NASDAQGS: ATVI

Activision Blizzard Inc.

52-Week Range: $45.79 - $87.73

Current Price: $81.42

Date of Price: 08/17/20

Market Cap (B): $63.17

Shares O/S (M): 776

Dividend Yield: 0.50%

YTD Return: 40.73%

Price Target: $73.87

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Company Overview

Activision Blizzard, Inc is an international content creator that primarily develops video games and entertainment services to its audience through consoles, computers, and mobile devices. The company's operations are active in the Americas, Europe, the Middle East, Africa, and Asia Pacific. There are 3 components that Activision operates through, Activision Publishing, Inc, Blizzard Entertainment, Inc, and King Digital Entertainment. Through these components, Activision provides subscription services, full-game and in-game sales, and licencing to third or related-party companies. The company aims to produce quality driven products and enticing experiences on an annual basis and brings consistent engagement through its products through immersive content and player investment opportunities.

Activision Publishing, Inc. (Activision) is a leading global creator and publisher of entertainment software, products, and services mainly for consoles. This segment mainly distributes its content through retail, digital, in-game, full-game and third-party licensing. Furthermore, the Call of Duty League, a professional esports league for Call of Duty also operates under Activision. This component's key product franchise is the renowned Call of Duty. A first-person shooting game that has been the number one console franchise for the last 10 to 11 years. In 2019, Activision also developed a mobile version, Call of Duty: Mobile which is available on Android and iOS and has exceeded 150 million installations.

Blizzard Entertainment, Inc. is a global creator and publisher of interactive entertainment services and products mainly focused for the PC platform. Blizzard distributes its content in the same fashion as Activision publishing does. Blizzard hosts its own online gaming service through Battle.net where users can download Blizzard and Activision content and interact with other players through its messaging system. Moreover, the Overwatch League, the first major professional esports league also operates under Blizzard. This segment's key product franchises are World of Warcraft, Hearthstone, and Overwatch. World of Warcraft is a subscription-based massive multi-player-online role-playing game (MMORPG) for PC users, Hearthstone is an online card-based game that is available on the PC and mobile platforms and Overwatch is a team-based fantasy first-person shooter.

King Digital Entertainment is another segment of Activision Blizzard that creates entertainment content and services. They specialize in products for the mobile platform including Google's Android and Apple's iOS. King's products are free to play, however, there are a variety of in-game features that can be bought to enhance consumer experience. King's flagship product is the popular Candy Crush which is a "match 3" game for mobile and PC devices, originally distributed on Facebook.

Since the company's incorporation in 1979, they have left their mark by producing game after game of endless entertainment for their audience. They are able to repeatedly capture their audience's attention by constantly innovating and developing new and riveting content.

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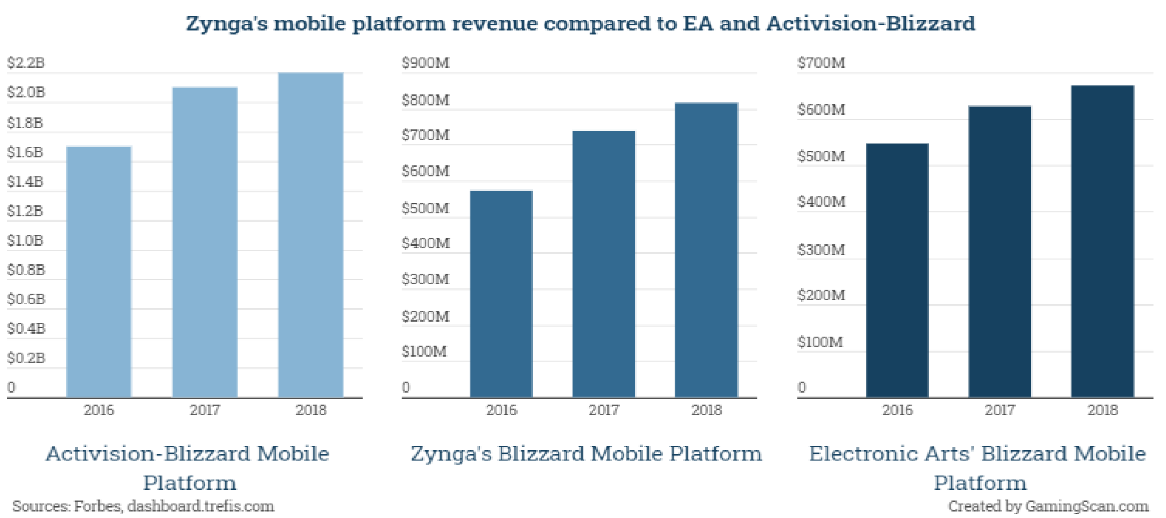
Qualitative Analysis

