

Acquisition Analysis: Evidence from Microsoft's Acquisition of Activision Blizzard

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Abstract. As a matter of fact, the Internet era is evolving quickly these days, and the video game business in particular has a lot of room to grow in recent years. To be specific, a number of technology companies are continually purchasing and merging to increase their market share. At this point, Microsoft revealed the shocking announcement that Activision Blizzard would be acquired by the company for a whopping \$68.7 billion. In the end, this acquisition helped Microsoft establish a strong foothold in the gaming industry, making it one of the top three gaming companies and facilitating its faster entry into the meta-universe, despite the company facing numerous challenges and risks during the process. On this basis, this study will select the target to carry out a detailed case study. The analysis of this purchase case in terms of background introduction, acquisition process, motivation for acquisition, financial analysis will serve as the basis for this article, and the findings will offer guidance on the mergers and acquisitions of technological companies.

Keywords: Acquisition, Microsoft, Activision Blizzard, game industry.

1. Introduction

The Video Game Industry began modestly and primarily used arcades to distribute its products when it first developed in the 1970s and 1980s. But since then, the business has expanded to become the biggest and fastest-growing segment of the entertainment industry, surpassing the motion picture and music industries combined [1]. The video game industry is expanding much faster now that millions of families have internet access, especially in light of the Covid-19. A lot of social institutions, including restaurants, movie theaters, recreation centers, and museums, were temporarily shuttered. People's common techniques for relieving worry and stress have been outlawed or rendered unfeasible as a result of the actions taken. People who go outside have difficulty engaging in face-to-face communication because of things like masks and physical barriers that make it difficult to see gestures and hear voices effectively. Those who are confined to their homes and require social interaction have had to seek alternative means of relieving their tension and anxiety. With all the safety measures and issues, playing video games has become a great way to pass the time [2]. In 2020, the revenues of the games industry were larger than the film industries and the number of people who report playing games has never been higher [3]. By 2027, it is anticipated to surpass US\$ 521 billion in value [1]. After realizing such a significant financial opportunity, Microsoft announced on January 18, 2022, that it would acquire Activision Blizzard for \$95 per share, making this the largest acquisition in the IT sector.

This essay's goal is to examine the case of Microsoft's purchase of Activision Blizzard's corporate reorganization, thoroughly examine the reasons behind the purchase, the issues that surfaced, and the variables that affected the purchase, and investigate the implications for both Activision Blizzard and Microsoft. The methods by which Microsoft acquired the company and the effect on the whole video gaming industry. To learn important lessons and gain worthwhile experience from it.

2. Case Description

Bill Gates and Paul Allen established the international computer technology business Microsoft Corporation in 1975. The company's primary economic activities include the creation, production, licensing, and provision of a broad range of computer software services. The Microsoft Office

software suite and the Windows operating system are the products that serve as examples. It is the biggest supplier of computer software worldwide and a pioneer in the creation of software for personal computers. Even though Microsoft is mostly known for its software, over time the firm has progressively moved into the creation and production of hardware, with the Xbox game system being one of the most notable examples. Through the selling of gaming software and console hardware, Microsoft's gaming sector has grown to be one of the company's primary revenue streams. Microsoft has also progressively taken up residence in the gaming industry.

Activision Blizzard, one of the biggest publishers and producers of video games worldwide, was founded in 1979. Activision Blizzard has dedicated itself to the game industry since its founding. Furthermore, the corporation engages in the creation, marketing, and distribution of entertainment content. Activision, Blizzard, and King are the three primary, independently operating entities that make up Activision Blizzard. Activision Blizzard is the firm behind several internationally renowned titles, including World of Warcraft, Legend of Hearthstone, Overwatch, and the Starcraft, Warcraft, Diablo, and Call of Duty series.

