

An Acquisition Deal in the Gaming World

Meiyue Xiong

Wheaton Academy, West Chicago, Illinois, 60185, United States

Corresponding Author: Cynthia.xiong@wascholar.org

Abstract. The gaming industry has seen acquisitions big and small. In recent years, Microsoft's acquisition of Activision Blizzard topped the list with a total value of 68.7 billion dollars. This paper focuses on the deal as a case study, with reference to the value of both companies and potential risks. It aims to explore the motivation of both parties based on their perceived pros and cons of this acquisition, so as to delineate the logic behind this gigantic acquisition. After conducting multiple studies on both companies, this paper finds the deal worthwhile indeed for both sides, despite the higher potential risks imposed on Microsoft. Activision Blizzard has seen its public image tainted in recent years by rampant sexual harassment rumors and the resultant massive outflow of employees. This decreases its leverage over Microsoft and weakens its position in negotiations. On the other hand, appreciating the profit-making potentials of several big game IPs owned by Blizzard, Microsoft is willing to make a general purchasing offer at a premium (Activision Blizzard market value of about \$61.6 billion, but Microsoft acquired with \$68.7 billion). This is despite relevant concerns raised about the potential risks of digesting the latter's bad reputation. Overall, the paper argues that such compromises are cost-efficient for Microsoft, since the deal helps it gain a firm foothold in the gaming industry. Based on the study findings, the essay also brings into discussion many other factors required to complete a successful acquisition.

Keywords: Acquisition, gaming industry, metaverse.

1. Introduction

A sensational acquisition has recently taken place in the gaming world - Microsoft's acquisition of Activision Blizzard. Microsoft acquired Activision Blizzard at a premium of 7.1 billion dollars, which has led many people to question the purpose of the deal. Indeed, it is not immediately clear, what could make Microsoft pay a premium price for a game company troubled by bad reputation. This research provides an in-depth understanding of the deal, introducing the two companies and the deal with a multifaceted analysis of how Microsoft and Activision Blizzard developed; what they needed from each other in the deal and how the two sides negotiated and decided on the deal; as well as what the pros and cons were for both sides should the acquisition be eventually completed.

The deal can not be fully understood without heeding Microsoft's desire to stand firm in the gaming world. This requires a greater potential to enter the metaverse, having more famous IPs, and constant scaling up to attract a wider customer base. Activision Blizzard stands as a world-renowned game development company, but comes to harbor dire needs for a strong backer in the light of deteriorating reputation following sexual harassment scandals. Should Microsoft acquire Activision Blizzard, these problems can be effectively addressed and both parties see their demands fulfilled when completed the deal brings Microsoft a plethora of well-liked game IPs, rendering it the third largest company in the gaming world, and poising it at a favorable position to venture into the arena of metaverse; Activision Blizzard also benefits immensely from the deal by relying on Microsoft as a big backer and provider of rich resources as well as technical help. It is thus a win-win deal for both parties.

The paper can be organized as follows, section two is the background of Microsoft; section three explains why Microsoft chose Activision Blizzard; section four is a deal analysis, and finally part five is the conclusion.

2. Background of Microsoft

2.1 Microsoft origin

In 1975, Bill Gates walked out of Harvard and later convinced his friend Alan Paul from the Harvard Business School to do the same. The two of them then started Microsoft and went on to build the personal computer. Research and development, production, licensing, and the provision of a wide range of computer software services make up the core business. Microsoft's key offerings for people include Windows, Office, Internet Explorer, and Bing for software, and XBOX, Surface, and Lumia for hardware. Best recognized for its Microsoft Office line of productivity tools and its Windows family of operating systems, Microsoft has maintained its status as the leading supplier of computer software in the world.

Microsoft Windows is a standalone operating system released with a graphical user interface (GUI). From version 1.0 through Windows Me, MS-DOS served as the foundation for the operating system; as the 21st century began, Microsoft moved away from MS-DOS and into the NT kernel era. Windows is now a flexible operating system for desktop computers, tablets, smartphones, servers, and embedded systems [1]. In terms of market share, Windows continues to dominate the operating system industry. But despite such a successful operating system, its success has also been the result of more than thirty years of accumulation.

