

The study of the investment value of Activision Blizzard based on SWOT analysis

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Abstract. In the last twenty years, there are a phenomenal growth of Internet users and the spread of Internet infrastructure that lead by the development of advanced technology. As the Internet industry has grown exponentially, the video game industry has attracted massive public attention and become a popular topic among investors, and the user base of online games has grown as well. Under the influence of Covid-19, people are spending more time and money on online and video games. Additionally, It has also been proved that the online gaming industry is a promising investment target. Activision Blizzard, one of the biggest video game companies in the world, is been taken as an example to analyze the investment value of this industry. Recently, Microsoft announced its intention of acquiring Activision Blizzard and it brought up the topic of whether to invest in Activision Blizzard. This paper introduces the company, Activision Blizzard, through the video game industry, background information, activity, and the acquisition by Microsoft. The SWOT analysis method is used to study its financial situation and the investment suggestion is finally proposed.

Keywords: Microsoft; Activision Blizzard; Acquisition; Financial analysis.

1. Introduction

The gaming industry is one of the fastest-growing industries in the world, and its importance to culture, entertainment, and technological advancement is showing up. The latest technology is bringing thousands of games to over three million people through PC [1], consoles, and mobile phones. At the end of the year, a total of 2.7 billion people will be playing games, including 2.5 billion mobile phone players [2-3], 1.3 billion PC users, and 800 million console players. This year, the gaming market will reach \$159.3 billion [4-6], and by 2023, it will surpass \$200 billion. Despite strong growth in Asia, North America will remain the highest-grossing gaming market in the world. It is estimated that by 2025, worldwide in-game purchases will exceed \$74 billion. Activision Blizzard is currently the fifth biggest video game company in the world and the Microsoft will become the third biggest video game company if successfully acquired Activision Blizzard (Top 10 biggest video game companies in the world, 2022).

Yahoo finance provides financial information that indicates the great performance of receiving funds and making a profit. Jiahao Zhang found that the strength of Activision Blizzard is a great global market and a high volume of active users around the world.

This paper uses SWOT analysis to study the investment value of the video game industry and why Activision Blizzard is worth investing in. The paper is organized as follows: Section 2 describes the background information and relevant event to understand Activision Blizzard and the video game industry; Section 3 introduces the segment of Activision Blizzard and its activities; Section 4 describes the financial situation in three years; The remainder of the paper analyzes the company with SWOT model through four dimensions.

2. Background and acquisition event

The headquarters of the American video game holding firm Activision Blizzard is located in Santa Monica, California. Activision, Inc., the publicly traded parent company of Activision Publishing, and Vivendi Games merged to create it in July 2008 [7-9]. The organization has been a part of the S&P 500 Index since 2015. It is listed on the Nasdaq stock exchange under the ticker ATVI.

Subsidiary studios owned and run by Activision Distribution include Treyarch, Infinity Ward, High Moon Studios, and Toys for Bob and they developed many successful video game products. Call of Duty, Diablo, Heroes of the Storm, Crash Bandicoot, Tony Hawk's, World of Warcraft, StarCraft, Hearthstone, Overwatch, and Candy Crush Saga are just a few the example of popular video games. The business has made investments in e-sports for a number of its games, most notably Overwatch and Call of Duty, under Blizzard Entertainment. Games from Activision Blizzard have broken numerous records for their first releases. In the Top 10 Video Companies Ranking for 2022, Activision Blizzard is ranked No. 5 [10-11].

Microsoft declared its intention to buy Activision Blizzard for \$68.7 billion on January 18, 2022. Microsoft Gaming would become a branch of Activision Blizzard if it were approved, making it the third-largest gaming firm (behind Tencent and Sony). The acquisition is expected to finish before June 30, 2023, Microsoft's fiscal year ends. For now, both sides are optimistic that the deal will go through. Activision Blizzard CEO Bobby Kotick said on Sept. 1 that the process is "generally proceeding as expected" and said he expects it to be completed by June 2023. Overall, the Activision acquisition seems to have brought about a number of positives, and Buffett's belief in the shares of Activision only strengthens that. It might be wise to purchase now [12-13].

