

# Activision Blizzard (NYSE: ATVI)



Sector: Gaming

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$58.94	\$ 54.43	\$61.25	\$53.82	31.1	\$41.87B	0.75%	0.76

## Business Description:

Activision Blizzard is a leading global developer and publisher of interactive entertainment content and services on consoles, PC, and mobile devices. The company is made up of three main segments: Activision Publishing which is primarily for PC and console platforms, made up 37% of the company's revenue in 2019, and is well known for Call of Duty. Blizzard Entertainment which primarily develops software content for the PC, made up 28% of the company's revenue in 2019, and is well known for World of Warcraft and Overwatch. King Digital Entertainment which primarily develops mobile games, made up 34% of the company's revenue in 2019, and is well known for Candy Crush. Through these three segments, Activision Blizzard is able to cover the gaming industry across multiple platforms allowing them to capture a large part of the overall gaming market.

## Industry Trends:

As smartphones have grown in recent years, so has mobile gaming. As of 2019, the mobile gaming market is estimated to cover the most revenue generated in the digital games industry in the US. Additionally, digital format sales make up a majority of game sales coming in at 74% of all video game and computer sales in 2017. The Asian market for gaming is the largest in the world, making up 63% of global gaming market share as of 2016. Additionally, gaming has become more social as interactive gaming and streaming gain popularity.

## Investment Thesis:

We believe Activision Blizzard has been mispriced despite the many competitive advantages of the business. Firstly, we believe ATVI's revenue will benefit from the extension of the product life cycle for ATVI that comes with in game purchase, development packages, and add ons instead of only "hit" game revenue at the time of release. Additionally, as mobile gaming expands, we believe that ATVI is positioned well to capitalize on the mobile gaming market through King as well as cross platform games such as with Call of Duty Mobile. Finally, ATVI's in person gaming through things like e-sports drives retention and excitement about products that will allow ATVI to continue to thrive in years to come.

## Valuation Assumptions:

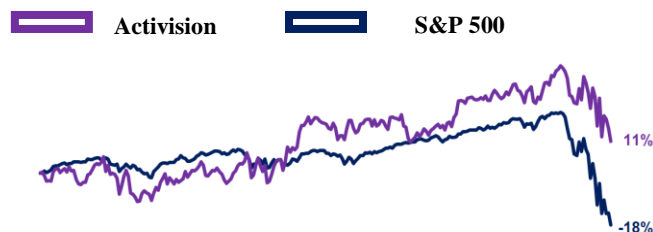
**Purchase if Current Price reaches \$52**

WACC: 9.0%

Perpetuity Growth Rate: 3.5%

Margin of Safety: 9.4%

## 1-Year Share Performance vs. S&P 500:



## Competitive Advantage and Analysis:

Activision Blizzard competes against several companies in the console, PC, and mobile gaming arena. No competitor manages to compete in all three segments to the degree that Activision Blizzard does. Well diversified revenue streams creates a defensible moat in the gaming arena as the company has the ability to quickly pivot and invest in a variety of opportunities sets. This is additionally bolstered by a balance sheet tied down with a strong cash position. Additionally, Activision carries several franchise names that have a high degree of "stickiness" with current consumers. Coupled with an expanding breadth of new products and monetization opportunities – Activision is a unique and appealing investment for the fund.

## Risks:

- Highly cyclical business model that in part relies on "hit" based games to win market share
- Concerns around Covid-19 heavily impact the companies' ability to host in-person gaming experiences for an unknown amount of time
- Games can become stagnant and consumers may drastically shift away from them

## Corporate Social Responsibility Highlights:

- Strick code of conduct and leader in ethical charters in all business service lines
- Provides tools to parents and guardians to identify safe games by classification and the ability to limit screen time
- Spearheads the Call of Duty Foundation which provides millions of support annually to veterans

## Report Prepared By:

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Sources: NetAdvantage