Activision Blizzard's acquisition by Microsoft has reportedly violated antitrust laws in a number of nations and areas, making the clearance process difficult. On January 18, 2022, Microsoft announced that it was acquiring Activision Blizzard. On July 6, 2022, the UK antitrust agency opened an investigation into the transaction. Saudi Arabia became the first nation to accept Microsoft's acquisition on August 21, 2022. A month after the UK's Competition and Markets Authority (CMA) declared on September 1 that the deal would drastically lessen competition in the gaming console, cloud gaming, and multi-game subscription services markets, the European Commission started assessing the deal and on November 9 initiated a thorough investigation into the matter. On December 9, the Federal Trade Commission (FTC) also brought legal action against Microsoft for acquiring Activision Blizzard.²⁰²³ The European Union formally warned Microsoft about antitrust violations on February 4, 2023, outlining the ways in which the acquisition would jeopardize fair competition in the video game industry. Japan's antitrust agency declared on March 28 of that year that the transaction would not impair competition. On April 26, though, the transaction was formally denied by the UK CMA.²⁰²³ In light of Microsoft's corrective actions, the EU approved Microsoft's acquisition of Activision Blizzard on May 15. Eight days later, China likewise declared that it had approved the deal without any conditions. Microsoft appealed the UK's decision to ban the deal one day later. On June 12, the US FTC asked the court to temporarily halt the acquisition; the following day, the court granted the request. But after losing multiple times, the FTC dismissed the action on July 20 after the U.S. judge denied its motion on July 11. The CMA in the United Kingdom first gave its approval to Microsoft's acquisition of Activision Blizzard on September 22, and on October 13, the day of the transaction, Microsoft also completed the acquisition of Activision Blizzard.

Table 1. The timing of Microsoft's partnership agreements with various tech companies.

Time	Event
2022.12.7	Signed a ten-year agreement with Nintendo
2023.3.8	Announced it will license Call of Duty to Sony for 10 years
2023.3.14	Signed a ten-year agreement with Ukrainian cloud gaming provider Boosteroid
2023.3.15	Signed a ten-year agreement with Japanese cloud gaming service provider Ubitus
2023.3.22	Ten-year partnership with NVIDIA to bring Xbox's PC games to the GeForce Now cloud gaming platform
2023.4.11	Signed a ten-year agreement with British telecom company Everything Everywhere
2023.4.28	Signed a ten-year agreement with European cloud gaming platform Nware
2023.8.22	Transferred 15-year cloud streaming rights to all its games to Ubisoft Entertainment

Microsoft has also made concessions and partnered with a number of IT businesses worldwide, including several of the leading cloud gaming companies, in order to pass antitrust scrutiny in various countries and regions, as shown in Table 1.

3. The Motivations of Acquisition

3.1. Enhancing Competitiveness in Gaming Industry

The gaming industry has always been dear to Microsoft, a behemoth in the tech sector. It was first seen in the 1980s. Three years before to the release of the first version of the Windows operating system, in 1982, Microsoft launched its initial version of Simulated Flight. It is noteworthy that the Microsoft Simulation Flight series is one of the longest running PC game series ever, with updates still being released on a regular basis [4]. The Xbox, the most well-known product of Microsoft's gaming division, was released in 2001, primarily for television. Similar to console game producers Sony and Nintendo, Microsoft's gaming division makes money from the combination of sales of game software and console hardware. Nonetheless, the console gaming industry is defined by game exclusivity, in which developers typically limit their games to use solely on their own platform. Microsoft's deficiency in game development and distribution, as well as its lack of iconic IP images, has made it less competitive with Sony and Nintendo, shown in Table 2 from VGChartz. Furthermore, Activision Blizzard, one of the biggest independent game developer and publisher in the world with a wealth of iconic intellectual property, makes up for Microsoft's disadvantage in the host gaming market with this acquisition, which will only help the company become even more competitive in the industry.

Table 2. The market share of the top three console game developers from 2020-2023.