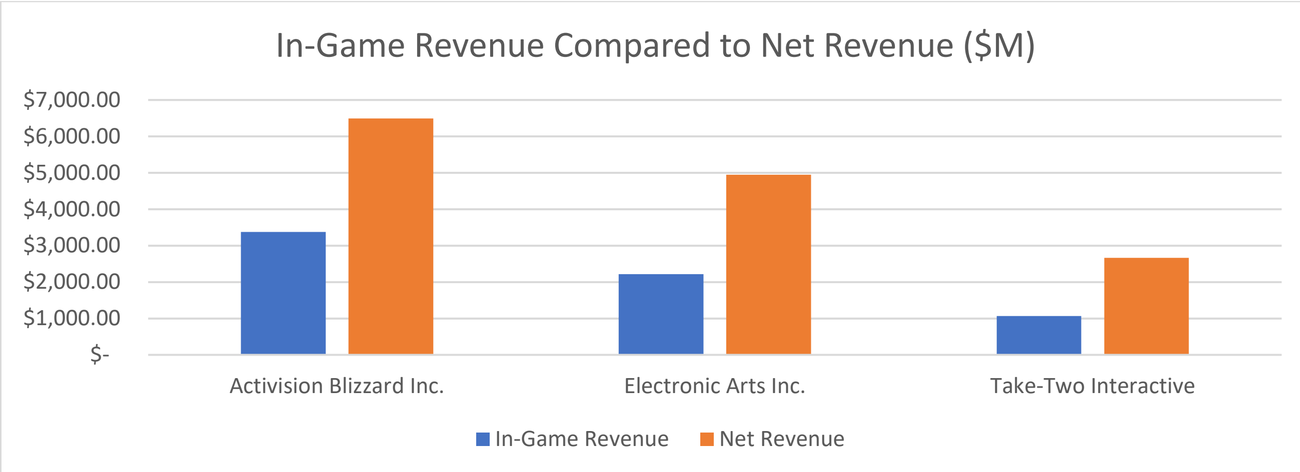
Competitive Advantage

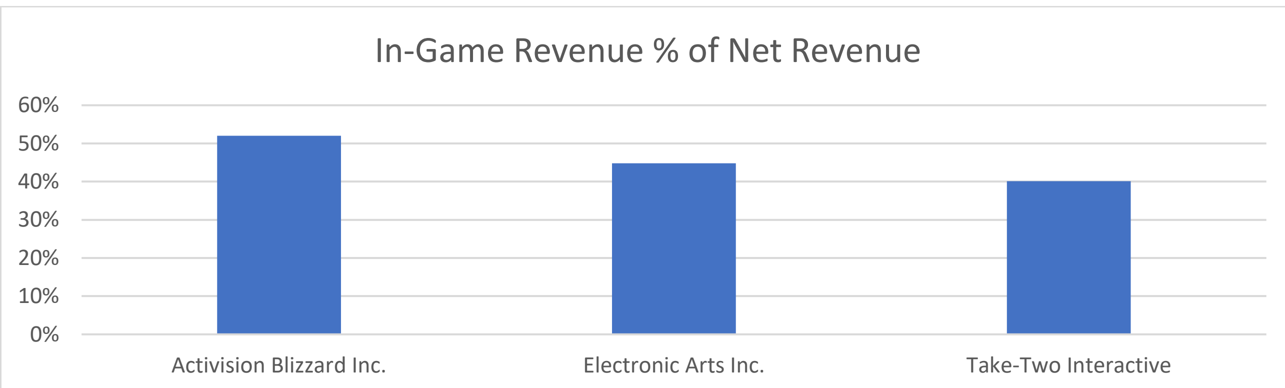
Activision's most notable advantage against its competitors is its size and dominance over anything related to the gaming industry. The resources that Activision has allows it to create world renowned games that not only attract but also retain every single one of its players. Currently, the company's platforms have 384 million active users and each user spends around 50 minutes on Activision's games daily. The company's wide breadth of games also allows them to engage with gamers of any age on any platform, whether it be console, PC or mobile. After the company's acquisition of Blizzard Entertainment and King Digital Entertainment, The company has expanded the variety of games it offers, adding strategic games such as World of Warcraft and Hearthstone as well as mobile games such as the beloved Candy Crush Saga to its arsenal. Speaking of Candy Crush, this game was the catalyst for Activision's prominence in the mobile gaming industry as the app has been in the top spot for both Apple's app store and Google's play store. In addition to Candy Crush, Activision has released a mobile version of their famed Call of Duty which has topped the charts swiftly after their release and has maintained a top spot since. The company's edge in the mobile world is clearly defined through its performance in comparison to its peers Zynga and Electronic Arts. These two companies' mobile revenues pale in comparison to Activision Blizzard's.



