

Technology Companies Acquiring Game Companies: Evidence from Microsoft's Acquisition of Activision Blizzard

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Abstract. With the rapid development of the game industry and the continuous advancement of technology, the game industry has experienced various kinds of mergers and acquisitions cases one after another. Contemporarily, many companies try to optimize their strategic layout in the metaverse industry. This paper chooses the acquiring of Blizzard by Microsoft as a specific example to investigate the acquisition of game companies by technology companies. Primarily, the acquisition parties and the acquisition information in the case are introduced from macro and micro perspectives respectively. In addition, this article analyzes and predicts the performance of the acquisition from market, financial and risk perspectives. Finally, it summarizes conclusions of the study and makes recommendations to address the problems. According to the analysis, the forecast for this acquisition is basically positive, which is beneficial to Microsoft's development in the game industry and metaverse. Meanwhile, there are also risks in various aspects (e.g., information asymmetry, culture and management risks), which can be reduced by strengthening the research and integrating the management mode. These results shed light on guiding further exploration of similar M&A cases.

Keywords: Microsoft; Acquisition; Metaverse.

1. Introduction

Acquisitions and mergers are an important means of improving the allocation of corporate resources. Since the second industrial revolution, there have been six larger waves of M&A acquisitions. From horizontal mergers and acquisitions mainly in the same industry, vertical mergers and acquisitions across industries, to diversified mixed mergers and acquisitions, and thereafter due to hostile takeovers, corporate sniping and other behaviors that form the M&A divestiture of companies [1]. The rapid development of information technology has led to an increase in the number of M&A transactions and the formation of large-scale strategic M&A, which has gradually developed into global M&A with international competition. Due to the progress in productivity and technology, the trend of the M&A industry has gradually evolved from the traditional manufacturing and mining industries to the new economic era of high-tech information technology industries and financial industries, with an increasingly significant internationalization trend [2].

Since 2020, the epidemic has led to a strong demand for home entertainment, and gaming, the largest and fastest-growing form of entertainment today, has seen its industry acquisition value continue to soar. According to investment bank Drake Star Partners, the number of deals in the first half of 2021 was 635, valued at \$60 billion, compared to \$85 billion for the year; more than 651 deals have been announced or completed in the first half of 2022, with a public value of \$107 billion. Well-known game companies such as Tencent (Sybo, Trailmix), Embracer (Eidos, Crystal Dynamics and Square Enix Assets), Microsoft (Proletariat, Peltarion) and Hasbro (D&D Beyond) have all made larger acquisitions. It is foreseeable that in the coming period, large-scale mergers and acquisitions in the game industry will be concentrated in order to help the subsequent development of the game industry. The acquisition of Activision Blizzard by Microsoft for \$68.7 billion is not only the highest

consideration in the history of Microsoft's foreign acquisitions, but also the largest acquisition in the game industry at present, which has triggered strong reactions in the industry. Microsoft's acquisition of Blizzard shows Microsoft's ambition to ramp up its games, streaming media and meta-universe [3]. However, with the strengthening of anti-trust in the US, Microsoft's huge acquisition will trigger the attention of regulators. In the blistering acquisition environment of the tech industry, whether the deal between Microsoft and Activision Blizzard can be completed as scheduled deserves further consideration [4]. If the deal is completed, it will have a great impact on the game industry landscape, Tencent, Sony and other game giants, as well as the construction of the meta-universe [5].

In this paper, we will select the Microsoft's acquisition of Activision Blizzard as an example to analyze the three aspects (i.e., market situation, financial situation and risk assessment). In addition, this study will simulate the revenue situation of game companies after M&A, identify the possible disadvantages and limitations of the existing high-priced acquisition model, and provide theoretical and universal suggestions for subsequent M&A in the game industry. The rest of the paper is organized as follows. The second section is the case description, which is a description of the basic situation of the acquisition case; the third section is the case analysis, which analyzes the case in detail from multiple perspectives; the fourth section is the conclusion drawn from the analysis of the case; and the last section is the recommendation for subsequent similar M&As based on the conclusion.

2. Case description

2.1 Overview of Microsoft Corporation

Founded in 1975 by Bill Gates and Paul Allen, Microsoft Corporation develops, manufactures, licenses, and provides a wide range of computer software services. Its product lines include personal computer operating systems, servers and mobile devices and related services, cross-device applications and other software solutions, hardware devices, cloud computing solutions, online advertising, etc. It is ranked No. 22 on the 2019 Forbes Global Digital Economy 100 list. No. 3 on the 2020 Global Brand Value 100, No. 15 on the 2021 Forbes Global Enterprise 2000, June 23, 2021, Microsoft's market capitalization exceeded two trillion dollars. In 2014, Microsoft's third CEO, Saty, Nadella began a radical reform of Microsoft, with cloud services being one of his most promising directions. In the following five years, within a short period of time afterwards, cloud services raised Microsoft's market capitalization to an unprecedented peak, and once surpassed Apple Inc. On this basis, Nadella proposed the future of Microsoft in the meta-universe.