Current	2020	2021	2022	2023
PS5	-	29.2%	23.8%	52.6%
Xbox X S	-	13.1%	24.3%	14.4%
Switch	100.0%	57.6%	51.9%	33.1%
Legacy				
PS4	70.5%	97.2%	98.0%	100.0%
Xbox ONE	29.5%	2.8%	2.0%	-

Activision Blizzard is made up of three main business units: Activision, which develops console games; Blizzard Entertainment, which concentrates on PC games; and King, which develops, distributes, and conducts research on casual mobile games. Activision Blizzard's ability to have a certain number of users across PC and mobile platforms will surely aid Microsoft in expanding its user base across a wider range of gaming platforms. These are also covertly pushing the creation of Microsoft Cloud Games, a brand-new genre of gaming based on cloud computing technology that can free players from the constraints of hardware requirements. Platform developers just need to boost server performance to enable users to play a variety of masterpieces, thereby granting universal access to the game. Furthermore, Microsoft holds the second-largest global market share for cloud computing, suggesting that their foray into the cloud gaming space is well-founded. Despite the bumpy ride in the cloud gaming industry, Microsoft appears determined to make some headway. To that end, it established a department dedicated to research and development, and Activision Blizzard's addition to Microsoft's cloud gaming division undoubtedly adds a user base and some technology.

3.2. Entering Gaming Metaverse

Many people associate the term "Metaverse" with Neal Stephenson's dystopian cyberpunk novel Snow Crash from 1992 [5]. The term "metaverse," which combines the notion of "transcending" with the word "universe," has been identified as the next-generation (NextG) Internet. With the help of the Internet, it seeks to establish a common virtual environment where users, portrayed as digital avatars, can interact and converse much like they would in the real world [6]. There are many uses for the metaverse, including socializing, entertainment, the workplace, and more. As a result, multiple global IT companies are vying for dominance in this space.

As the dominant player in the metaverse at the moment, Facebook began to make inroads by purchasing VR equipment manufacturer Oculus in 2014. In 2021, it acquired a number of VR application companies, including a number of VR game companies. On October 28, 2021, Facebook changed its name to Meta, further extending its reach in the metaverse. A few days later, Microsoft unveiled a comprehensive metaverse layout, with an initial emphasis on the enterprise metaverse and subsequently the Xbox gaming platform. Actually, though, Microsoft announced its intention to further meta-universe development as early as 2010 when it launched Kinect, the antecedent of HoloLens, the AR headset currently holding the greatest market share. Given that the gaming industry is experiencing a boom in the realm of meta-universe precursors, Microsoft would be foolish to pass up this chance. Activision Blizzard, the largest third-party game developer and publisher in the world at the moment, will surely serve as the cornerstone for Microsoft's entry into the gaming meta-universe. Microsoft's foray into the gaming industry is arguably based on its acquisition of Activision Blizzard, which is presently the largest third-party game developer and publisher in the world.

4. Analysis

Every business wants to increase earnings, and Activision Blizzard achieved this by setting records for net income and profit in 2021 and 2021 alone, totaling \$8.803 billion and \$2.699 billion, respectively. The annual report indicates a decline in Activision Blizzard's product sales, despite the company setting records by relying on in-game microtransactions and increased subscription service sales as shown in Fig. 1. This suggests that Activision Blizzard's ability to develop new intellectual property has begun to wane and that it must now rely solely on its classic IPs to generate profits, which may not be ideal for the growth of a gaming company. Additionally, internal Activision Blizzard issues in 2021 caused a great deal of concern for the advancement of hidden risks in the future. A Wall Street Journal writer detailed the alleged rapes, sexual harassment, and frat-boy culture within Activision Blizzard's workplace in November 2021. The piece also detailed the departure of key business officials, resulting in a significant turnover inside the organization [7]. Activision Blizzard was also fined for breaking whistleblower protection laws and neglecting to set up employee complaint channels. Along with slow revenue growth, the company also saw a breakdown in cooperation with its Chinese distributor, NetEase. Activision Blizzard's net earnings started to plummet in 2022, and the company's active user base started to dwindle when compared to its peak in 2021. Even though it's still one of the biggest game developers globally, Activision Blizzard is having serious problems right now.