Another contributor to Activision's scale in the market is its involvement in the competitive gaming league, e-sports. Currently, Activision's ownership over the Overwatch and Call of Duty esports league allow the company to yield tremendous value from the continuous growth of the esports industry. With over 35 million registered users in just Overwatch alone, and sponsorship interest from both HP Inc and Intel Corporation, Activision's investment in esports will be sure to help the company gain an edge over its competitors.

In comparison to Activision Blizzard's competitors, their performance and user engagement towers over the likes of Electronic Arts and Take-Two Interactive. An impactful catalyst for Activision's growth is the release of their latest game, Call of Duty: Warzone which is a free-to-play battle royale game that has racked in 60 million players. In addition, in 2019, Activision Blizzard has generated 52.0% of its total revenue from in-game spending as compared to EA which generated 44.7% and Take-Two who generated 40.1%.



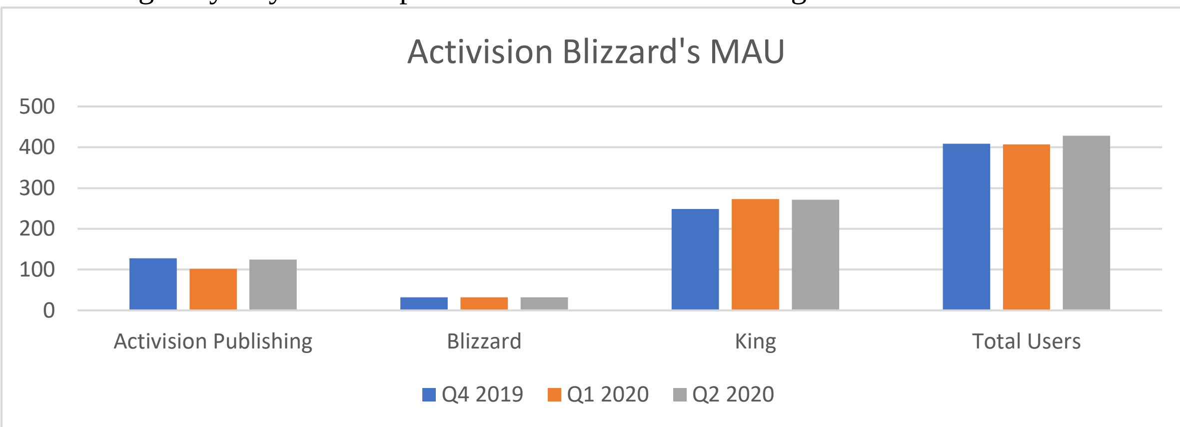


This is a clear example of how Activision Blizzard immerses their users in their unique content and conveniently provide users the opportunity to make investments for themselves in the game, leading to higher in-game revenue margins.