2.2 Overview of Activision Blizzard, Inc

Activision Blizzard, Inc. is the largest developer, publisher and operator of video games in the United States. It was formerly known as Activision, Inc. in 1979, and became Activision Blizzard, Inc. after its merger with Vivendi Games in 2008. It is divided into three major parts, i.e., Activision Publishing, Blizzard Entertainment and KING. The mainstream games developed include the Call of Duty series, the World of Warcraft series, the Starcraft series, and Hearthstone Legends. The games it created were once popular worldwide, with over 100 million registered users online. However, since 2010, the company's performance has been declining year by year owing to internal management problems, intensified conflicts between departments, infighting at the top for power, and employee strikes due to gender discrimination and other issues. Almost all the company's founders and early core team withdrew, leading to a lack of development capacity and a gradual downturn in the company's development.

2.3 Brief description of the acquisition process

On January 18, 2022 Beijing time, Microsoft Corporation announced that it would acquire Activision Blizzard for \$68.7 billion in cash. on February 1, the Federal Trade Commission announced that it would review Microsoft's deal with Activision Blizzard. Meanwhile, in February, Berkshire Hathaway acquired 14.7 million shares of Activision at a discount. On March 21, the

Federal Trade Commission deepened its investigation into Microsoft Activision's handling of the second request. On April 14, rights advocates urged Activision Blizzard holders to reject Microsoft's offer. On April 28, Activision Blizzard shareholders approved Microsoft's acquisition with a 98 percent affirmative vote. Since Microsoft announced its acquisition of Activision Blizzard, regulators have increased their scrutiny of Microsoft, and on July 22, European regulators said they would ask whether competitors would be excluded from the Activision-Microsoft deal. On 25 August, the CEO of Microsoft's gaming business, Phil Spencer, expressed his satisfaction with the progress of the acquisition. Some industry sources predicted that the acquisition was expected to be completed ahead of schedule if things went well. However, with the recent involvement of regulatory authorities such as the UK and Australia, the acquisition process has become unpredictable. Antitrust monitoring remains the biggest obstacle to this acquisition by Microsoft.

2.4 Acquisition Model

Microsoft will complete the acquisition in an all-cash transaction. Compared with share issuance, cash acquisition is "real money", which can effectively reduce the "high valuation, high premium and high leverage". For Activision Blizzard. Currently at its low point of development, Microsoft's high premium acquisition not only shows the great sincerity of Microsoft's acquisition, but also significantly increased Activision Blizzard's share price, a huge inflow of cash will also alleviate the crisis within Activision Blizzard previously, to reverse the decline. The obvious disadvantage of an all-cash acquisition is that for acquiring a public company like Activision Blizzard, the acquirer would take on a larger cash flow, debt pressure, but this disadvantage factor is not a mission strike for Microsoft, a strong and established Internet giant company. The latest financial results announced for 2021-2022 show that Microsoft's total revenue for the fiscal year 2021-2022 is US\$198.3 billion, up 17.96% year-on-year, and net profit attributable to the parent company is US\$72.738 billion, up 18.72% year-on-year. It shows that Microsoft, with its diversified businesses, has managed to keep itself expanding beyond historical levels in a sluggish macro environment [4]. The US\$68.7 billion acquisition price is only 35% of the total revenue for the fiscal year.

3. Market analysis

3.1 Leveraging games to seize the metaverse market

In 2021, the year of metaverse, many game companies emphasized the layout of metaverse business in their 2021 annual reports. 2021, Soul App proposed to build a "social metaverse" for the first time in the industry. 2021, Roblox, which was called the first stock of metaverse, was officially listed on the New York Stock Exchange in March. In May, Microsoft CEO Satya Nadella said the company was working to build an "enterprise metaverse"; in August, Haier took the lead in releasing the first intelligent manufacturing metaverse platform in the manufacturing industry, covering industrial Internet, artificial intelligence, augmented reality, virtual reality and blockchain technology, realizing the integration of physical and virtual aspects of intelligent manufacturing, and integrating "smart" and "virtual" technologies. In August, Nvidia announced the launch of the world's first simulation and collaboration platform that provides the basis for the establishment of the metaverse; in August, Byte Jump acquired VR startup Pico for a large sum of money. On October 28, U.S. social media giant Facebook announced that it had changed its name to "Facebook". On October 28, the US social media giant Facebook announced its name change to "Meta", derived from "Metaverse". In November, Decentral and, a virtual world platform, announced that Barbados will set up its first embassy in the metaverse, tentatively scheduled to open in January 2022, and in November, the Metaverse Working Committee of the China Private Technology Industry Association was inaugurated. From the recent developments of various technology industries, besides enhancing the hard strength of game product development, how to combine products with the meta-universe concept which is red nowadays to seize the new windfall has become been carried out by many companies.