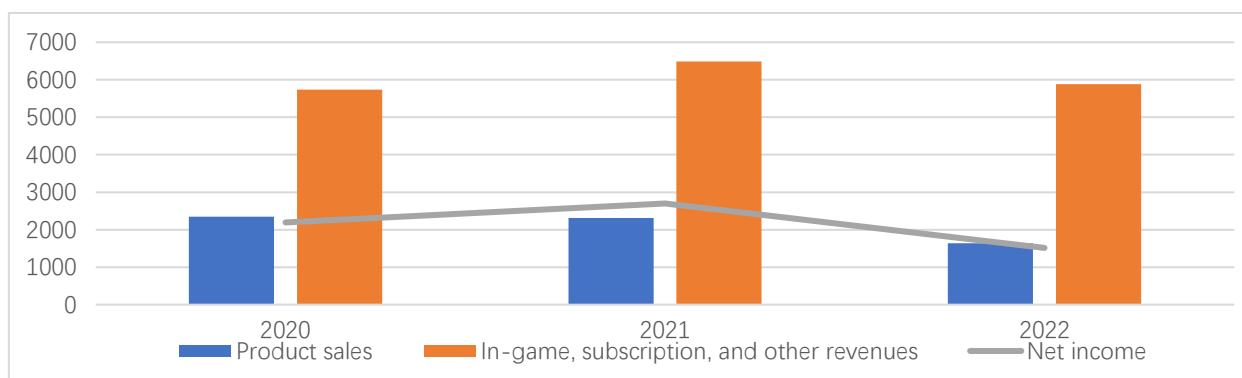


Fig. 1 Components of Activision Blizzard's Net Revenues and Net Income for 2020-2022.

The whole path of Activision Blizzard's stock price following the lawsuit filed by the California Department of Fair Employment and Housing is depicted in Fig. 2. The graph demonstrates unequivocally the sharp decline in Activision Blizzard's stock price within the first eight months following the lawsuit's filing [8]. While all investors appear to be pessimistic about the company, Microsoft, i.e., one of the top three tech giants in the world, doesn't seem to share that view and is still prepared to make a general offer at a premium (Activision Blizzard is valued at approximately

\$61.6 billion, but Microsoft is purchasing it for \$68.7 billion) [9]. According to Microsoft's annual report, the company has more than \$10 billion in cash on hand. Rather than saving money, it would be wiser to invest in businesses that could aid in their own development. Activision Blizzard, the market leader in the gaming industry, has a lot of potential for growth, and its advantages can offset Microsoft's drawbacks. Activision Blizzard may be in the red, but its long-term debt is only \$3.6 billion, which is not a large amount for Microsoft.

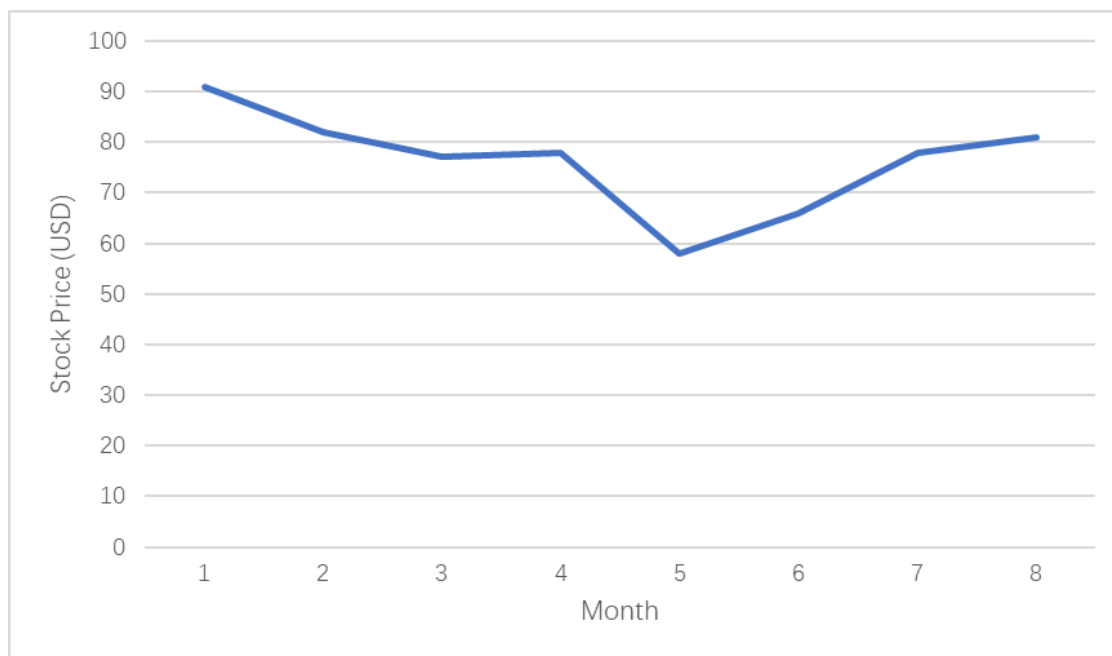


Fig. 2 Graph of the price of Activision Blizzard stock on the first of every month from July 20th 2021 – February 1st 2022.