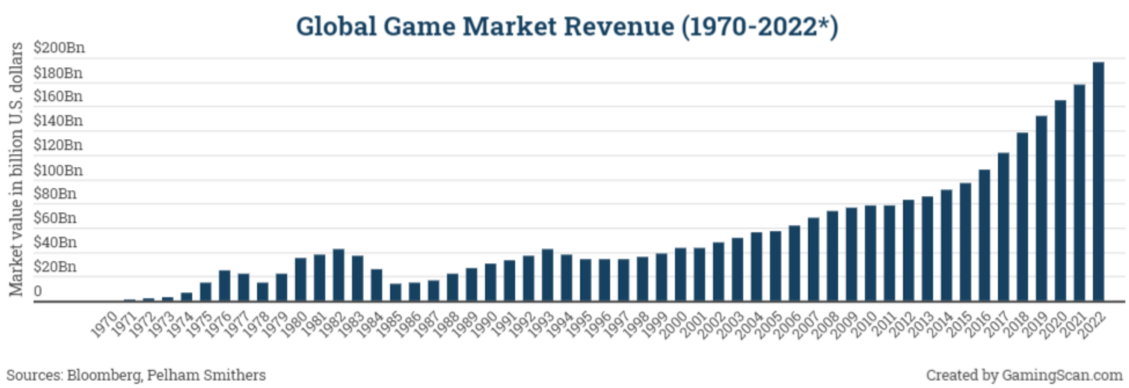
Activision's plethora of products and services across the mobile, console and PC platform help the company attract a broad range of customers. By consistently delivering enticing products as well as providing a competitive platform for users that helps foster interest and improvement in their products, Activision is sure to maintain its advantage and position over its competitors in the long run.

External Analysis

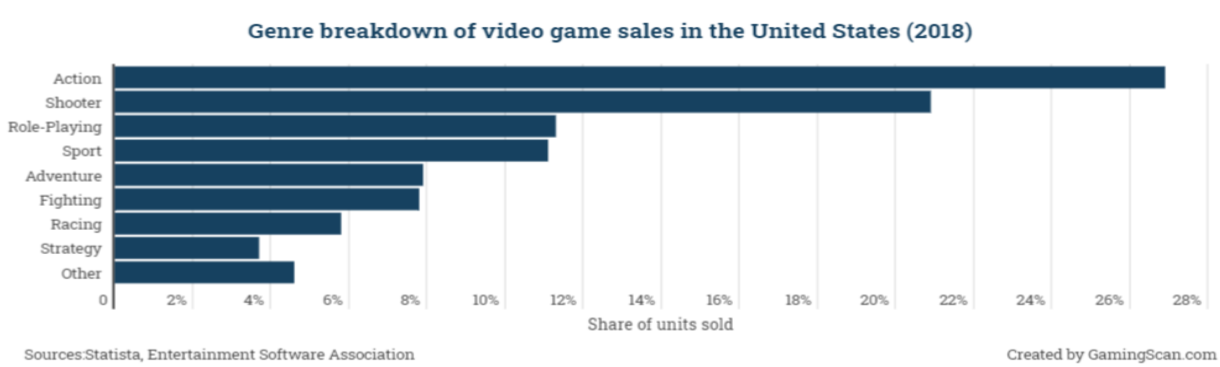
In the beginning of 2020, the notorious COVID-19 virus began to spread across the world, causing detrimental damage to the economy as well as to the health of many. In order to minimize the spread of the virus, governments implemented a quarantine procedure for all. Companies have implemented a work-at-home plan for most of their employees as well as temporarily close any physical stores that they own, and citizens have been confined to their own homes. Activision Blizzard Inc. remains resilient as their MAU (monthly active users) have grown from Q4 in 2019 to Q2 in 2020. Both Activision Publishing and King Digital have enjoyed growth over this period as Blizzard sees a stable trend from their users. As people are staying home, they have more opportunities to use Activision Blizzard’s products and services and will arguably stay on their products and services for a longer duration of time.