3. Activity

There are mainly three segments in Activision-Blizzard: Activision, Blizzard, and King. These companies generate revenue by selling complete games like Call of Duty and providing in-game purchases. Activision focuses on developing and publishing video games from its studios and licensing related products to third-party companies. The Blizzard Entertainment segment is majorly responsible for developing and operating free-to-play games and in-game sales like Overwatch. The other segment is King Digital Entertainment, which puts more effort into mobile games content delivery. Two other segments unreported within Activision Blizzard are responsible for filmmaking and product delivery in Europe [14-15].

4. Financial situation

Activision Blizzard has had a steadily growing financial situation in these five years. According to Yahoo Finance and Macrotrends, the gross margin keeps growing starting 2016 from 63.7% to currently 73.67%, and the net profit margin has had a growing trend over three years from 23.1% to currently 30.66%. The receivable turnover rate is much higher than last three years and reach a peak of recently 10 years, which means that customers are paying on time and your company has strong power at collecting. For the fiscal year that concluded on December 31, 2021, Activision Blizzard generated \$2.41 billion in cash from operations, up from \$2.25 billion in 2020. Compared to the fourth quarter of 2020, when it was \$1.14 billion, the quarter's cash flow from operations was \$661 million (Activision Blizzard announces fourth-quarter and 2021 financial results, 2022). Having a low debt-to-equity ratio, down from 0.7 in 2013 to 0.205 in 2021, means the investment is safe as the amount of debt is small compared to equity. In other words, Activision Blizzard has a healthy and growing finance which indicates it is a profitable investment target (Activision Blizzard Financial Ratios for analysis 2009-2022: ATVI 2022).

Activision Blizzard's stock price rose sharply in the four days following the news of the acquisition, rising from \$64.17 to \$82.31. S&P Global Market Intelligence data shows that Activision Blizzard's (ATVI 0.03%) stock increased 17% in the first half of 2022. Given that the S&P 500 is down more than 20% during the same time period, that is a great gain. The current share price of Activision Blizzard is \$74 and during the last month, it has fluctuated between \$74 and \$79 a share. Therefore, at \$95 per share, potential bidders make a little over 26% of Microsoft's purchase price.

Even if the acquisition doesn't happen, the stock of Activision Blizzard may still be a wise long-term investment. In February 2021, after negative news concerning the company's treatment of its

employees surfaced in February 2021, the stock price was still below the highs it had reached. Additionally, before the Microsoft deal was announced, Buffett bought a stake in Activision Blizzard, a sign that he believed in the video game company's prospects. The uprising growth of Blizzard explains why external investors are confident in him. Berkshire Hathaway's stake (an investment vehicle for Warren Buffett) purchased about 14.7 million shares of Activision Blizzard (ATVI) in the fourth quarter of 2021. Berkshire Hathaway owned around 1.8% of Activision Blizzard at the end of 2021. With shares rising from 64.3 million to 68.4 million in August, or around 8.7% of Activision, Buffett expanded his position in the gaming company many times in 2022. The median target of 22 analysts for Activision Blizzard's 12-month stock price forecast is 95.00, with the highest forecast being 100.00 and the lowest forecast being 82.00. The median estimate was 26.16% higher than the previous price of 75.30.

5. SWOT analysis

5.1 Strength

Activision Blizzard, one of the industry's top companies, has a number of benefits that help it succeed in the market. These benefits not only aid in expanding into new markets but also in preserving market share in already-existing ones. A strong return on CAPEX is one of Activision Blizzard's strengths, according to detailed research by Femburg University. Activision Blizzard has also been quite effective in executing new projects and has produced capital expenditures by developing new revenue streams with a good returns. Also, Blizzard has experience integrating complementary companies before which means they are highly possible to incorporate successfully in the Microsoft acquisition event. As a result of its successful integration with companies like Activision and Vivendi Games, the company has been able to streamline its operations and five departments can specialize in different business segments. Activision Blizzard's goods have a consistent level of quality thanks to automation, which also gives the corporation the flexibility to scale up or down in response to changing market conditions. It also has a strong free cash inflow, which provides the company with the ability to expand into new systems and products. Additionally, Activision Blizzard has established a strong global distribution network that draws 27 million active users each month.