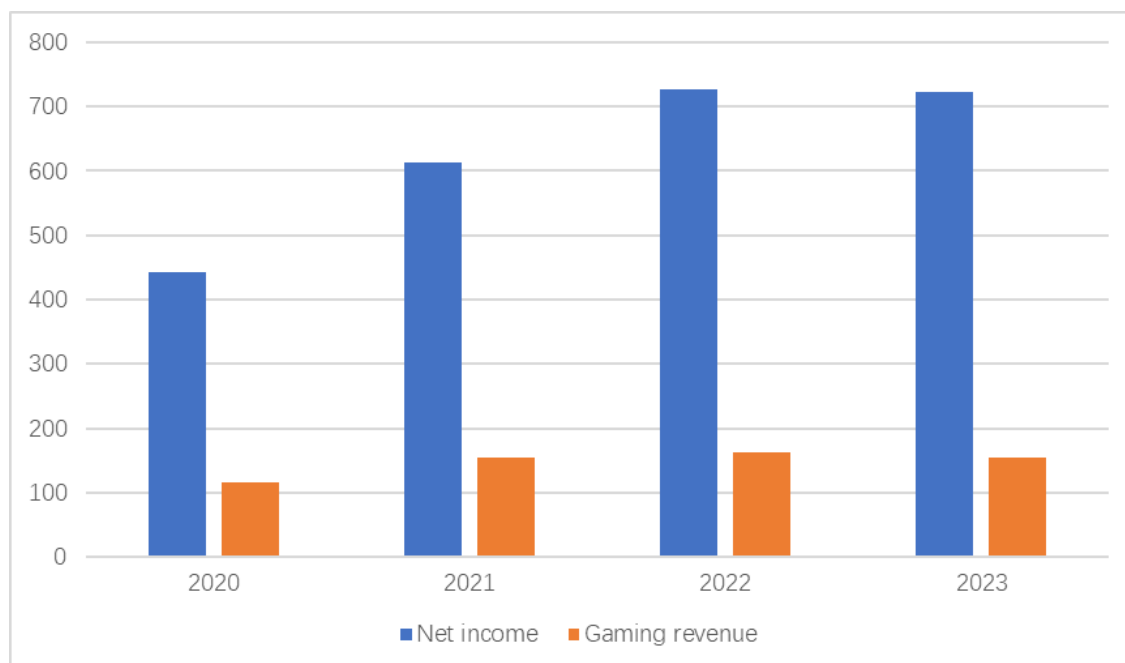


Fig. 3 Microsoft's net income and net revenue from its gaming division from 2020-2023.