The reason why meta-universe is so important is that it has extremely high commercial value. The core point of the metaverse game is to give users enough space to play freely, and they can build their own virtual world by freely constructing a layout on the platform. The biggest difference between metaverse concept games and the familiar online games is that there is no scripted plot, the story does not even have an end, and the player is the decision maker of everything on this land [6]. For giants such as Microsoft and Meta, transaction feasibility is the most important function, and metaverse provides a platform to showcase goods by converting real physical transactions into virtual ones. Therefore, metaverse is the next business segment that Internet technology giants are scrambling to develop. Looking at Microsoft's development process, it is easy to find that Microsoft has always reported a high interest in the metaverse. In the B-side, Microsoft was the first company to propose the concept of "enterprise metaverse", which provides a series of data infrastructures and tools through the creation of the enterprise metaverse technology stack to facilitate organizational changes and productivity improvement in the "post-Newcastle Pneumonia Epidemic Era" [7]. The acquisition of Activision Storm by Microsoft for a high price. Microsoft's high-priced acquisition of Activision Blizzard is also intended to leverage Activision Blizzard's nearly 400 million monthly active players in 190 countries and regions around the world, \$3 billion in franchises, and numerous classic IPs to develop the C-suite metaverse market. Microsoft will also accelerate the development of its cloud, AI, and productivity platforms while developing the C-suite market to broaden a larger market space.

3.2 Expanding market share to become the third largest game company in the world

According to a new announcement by foreign research firm Newzoo, Tencent will earn \$32.2 billion in gaming business in 2021, up 9.9% year-on-year. As the largest gaming company in China and even in the world, Tencent has topped the global gaming companies' revenue for six consecutive years from 2012 to 2018, slightly behind Sony PlayStation in 2019 to rank second in the world, and still sits as the world's No. 1 gaming company so far in 2020. This is mainly due to Tencent's gold-sucking hits, such as League of Legends, Glory of Kings and Peace Elite. Sony ranks second in the world with \$18.2 billion in gaming revenue in 2021. Sony's gaming revenue is mainly derived from its PlayStation game console series. Apple ranks third in global gaming company revenue with \$15.3 billion, followed by Microsoft with \$12.9 billion and Activision Blizzard in seventh place with \$8.1 billion. A comparison of the market share of each major game company's game revenue from 2020 to 2021 is shown in Fig. 1 and Fig. 2 as follows.

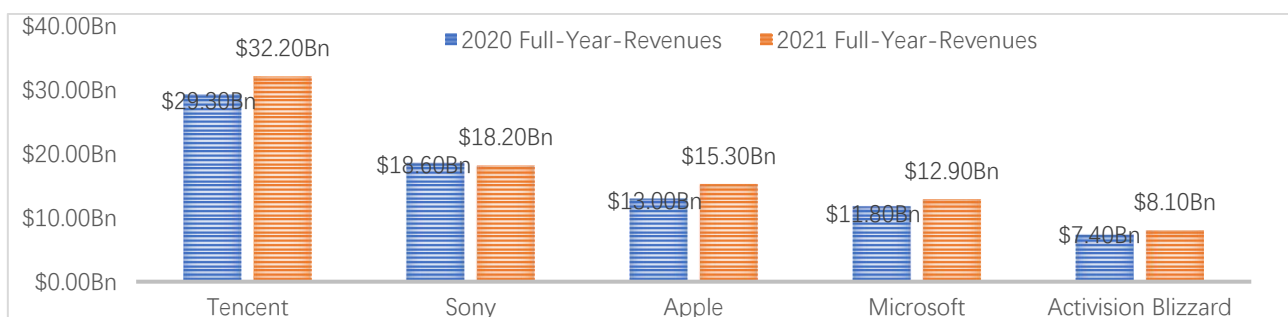


Figure 1. Five public companies by game revenues (comparison of 2020 and 2021).