5.2 Weakness

Blizzard has more than thirty percent of revenue that comes from game console earnings but all the consoles are controlled by third parties like Microsoft's Xbox One, and Nintendo's Wii U. The less control it has, the more risk they will face. In other words, if other third parties' platforms are banned or stop operating, Blizzard will face a significant revenue loss. At the same time, Blizzard has less power on the bargaining table.

Although Activision Blizzard is one of the premier organizations in the industry, it has had difficulty expanding into other product categories given its present culture. Success outside of the main business has been constrained. In other words, the revenue stream is vulnerable because Blizzard derives the majority of its profits from a small number of successful goods.

Activision Blizzard's financial planning is also not done effectively or accurately. According to the current asset ratio and cash efficiency ratio, it can use cash to make profits more effectively than it does at the moment.

5.3 Opportunity

Opportunities are external strategic factors that can potentially improve a company. If the acquisition by Microsoft is completed successfully, Activision Blizzard will have more opportunities to spread its games on different platforms including Xbox, PlayStation, phones, and online. At the same time, the weakness that Activision Blizzard is highly dependent on third parties will be solved

and the new corporation will become the third biggest video game company and has more influence around the world.

Activision Blizzard has a consistent free cash flow, which presents chances to make investments in related product categories. Additionally, an organization's core capabilities may succeed in related fields of product development. Companies can invest in new technology and product categories if they have more cash on hand. Activision Blizzard will now have an opportunity in other product areas.

New Environmental Policy means new chances that will level the playing field for all industry participants. Activision Blizzard has a fantastic potential to take advantage of its strengths in new technology and expand its market share in new product categories.

In the last three years, the influence of Covid keeps people at home and spending more time on the internet and video games which expand the market and diluted competitors' advantages. It allows Activision Blizzard to attract new customers and diversify into new product categories.

Activision Blizzard may be able to enter new markets as a result of new patterns in consumer behavior. For example, people are spending more money on themselves and entertainment these years which means there will be more customers for Blizzard. It presents a great opportunity for Activision Blizzard to expand its market, build new revenue streams and increase its competition force.

5.4 Threat

Because the company operates in multiple countries, different regulations, laws, cultures, and political environments are influential. The liability laws are different from country to country, and A variety of liability claims could be made against Activision Blizzard due to changes in these markets' policies. Additionally, it will experience currency fluctuations, particularly in light of the uncertain political environment in many global markets. Because the demand for high-margin goods is seasonal, any unexpected occurrences during the busiest times might have a short- to medium-term impact on a company's profitability.

New technologies created by rivals or market disruptors could represent a severe threat to the sector in the medium- to long-term future. Due to the seasonal nature of high-margin product demand, any unlikely occurrence during peak seasons could have a short- to medium-term negative effect on a company's profitability.

In other markets, their increasing influence is also a concern because local distributors are under pressure to increase their margins due to competition. Activision Blizzard products are seriously threatened by fake products, particularly in developing and low-income regions. The corporation doesn't frequently offer novel items; although it has created numerous throughout the years, these are typically in response to the innovations of rival businesses. Second, sales figures during this time period fluctuated due to the inconsistent availability of new products.

6. Conclusion

Blizzard, one of the biggest gaming firms in North America and the world, has demonstrated a solid increasing trend in the general market environment based on the SWOT analysis and forecast calculation data. Activision in order to serve the present market, Blizzard is currently undertaking a variety of initiatives. For instance, Blizzard is presently devoting significant resources to the creation of well-liked mobile games and establishing a new division for the European market. And in the past, it focuses on producing and remaking pc games. Activision Blizzard now has additional options to grow, garner attention, and profit from the sizable user base and supply system that Blizzard has amassed over the years thanks to its integration with Microsoft. However, the online game company is changing quickly and the incorporation is not finished which means Blizzard's development is also accompanied by uncertainty. Even so, it is anticipated that Activision Blizzard's stock price will exhibit a trend of consistent rise during the upcoming time based on the operating performance of the company throughout the years and steps taken to adapt to market changes. In conclusion, Activision Blizzard is a mature company and a profitable investment choice.

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