2.2 Microsoft's development

When Windows 1.0 was introduced in 1985, a big portion of it was not regarded as an operating system and lacked significant innovation. When Windows 3.1, which later dominated the East Asian market, was released in 1992 with new versions of Traditional Chinese and Simplified Chinese added, it was a revision of 3.1. Windows 95, another extremely well-liked operating system from Microsoft, was released in 1995. The Memorandum of Cooperation between Microsoft and the People's Republic of China on the Chinese version of Windows 95 project further solidified Microsoft's hegemonic position in East Asia [2]. When Windows XP was introduced in 2001, it was so well received that many counterfeit copies were produced. The release of Windows Vista in the winter of 2006 not only enhanced the user interface but also addressed the issue of application permissions. In 2009, Windows 7 was released, and it was both successful and unsuccessful. When Windows 8 was released in 2012, it received criticism for its significant UI changes. Windows 10, which is comparable to Xbox, was introduced in 2015. When version 10 was launched, he could interact with the Xbox environment more directly and added the Xbox console small assistance. Windows 11, a modified version of Windows 10, was finally published in 2021, however it is not as excellent as Windows 10.

Now that Microsoft has achieved great success, the corporation intends to expand Xbox, its gaming division. Microsoft has extensively invested in it, from the introduction of the Xbox Game Pass to the extension to PC and cloud gaming, and this investment is similar to a gamble [3]. Microsoft's CFO stated in 2015 that Xbox and video games are essential to Microsoft and constitute a significant part of its business, that gaming has integrated into the Windows ecosystem, that it is a promising industry, and that Xbox is a very powerful gaming brand. Microsoft purchased Rare, the studio that created games like Golden Eye 007 and Perfect Dark for Nintendo; in 2001, the year the first Xbox product was formally released; the Xbox 260 was introduced in 2005; in 2008 it became the first console among the three to sell more than 10 million units; the Xbox One was introduced in 2013, and it was soon followed by the Xbox One S and Xbox One X; the Xbox Series X, the last item. Additionally, Microsoft introduced the Xbox gaming pass in 2017, which is a popular and cutting-edge program [4].

3. Why Activision Blizzard

3.1 Wants and Needs

Activision Blizzard, one of the biggest game developers in the world, was created in 1979 by Jim Levy, David Crane, Larry Keplan, Alan Miller, and Bob Whitehead, the original founders of Atari. Games for consoles, PCs, and mobile devices are all part of Activision Blizzard's commitment to the gaming industry. Numerous well-known IPs are held by Activision, including the Hearthstone Legend and Overwatch series in addition to the Starcraft, Warcraft, Diablo, and Call of Duty franchises. The characteristics of Activision Blizzard meet exactly what Microsoft wants. The consumer market is the setting for Nadella's second metaverse application. One is that Microsoft already has its own Xbox, but since most of its games have been created by or acquired by other businesses, it is not very strong in the total consumer metaverse market. That demonstrates the benefit of Activision Blizzard's acquisition, which will significantly improve Microsoft's capacity for content creation. Second, while the mobile business is struggling, Microsoft's Xbox has 25 million users, mostly on TV. With the acquisition of Activision Blizzard, it will have more than 400 million users. Activision Blizzard's acquisition by Microsoft is significant from this perspective. Microsoft has the ability to fully combine the PC, TV, and mobile devices [5].

Previously Blizzard came to a halt as a result of several gender scandals, a culture of discrimination, significant staff departures, and other unpleasant news, even as the company's trademark event BlizzCon announced the postponement and postponed new information. Activision Blizzard's share price dropped more than 37% over the course of the last year; perhaps Microsoft decided that this was the ideal time to purchase, despite the fact that the business is also dealing with sexual harassment claims. There has been a lot of discussion regarding Blizzard from both internal staff and external users who believe that the company may be in an unstoppable downward spiral. This is when Microsoft unexpectedly showed up in the form of a potential savior, with a slice of pie soaring through the skies and surprising hitting the brain. Activision Blizzard has expanded the Xbox game library in addition to the well-known Blizzard and COD, a very lucrative piece of material. Activision Blizzard's stock price inevitably increased following the release of this information, making Microsoft's foray into the market well-timed [6].

Each party has its own business plans, with Microsoft using the "Console sale + game buyout" model (Transform console gaming with multi-terminal gaming subscription services; The successful implementation of this game subscription service relies on the rich content library, multi-terminal integration and the underlying strong cloud computing power, so as to weaken the physical barrier of game terminals and make game accounts become the terminal entry in a real sense, thus changing the existing game industry operation rules). And Activision Blizzard's business strategy is to turn it into a media company with its own platform. Microsoft-Satya Nadella, Microsoft's chief executive, said the acquisition of Activision Blizzard was meant to advance Microsoft's metaverse strategy. Because games are the gateway to the metaverse, they are the entertainment scenario most likely to be used first, and the one that the tech giants are currently fighting for. And Activision Blizzard side also expressed their thoughts, "for more than 30 years our incredibly talented teams have created some of the most successful games," said Bobby Kotick, CEO, Activision Blizzard. "The combination of Activision Blizzard's world-class talent and extraordinary franchises with Microsoft's technology, distribution, access to talent, ambitious vision and shared commitment to gaming and inclusion will help ensure our continued success in an increasingly competitive industry" [7]. When the business strategies of both parties are compatible, then they are the right choice for each other.