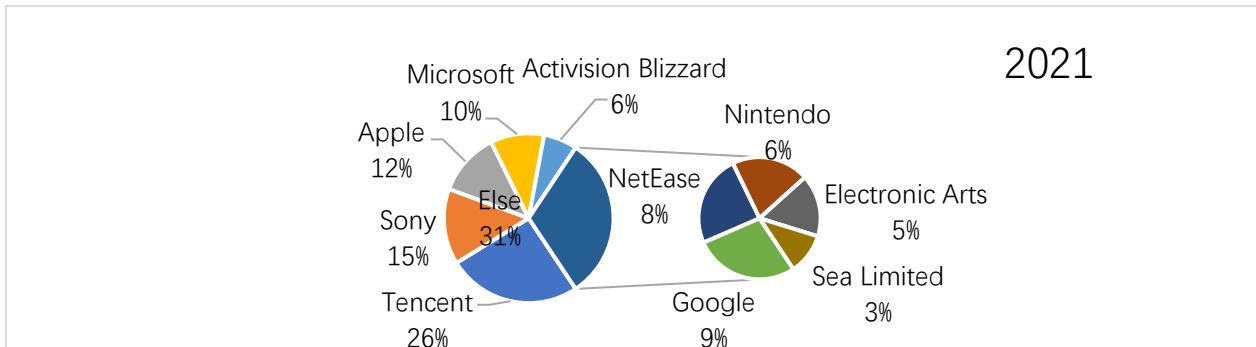


Figure 2. Market share of major game companies in 2021.

Microsoft's acquisition of Activision Blizzard will be completed completely in 2023 if regulation allows, and it plans to use the games to strengthen the Game Pass portfolio. With more than 25 million subscribers to Game Pass and Activision Blizzard's nearly 400 million monthly active players and \$3 billion in franchises in 190 countries, the acquisition will make Game Pass one of the industry's most compelling and diverse lineups of gaming content, according to data. Upon completion of the deal, Microsoft will have 30 in-house game development studios, as well as additional publishing and eSports production capabilities. The market share of the gaming market will also change dramatically, with Microsoft becoming the third largest gaming company in the world in terms of revenue behind Sony and Tencent. According to Newzoo, Microsoft's gaming market share in 2020 will be 6.5%, and if you add Activision Blizzard, that share will be 10.7%, which means it is expected to generate about \$20 billion in revenue annually. If the acquisition is completed, the market shares of the major gaming companies are predicted as illustrated in Fig.3 and Fig.4.

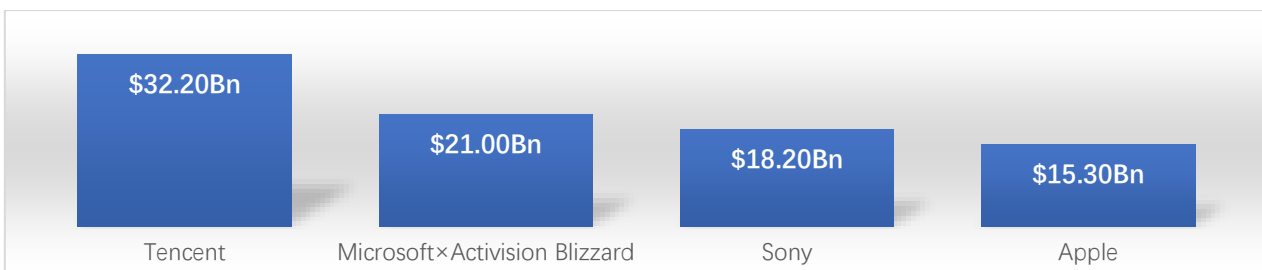


Figure 3. Game industry market share forecast after acquisition.

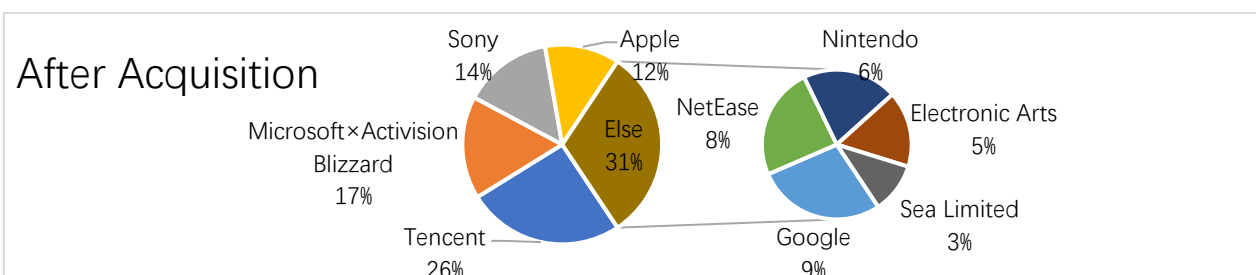


Figure 4. New pattern of game industry after acquisition.

3.3 SWOT Analysis

The SWOT analysis results are summarized in Table. 1, which will be detailedly discussed in following subsections.

3.3.1 Strengths

Both sides of the acquisition take advantage of each other's strengths and complement each other's advantages. Microsoft's current development direction is to focus on the C-terminal game meta-universe, and Activision Blizzard is the world's largest third-party game developer and publisher,

with many classic IPs and games. The combination of Activision Blizzard's world-class talent and IP resources with Microsoft's technology, distribution, access to talent, ambitious vision and commitment to gaming and inclusion will help ensure our continued success in an increasingly competitive gaming industry," said Bobby Kotick, CEO of Activision Blizzard [8].

