

## An Option Strategy on Activision Blizzard, Inc.

July 21, 2021 / Jeffrey Hirt vloptions@valueline.com

Activision Blizzard, Inc. (**ATVI**; \$90.99) develops, publishes, and distributes video games for personal computers, consoles, and mobile devices. It monetizes its software through subscription, full-game, and in-game sales. It also licenses software to third parties and operates e-sports leagues.

The shares have traded sideways over the last few months, despite an excellent first-quarter earnings report. Revenues jumped 27%, to \$2.275 billion, while adjusted earnings grew 29%, to \$0.98. Both figures topped expectations. Guidance for the June quarter (result slated for release on August 3<sup>rd</sup>) was also upbeat. Management called for 11% and 12% top- and bottom-line growth, respectively. That would be a solid showing against steep prior-year comparisons. During the pandemic, video games gained even more popularity, as a convenient and relatively affordable means of entertainment.

The company sports an ample \$9.3 billion cash balance. Total debt, meanwhile, was just \$3.6 billion entering the second quarter. This net cash position should help Activision fund acquisitions or other growth objectives. The company has a solid acquisition track record and management views deals as a key component to the business strategy.

Broadly, option premiums look affordable in the current environment. That holds true for some ATVI options. In the example we have highlighted below, the ask premium looks attractively priced, relative to the underlying stock's short-term upside potential. The option rank is favorable for call buyers (1), as is the Timeliness rank of the underlying stock (1, Highest), suggesting outperformance over a six- to 12-month period.

This call buy option has a strike price of \$97.50, or about 7% out-of-the money, and expires six months out, on January 21<sup>st</sup>, 2022. It may be suitable for investors that seek leveraged long exposure to this company or the entertainment technology space. If the price of ATVI stock were to quickly advance 10%, the call buyer could expect this position to roughly double, all else being equal.

Underlying Stock/Index		Industry	Stock Ticker	Option Ticker	Common Price	Dividend Yield	Common Rank	Tech Rank
Activision Blizzard Inc		Entertainment Tech	ATVI	ATVI 220121C00097500	90.82	0.56%	1	3
General Info		Volatility & Leverage		Naked Options	Writer (Bid)	Buyer (Ask)	Covered Call Info	
Call/Put	C	Relative Vol.	456.41	Premium	4.45	4.60	Covered Call Rank	2
Expiration	01/21/22	Hist.Vol.	34.15%	Est.Premium	5.38		C'vd B/E	86.11
Strike Price	97.5	Forecast Vol	34.29%	Implied Volatility	26.66%	27.26%	C'vd Rel. Vol.	34
% In/Out	-7.36%	Forecast Vol Adj.	30.38%	Under/Over Valued	-12.23%	-10.25%	C'vd % p.a.	10.73%
Delta	40	Up 10%	100.90%	Rank	3	1	C'vd Protection	5.19%
Volume	3	Down 10%	-61.37 %	Prob.I.T.M.	38.21 %		C'vd Max Profit	13.17 %
Open Interest	534	Theta x 100	-1.98	Prob I.T.M. (Implied)	36.63 %	36.91 %		

*Investors should carefully consider their own suitability requirements along with company specific details to determine if taking a position in the option listed in this report is warranted.*

*At the time of this report, the analyst did not have positions in the equities mentioned.*