4. Deal Analysis

4.1 Negotiation

Activision Blizzard consents to all agreements, that Microsoft purchase Activision Blizzard at a price between 90 and 105 dollars per share rather than the initial 80 dollars per share. Microsoft has agreed to buy Activision Blizzard for 90 to 105 dollars per share, however they would feel more at ease with the lower price range. Microsoft has asked Activision to further examine the parameters of the reverse termination fee after the two companies reached an agreement at 95 dollars per share. The total cost of the deal was 68.7 billion dollars, inclusive of its net cash. After the purchase, Microsoft will become the third largest company in the gaming industry after Tencent and Sony. Although now owned by Microsoft, Activision Blizzard is allowed to keep its CEO and original team members.

Activision Blizzard stockholders will not be compensated for their shares of Activision Blizzard common stock if the merger agreement is not approved by Activision Blizzard stockholders or if the transaction is not completed for any other reason. Activision Blizzard will continue to be a separate, publicly traded company that is registered under the Exchange Act, listed on Nasdaq, and trade its common stock. It will also continue to submit regular reports to the SEC. A considerable decrease in the price of Activision Blizzard common stock is also conceivable if the merger is not completed, depending on the specific reasons why it was not completed; not only that, Activision Blizzard will be obligated to pay Microsoft a \$2,270,100,000 termination fee under specific conditions when the merger agreement is terminated, also when the merger agreement is terminated, under certain conditions, Microsoft will be compelled to pay Activision Blizzard a reverse termination fee in the range of \$2,000,000,000 to \$3,000,000,000. But once the merger is complete, Activision Blizzard will keep operating as the sole survivor and a Microsoft subsidiary. The stock market will no longer have Activision Blizzard listed. Activision Blizzard won't be a publicly traded corporation after that. In the event of the merger, Activision Blizzard shareholders will only be eligible to receive the merger consideration and will not own any shares of the capital stock of the surviving firm [8].

4.2 Potential Issues

Once the acquisition is complete, Microsoft will have provided Activision Blizzard with a decent deal; the company has been dogged by unfavorable criticism. However, there is an opposite side. There is no future growth or earnings participation for stockholders (that Activision Blizzard's stockholders will miss the chance to increase potential long-term value through Activision Blizzard's effective operation as a standalone public corporation). The difficulties include the lack of attraction of key individuals and the potential loss of key management and other staff; distraction of management attention (which can prevent Activision Blizzard from conducting its business as usual); no solicitation and termination fee (the provisions of the merger agreement that restrict the ability of Activision Blizzard to solicit or negotiate alternative transactions and that such provisions and the potential requirement to pay Microsoft a termination fee of \$2,270,100,000 may deter a potential acquirer from proposing an alternative transaction for Activision Blizzard that would provide Activision Blizzard stockholders with greater value than the merger); transaction expenses (Regardless of whether the merger is completed, transaction costs and retention costs will be incurred in connection with the merger) [9].

This acquisition will accelerate the growth in Microsoft's gaming business and will provide building blocks for the metaverse. Xbox will have 36 available gaming studios and many well-known IPs after acquiring Blizzard. However, it looks like the effects on Microsoft will be more favorable, but there is always another side to every story. The EU and the Federal Trade Commission Deals by major tech giants raised concerns from the Federal Trade Commission and the EU that they would result in damaging monopolies; bad workplace, Activision Blizzard has faced intense criticism from all angles since July 2021 as a result of claims of toxic and allegedly illegal behavior in and around its workplace; the public opinion of Blizzard, in addition to its cultural problems, Blizzard's public image isn't in the best shape either when it comes to video games. Although Blizzard boasts some of

the most remarkable intellectual property (IP) in the whole gaming industry, many of those titles aren't doing well right now [10].

5. Conclusions

Microsoft is a well-known company with abundant funds and a steady background while it clearly lacks the terms fitted to step into the modern game industry. While Activision Blizzard is experiencing its low point with rumors and financial problems, it is undeniable that they have a strong leverage because of their advanced technology in game development. As long as Microsoft gives out a reasonable price, it is likely that they will find a ZOPA (Zone of Possible Agreement) quickly and fulfill both parties' wishes. Carrying out the deal helps Microsoft to take a grip in the marketplace where they are currently weak at and provides Activision Blizzard with the opportunity to focus their technological advancement. Obviously, this acquisition deal is a win-win for both parties.

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