



Target Price | **Current Price** | **52 Week High** | **52 Week Low** | **P/E** | **Market Cap.** | **Div Yield** | **Beta**
\$76.08 | \$64.51 | \$66.58 | \$35.12 | 43.56 | 48.7B | 0.47% | 0.79

Business Description

Activision Blizzard, Inc. is an American video game developer. It is made up of five primary operations: Activision Publishing, Blizzard Entertainment, King Digital Entertainment plc, Activision Blizzard Studios, and Major League Gaming. Activision produces franchises such as *Call of Duty* and *Destiny*; focusing primarily on console gaming. Blizzard produces franchises such as *World of Warcraft* and *Overwatch*; focusing primarily on online PC games with an emphasis on subscription-based and microtransaction business models. King produces mobile games; emphasizing a *freemium* (or free with microtransactions) business model. Activision Blizzard Studios is a television and film studios that produces original content based on Activision Blizzard's existing franchises. Finally MLG is an online eSports broadcasting network. The company sells their products via retail and digital channels; more prominently in the later.

Investment Thesis

Activision Blizzard is a strong company with a focus on strong franchises and diversity of software-based video game revenue. Its prominence in the major video game channels (primarily console, pc, mobile, and esports) gives it a definitive competitive advantage, and its consistent growth efforts in the face of a changing medium propel it to remain at the top. In spite of this, the company's explosive short-term growth, high P/E multiple, and relatively high debt are causing the market to stay conservative in the wake of the company's success; presenting value.

Industry Trends

The video game industry has been growing at a rapid rate; it grew 8.5% from 2015 to 2016 and is projected to further grow at a rate of 6.2% through 2019. This growth is currently fueled by the success of the mobile gaming scene as well as the emergence of eSports which, whilst still in its early lifecycle, has been solidifying itself as a legitimate medium. By the end of 2017, mobile gaming will account for approximate 42% of the global games market, followed by console at 31% and PC at 27%. Whilst the entire industry is projected to grow, mobile gaming is projected to grow the fastest. It is also noteworthy that eSports revenue growth is 51.7% this year and is projected to grow by 35.6% into 2020. It appears eSports and mobile gaming are the future of the video game industry.

Competitive Analysis

The three primary competitors identified for Activision Blizzard are Electronic Arts, Nintendo, and Take Two Interactive. Electronic Arts produces titles such as *FIFA*, *Madden NFL*, and *The Sims*. EA is heavily reliant on console game sales and has a negative public image due to questionable business practices such as excessive microtransaction policies. Nintendo produces both consoles and video games. It has recently broken into the mobile scene, but still lacks any presence in the pc market. Take Two Interactive is known for titles such as *Grand Theft Auto* under the publisher Rockstar. It has minimal mobile presence and a high reliance on console game sales.

Valuation Assumptions

WACC: 6.79% | Terminal Rate: 3% | Terminal Year: 2021

Stock One Year Performance



Growth Analysis

The eSports market is projected to grow to approximately \$1.5 billion by 2020. Activision Blizzard is entering this market with its acquisition of MLG, which will help it broadcast its eSports titles. It is also investing in titles prone to eSports success such as the team-based shooter *Overwatch*. Besides involving itself in it, Activision Blizzard is actively leading the market by opening video game leagues such as the two \$20 million *Overwatch* leagues. The company is also growing into the mobile market with its acquisition of King.

Risk

The company is fairly franchise-reliant, whereas competition tends to focus on video game volume. This means that if the company's core franchises lose popularity, it faces significant fiscal and market consequences. Also, the growth catalysts are reliant on the success of eSports and mobile gaming.

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Sources: Bloomberg, Yahoo! Finance, NewZoo