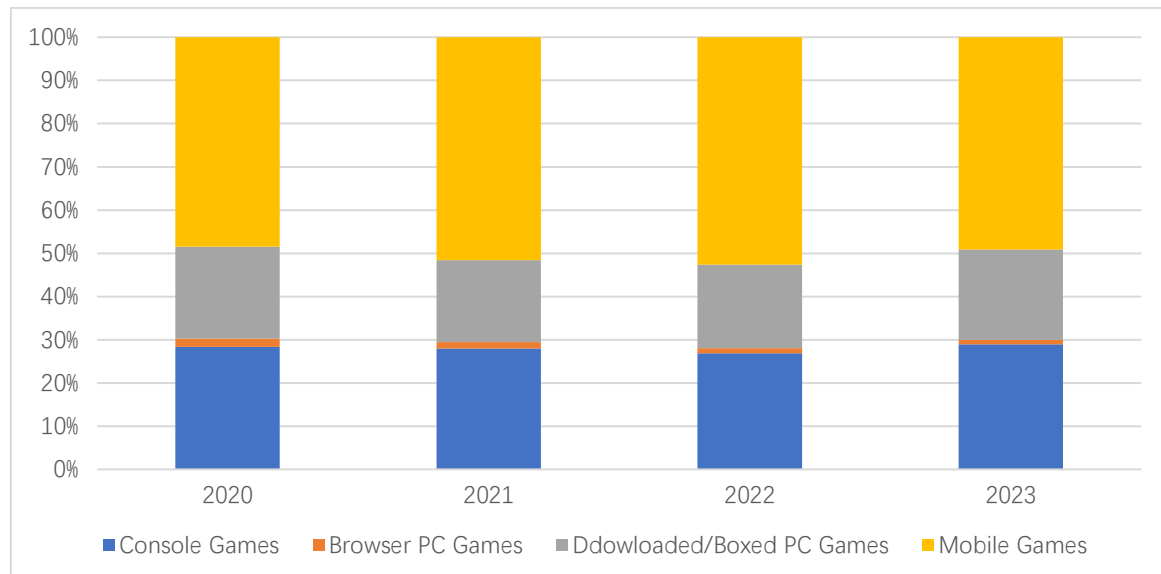


Fig. 4 Share of Different Platforms in the Gaming Market from 2020-2023.

Despite the Activision Blizzard acquisition, Microsoft was able to sustain net income growth. However, in 2023, the company failed to report a rise in net income, primarily as a result of a drop in sales of its Windows systems and related devices. The company attributed this decline to customers starting to migrate to cloud services. Despite Activision Blizzard's successful acquisition by Microsoft in 2023, the latter's gaming division saw a slight decline in revenue, shown in Fig. 3. This was primarily because Microsoft compromised during the acquisition process, forcing Activision Blizzard's games onto rival platforms. Additionally, Xbox's hardware sales were not significantly impacted by the acquisition, and Newzoo reports that the gaming market has long since started to shift towards mobile, causing Xbox sales start to drop, shown in Fig. 4.

5. Suggestion & Implications

Despite having successfully acquired Activision Blizzard, Microsoft still has issues to resolve before it can improve both Activision Blizzard and Microsoft. The most crucial thing is to develop a positive corporate culture and find solutions to the issues that Activision Blizzard has created. A strong corporate culture can inspire employees' potential and strengthen their sense of belonging. Corporate culture is defined as the values that an organization develops throughout the course of long-term production and operation. Several complaints against Activision Blizzard center on certain executives' alleged disrespect for staff members, which contrasts sharply with Microsoft's "people-oriented" business model. Consequently, Microsoft must make amends with Activision Blizzard by tightening managerial discipline and harshening sanctions for inappropriate behavior. This will help to transform the company's corporate culture and foster an atmosphere that will support employee development and the company's overall growth [10].

Second, Microsoft must continue to innovate and create fresh IP representations. In the constantly expanding game industry, where consumers have an increasing number of options and competition, game companies need to establish a strong intellectual property (IP) image. Both Microsoft and Activision Blizzard will lose customers and be unable to accomplish long-term development if they are simply content with Activision Blizzard's traditional IP image. To improve client stickiness, Microsoft needs to keep releasing IP pictures that reflect current trends.

After completing the largest acquisition in gaming history, Microsoft soared to become the third-largest game maker in the world, trailing only Tencent and Sony. This helped to propel the growth of the gaming industry overall, as is common in the gaming and even tech industries, and will offer some experience for future tech company mergers and acquisitions.

6. Conclusion

Microsoft, a massive technology firm, has always been at the forefront of technical advancement; the company's future development will focus on cloud services and meta-universe. Activision Blizzard's acquisition of Microsoft would undoubtedly accelerate the development of Microsoft's cloud games and even cloud services, even though the firm will grant cloud gaming rights to other companies over the course of the next ten years. Although the meta-universe is not yet formally established, Microsoft will find it easier to break into the market following its acquisition of Activision Blizzard. The growth of cloud services and the meta-universe may benefit from this acquisition in the long run, but for now, it has only increased Microsoft's market share in the game industry. It is obvious that this transaction has more advantages than disadvantages.

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