Microsoft has experience with multiple large game developer acquisitions, Xbox Game Studios has acquired other game studios several times since its inception. From 2011 to 2019, Microsoft acquired game studios such as Zipline Studios, Undead Labs, Playground Games, Ninja Theory, Compulsion Games, Obsidian Entertainment, and InXile Entertainment. On September 21, 2020, Microsoft announced the \$7.5 billion price of Bethesda its parent company ZeniMax Media and all its studios and IP asset. It shows that Microsoft has become quite familiar with the acquisition process of game companies. Microsoft's acquisition of Activision Blizzard for nearly ten times the price of Bethesda is also ascribed to its experience of acquiring game developers many times before.

Table 1. SWOT analysis.

| External Factors | Opportunities | Threats |
|--|---|--|
| Internal factors | 1、 Microsoft executives’attitudes on the construction of meta-universe strategy are positive. 2、 Activision Blizzard shares fell, compared to Blizzard peak moment at this time is the perfect time to acquire Blizzard. | Huge acquisitions raise regulatory concerns and acquisitions may be blocked by regulators. |
| Strengths | (SO) Take advantages of these | (ST) Monitor these |
| 1, The advantages of both sides complement each other, and Blizzard helps Microsoft to develop the C-terminal meta-universe. 2, Microsoft has rich experience in acquiring large game developers. 3, Microsoft has sufficient funds and cash flow. | Seizing the opportunity of Activision Blizzard's current falling stock price, with Microsoft's ample cash flow and rich acquisition experience as a guarantee, the acquisition of Activision Blizzard helped Microsoft to develop the C-terminal meta-universe. | Monitor industry developments as well as the movements of regulatory authorities closely. Microsoft also has to fully demonstrate that the acquisition will not create a monopoly on the gaming industry. |
| Weakness | (WO) Improve these | (WT) Eliminate these |
| 1, Activision Blizzard is not what it used to be, fell to the bottom, or become the sunset. 2, Microsoft's corporate culture is relatively conservative, the acquisition effect remains to be seen. | Through the acquisition to let Activision Blizzard rejuvenate, but also let Activision Blizzard, a new game company for Microsoft, the old Internet company to inject fresh blood | Activision Blizzard status quo has been less than the peak, the game industry competition is fierce, Microsoft and Activision Blizzard that is a strong combination, may not cause monopoly. Microsoft may need to issue a relevant report to dispel the doubts of the regulatory authorities. |

Microsoft has sufficient capital and cash flow. Over the past few years, Microsoft's market capitalization has reached record highs. In January 8, its share price was \$302.65 per share and its market value was \$2.27 trillion, making it the second largest technology company in the world after

Apple. Microsoft's current share price is up about 13.75 times from the beginning of 2014. In fiscal 2021, Microsoft's annual revenue was \$168 billion, up 18 percent year-over-year, and net income attributable to the company's shareholders was \$61.271 billion, up 38.37 percent year-over-year. As of June 30, 2021, Microsoft had cash, cash equivalents and short-term investments totaling \$130.3 billion. Adequate cash reserves have laid the foundation for this large-scale acquisition by Microsoft.

3.3.2 Weakness

Activision Blizzard is not what it used to be, or become the flower of tomorrow. It has been synonymous with fine games before, but in recent years Activision Blizzard's development situation is much worse than before. Beginning with the departure of Blizzard CEO Mike Mohan in 2018, Blizzard has seen a wave of staff departures, including Jeff Kaplan, designer of products such as World of Warcraft and Overwatch Pioneers. At the end of last year, Blizzard announced that Diablo 4 and Overwatch Vanguard 2 will be significantly delayed. On top of that, in July 2021, California regulators filed a lawsuit against Activision Blizzard, accusing the company of sexual harassment and gender pay disparity [9]. This news not only made gamers begin to lose confidence in Blizzard, but also made the industry doubt whether Microsoft's takeover of Activision Blizzard at such a high premium would bring in huge revenue as hoped. In addition, Microsoft's corporate culture is relatively conservative, and the effect of the acquisition remains to be seen. Since 2014 Satya Nadella became the CEO of Microsoft after adjusting the company's corporate culture, Microsoft is relatively compared to other game giants Sony and Tencent, there is still a large gap in the layout of the cultural industry, content industry, etc., and it is difficult to surpass the atmosphere of creative companies in a short period of time compared to the integration and acquisition effect to be further observed [10].

