholarships to Berkeley, the winning team. And we recently also had the Call of Duty Championships where we paid out \$1 million in prize money. So if you look at the numbers of spectators that are now watching game play, you're probably looking at, just for our content alone last year, somewhere around 1 billion hours of spectating of linear play. And so from a lot of perspectives, it's something that when we look out into the future, we are incredibly excited about both as way to really recognize our players' investment and commitment, but also from a commercial perspective.

Operator

And that does conclude today's conference. We thank you for your participation.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2017 Capital IQ, Inc.