The gaming industry also shows a promising future for Activision Blizzard’s growth. Currently, the global game market is bringing in $164.6 billion in revenue and is expected to increase up to $196.0 billion in revenue in 2022.



Furthermore, according to Statista, the top 3 most popular video game genres in the United States, are action, shooter and role-playing. Activision Blizzard produces products that are able to lead in these genres with games such as Call of Duty, Overwatch, and World of Warcraft.



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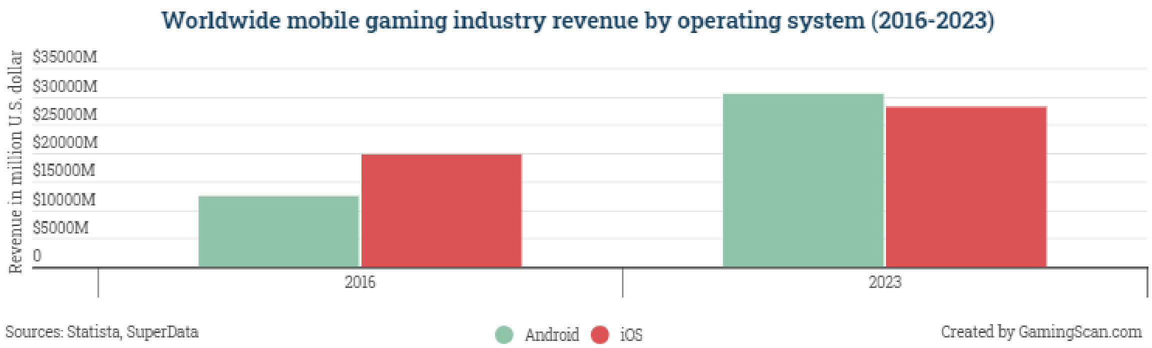
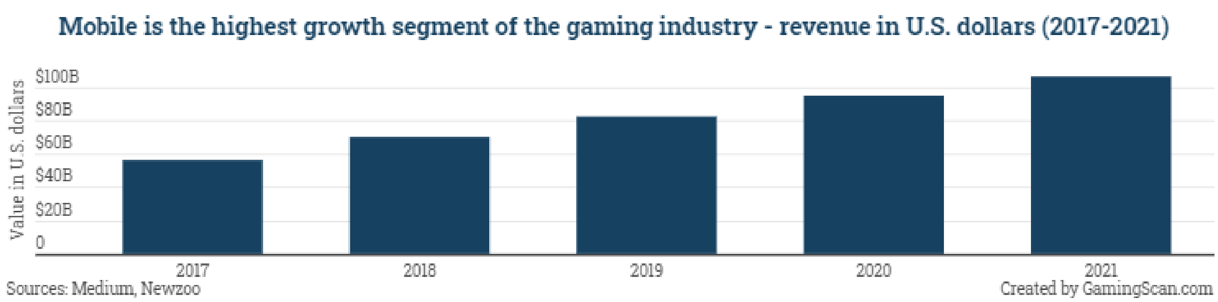
Activision Blizzard will also be able to grow in the mobile world as the mobile gaming industry is expected to grow its revenues drastically. Android is expected to bring in about $30 billion in revenue, a 144% increase from 2016 and iOS is expected to bring in around $29 billion in revenue, a 42% increase since 2016.



Speaking of mobile software, the mobile industry is the highest growth segment in the gaming industry in terms of revenue. It is expected to generate over $100 billion in revenue by 2021.