3.3.3 Opportunities

Microsoft executives have a positive attitude towards the construction of metaverse strategy. Satya Nadella pointed out, "As the digital and physical worlds converge, we are leading a new layer of the infrastructure stack, the enterprise meta-universe." On the B-side, Microsoft was the first company to introduce the concept of an "enterprise metaverse," which provides a range of data infrastructure and tools by building an enterprise metaverse technology stack. In the industrial environment, Microsoft also launched the "Industrial metaverse solutions" metaverse service. Microsoft's various actions show that Microsoft will focus more on the C-side metaverse, and Microsoft executives at all levels are actively involved in building the metaverse. Besides, the acquisition of Blizzard is also a key step for Microsoft to bet on the metaverse. Activision Blizzard share price fell, compared to the peak of Blizzard this is the perfect time to acquire Blizzard. Previously Activision Blizzard negative news, the stock price has been greatly affected. As of 16:00 EST on August 18, 2022, Activision Blizzard's price per share was \$80.44, down \$23.62 from its high price of \$104.06 per share in February 2021. Although \$ 68.7 billion has been a huge acquisition, but compared to the peak of Activision Blizzard, the acquisition at this time is undoubtedly the best time.

3.3.4 Threats

On January 20, the U.S. Senate Judiciary Committee considered and passed two new antitrust bills. If the two bills finally come to fruition, tech giants changing their business practices will face greater difficulties in acquisitions and will even be split up. This does not seem to be good news for the tech giants. Microsoft's acquisition of Activision Blizzard will become the world's third largest gaming company, and this huge deal will undoubtedly become the key object of review by U.S. regulators. Moreover, it is unknown whether the acquisition plan will eventually pass smoothly.

3.4 Stock Price Analysis

Before the acquisition news came out, Activision Blizzard's share price fluctuated around \$65. On January 18, Microsoft directly announced that it was acquiring Activision Blizzard at a super high premium of \$95 per share. After the news of Microsoft's acquisition of Activision Blizzard was announced, Activision Blizzard jumped over 35% before the market, and as of the close of business

on January 18, Activision Blizzard's share price rose 25.88% to \$81.31 per share, with a total market value of \$64.1 billion, but this was still far below Microsoft's offer of \$68.7 billion. The overall performance of the acquirer Microsoft was stable, closing down 2.43% at \$302.65 per share. As Microsoft's rival in the global gaming industry, Japan's Sony shares plunged in record numbers, with Sony shares plunging 13% on Jan. 19, reducing its market value by about \$20 billion in one day. The biggest acquisition deal in history has also affected the Chinese A-share gaming sector. According to the 21st Century Business Herald, on Jan. 19, the A-share game sector changed the previous day's trend and opened sharply, with Wind data showing that the online game index opened 3.48% higher in early trading and continued to pull up during the session, eventually closing up 4.90%. On September 14 EST, Activision Blizzard's share price had fallen to \$73.60, with a total market capitalization of \$59.892 billion. If the deal goes ahead as originally planned, it would mean that Microsoft would complete the acquisition for 1.15 times Activision Blizzard's market value.

4. Financial analysis

4.1 Solvency

At this stage, because Microsoft's acquisition of Activision Blizzard has not been completed, this paper cannot directly analyze Activision Blizzard's solvency based on various data in the financial statements. Nevertheless, it can take an estimated approach to predict the solvency after the acquisition is completed. As for capital turnover ratio, both companies currently have relatively stable capital turnover ratios with low volatility. In comparison, the long-term solvency of Activision Blizzard is stronger than that of Microsoft. After the completion of the merger, its capital structure will be adjusted and improved, and the security of capital will be improved. The capital turnover ratios for Microsoft and Activision Blizzard are depicted in Fig. 5. Regarding to current ratio, both Microsoft and Activision Blizzard's current ratios are above 150% in 2020-2021 and 2021-2022, indicating that both companies have strong short-term solvency. In the case that both enterprises have good solvency, this paper believes that Microsoft's solvency will remain good after the acquisition is completed. Microsoft and Activision Blizzard's current ratios are presented in Fig. 6.

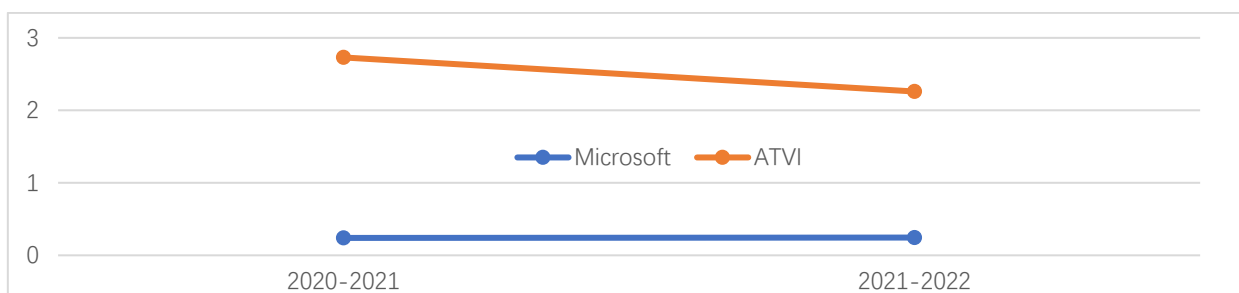


Figure 5. Capital turnover ratio.

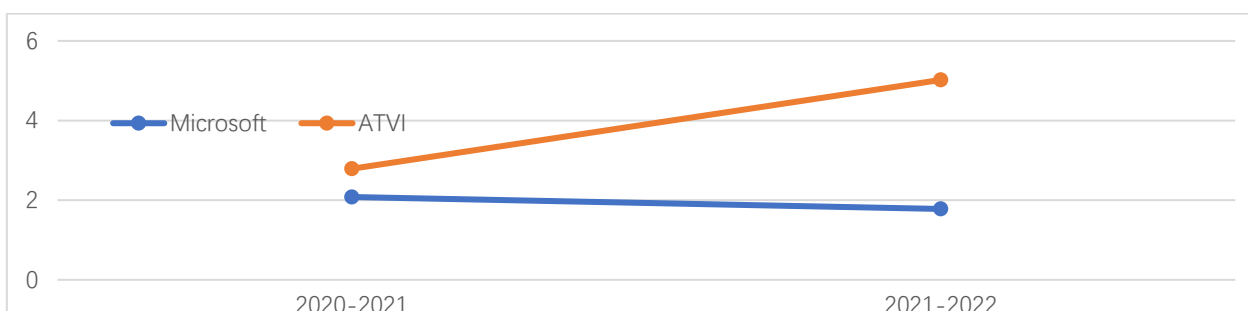


Figure 6. Current ratio.

4.2 Profitability

Gross profit margin is an important measure of corporate profitability. Overall, the gross profit margin of both companies generally showed a stable trend and maintained a high level of profitability. The global game industry is still maintaining a relatively good development trend. It can be expected that after the acquisition is finally completed, the gross profit margin level can still maintain a high level under the combined effect of industry advantages and operational advantages.

4.3 Operating Capacity

Both Microsoft and Activision Blizzard maintain a high level of accounts receivable turnover, indicating that both companies maintain a high level of profitability while also taking care to control commercial credit risk, demonstrating their good operating ability. After the completion of the acquisition, the two companies will rely on their own operational capabilities, deepen their efforts in the field of Internet games and effectively integrate their existing resources, which will surely achieve the overall effect of "1+1>2".

4.4 Growth ability

In terms of net profit margin, Activision Blizzard has been declining for three consecutive years; in contrast, Microsoft's net profit margin has been steadily increasing for three consecutive years. With Microsoft's market capitalization 35 times that of Activision Blizzard, Microsoft will be able to lead Blizzard to adjust resource allocation, develop better products and promote the business development into a new stage if the acquisition is successfully completed in the face of the booming Internet game industry.

5. Risks

5.1 Information Asymmetry Risk

This is the problem of information exchange and moral hazard between the acquirer and the acquired party in the acquisition process. The acquired party may conceal unfavorable information about itself and creating uncertainty to the acquisition. Information asymmetry risk can be manifested in various aspects, such as financial and cultural aspects. Microsoft may also have information asymmetry in the process of acquiring Activision Blizzard, which may affect the acquisition process and acquisition results.

5.2 Financial Risk

Microsoft acquired Activision Blizzard at a price of \$95 per share using its own funds in cash, an acquisition premium of up to 45%, a high premium and the use of full half of the cash reserves to buy is enough to prove Microsoft's confidence in the acquisition and the expectation of synergies after the acquisition. However, it remains to be seen whether the benefits brought by Microsoft's acquisition can achieve its expected effects. Therefore, there may be financial risks.

5.3 Management Risk

In recent years, due to factors such as management decision-making, Blizzard's elite employees have left in large numbers and developers have been lost. The quality of games developed by Blizzard and players' expectations have been affected to a certain extent. The ability to find suitable management methods and appropriate management policies to attract talents after the acquisition is the management risk of this acquisition.

5.4 Corporate Culture Risk

In 2021, Activision Blizzard was sued by the government because of female inequality within the company, including scandals such as unequal pay and sexual harassment. Blizzard made a strong

response and triggered a protest strike by employees. In April 2022, Activision Blizzard employees reported on the Internet that they were threatened by the company, Blizzard scandal triggered social concern again. Microsoft's acquisition of Blizzard at the time of the Blizzard scandal triggered heated discussions among Microsoft employees who worried that Blizzard's negative corporate culture would spread within Microsoft, and that the ability of the two companies to achieve integration of company culture would have a profound impact on the acquisition transaction.

5.5 Operational Risk

According to Activision Blizzard's recent earnings meeting, Activision Blizzard's revenue reached \$1.64 billion, exceeding its estimate of \$1.59 billion. Despite the increase in revenue, Activision Blizzard has lost a significant number of active customers in the recent year, with a relative decrease of 11% in active users in 2022 compared to 2021, having lost more than 40 million monthly active users. Second, Activision Blizzard product quality is declining, and new games released after poor performance, leading Blizzard late last year to lower the company's long-term financial plan.

At the same time, its earnings growth is also under pressure. Microsoft's acquisition of Activision Blizzard in this context and the adverse trend of Activision Blizzard may have a negative impact on the benefits of this acquisition. The acquisition is both a horizontal and vertical one, and Microsoft will become the third largest gaming company in the world after the successful acquisition. In the current global antitrust context, the UK and the US as well as Brazil have already launched antitrust investigations in this regard, leading to a widening of the interval between this transaction and a deteriorating acquisition process, increasing the risk of deal break-up.

5.6 Industry Risk

The core of Microsoft's acquisition is to promote the growth of Microsoft's multi-platform game business, expand its influence in the mobile field, enhance the core competitiveness of the metaverse, and construct an ecological platform based on players and communities. Whereas, there are certain risks associated with entering the metaverse industry, such as game crime, lack of legal regulation, ethical crisis and so on.

6. Suggestions

In the preliminary stage of the acquisition completion, Microsoft and Activision Blizzard's management to do a good job of docking, strengthen the company management-related aspects of communication. This initiative can assist Microsoft to further deepen its understanding of the existing development trend of the game industry, reduce the risk of disagreement due to the gap between the company's culture and management philosophy, and narrow the gap between Microsoft and Activision Blizzard's different management models caused by different industries. On the basis of maintaining the original management mode of Microsoft, the original team of Activision Blizzard should be retained, and communication and cooperation should be strengthened. For the sake of maintaining the original market of Activision Blizzard, the company should continue to dig deeper into the potential new market of the game industry and formulate new development strategies and marketing strategies for different strategic objectives in order to make breakthroughs in the game field. Microsoft should strengthen its research in the game field, make a comprehensive assessment of the current development status and future development expectation of the game industry, make reasonable calculations of the future revenue and future financial indicators, and reduce the financial risks brought by the premium and cash acquisition. In the meantime, Microsoft should also make corresponding development plans around various demands in the current game industry market to stabilize the operating income and reduce the operating risks

7. Limitations & Prospects

The research in this paper also has some defects and drawbacks. The first problem is that, Microsoft have not completed its acquisition of Activision Blizzard so far, thus there might be some changes in terms that might have the possibility to affect the smooth operation of the acquisition, however, the analysis in this paper is only based on currently available data and information, which cannot cope with the changes beyond the expected future. Another problem is that, due to the limited information collected, this paper is unable to build an accurate and effective model to measure the specific economic benefits and all possible risks after the acquisition, and this error cannot be eliminated and is inevitable, as a consequence of which, the research results of this paper may differ from the facts to some extent, but this discrepancy is acceptable within the scope of control.

Based on the current information and the detailed analysis of this paper, Microsoft's acquisition of Activision Blizzard will be a huge success that will cause a sensation in the entire Internet game industry. This paper argues that this merge and acquisition will greatly influence and ultimately lead to a change in the competition landscape of gaming, and in a way, point the way for the future of gaming. In addition, this paper noted the relevance of this acquisition to Microsoft's metaverse based future development strategy, and judges that the completion of this acquisition will be an essential step in the implementation of this strategy.

Overall, both Microsoft and Activision Blizzard will be better off after the deal closed. What this paper can foresee is that there will be more and more game development based on the concept of metaverse, which is the future trend of internet development. If this acquisition is successfully completed, it will provide a great reference for the development of companies in the same field.

8. Conclusion

In summary, this paper investigates Microsoft's acquisition of Activision Blizzarding terms of market, finance a risk. According to the analysis and data support, this paper concludes that Microsoft's acquisition of Activision Blizzard will be a successful acquisition that will help Microsoft to enter the gaming industry. All the indicators under the market analysis and financial analysis perspectives indicate that the completion of the acquisition will help Microsoft to achieve greater development in the gaming field. However, it should be noted that Microsoft will still face the financial risk and cultural risk brought by the factors of information asymmetry and premium acquisition in the acquisition. For the above problems, Microsoft should implement a rigorous evaluation and analysis, and one propose effective countermeasures. Nevertheless, seen from the whole process of the acquisition, it has a high probability of success. In the future, the successful acquisition of Activision Blizzard would put Microsoft in a strong position in the industry. Overall, these results offer a guideline for other companies in the Internet gaming field.

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