As technology advances around the world, the presence of 5G becomes more and more familiar. The transition towards 5G provides the gaming industry with an enormous opportunity to innovate and evolve towards the future, which at the same time will give Activision Blizzard various opportunities to evolve as well.

Aside from economic conditions, Activision Blizzard's industry and operations will also help protect the company from the threat of new entrants. Currently, the gaming industry is dominated by Activision Blizzard, Electronic Arts, and Take-Two. These 3 companies raise the barriers of entry and make it extremely difficult for other companies to accumulate any share of the market. Furthermore, Activision Blizzard must also keep innovating its products so that it can not only attract new customers but also give old customers a reason to stay. Along with innovation, research and development is also key as the more established and unique Activision Blizzard becomes, the harder it will be for competitors to enter the market.

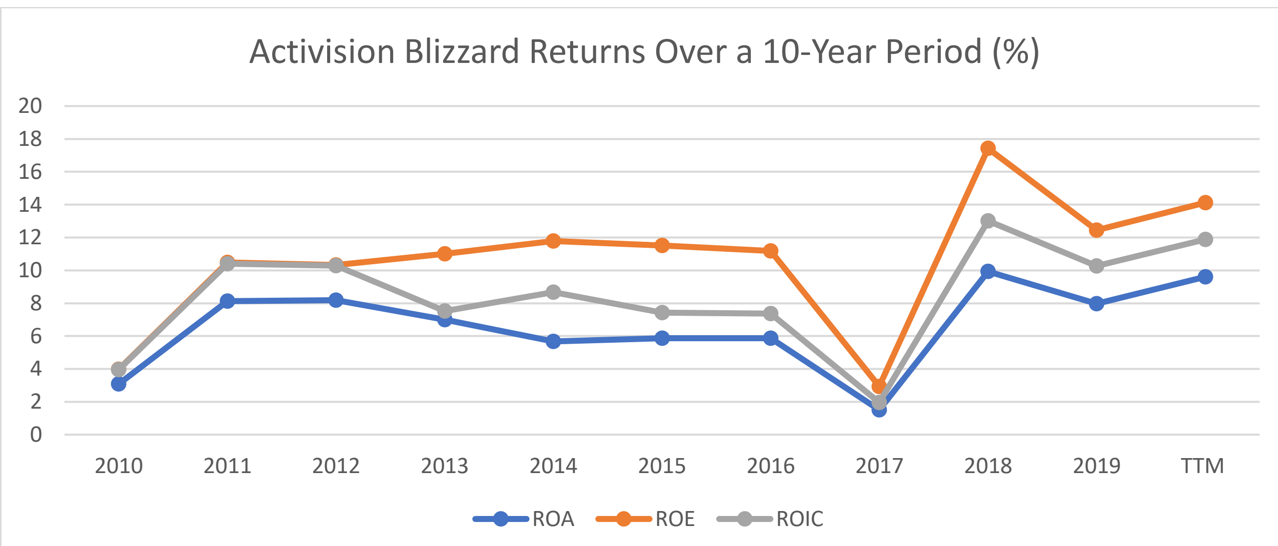
Being in the gaming industry, customers are always searching for the best games at the lowest price. Activision Blizzard's diverse set of products and services will help the company hedge against the bargaining power of buyers. Offering games on all platforms that involve strategy such as World of Warcraft or Overwatch, to first-person shooters like Call of Duty, the company has built a large base of loyal customers. Another way the company protects itself from buyer power is by constantly innovating and delivery new products. The two examples would be Call of Duty Mobile which had over 150 million downloads in Autumn 2019 and Call of Duty Warzone which has reach up to 75 million players since March of 2020.

An external threat that Activision Blizzard constantly faces is the threat of substitute products and services. For example, their Call of Duty Substitute would be Electronic Art's Battlefield franchise. The prime way the company mitigates against this threat would be to enhance their player investment opportunities. By giving players the opportunity to purchase in-game features such as large downloadable content, item aesthetics, and currency, it raises the switching costs and keeps players coming back to their games.

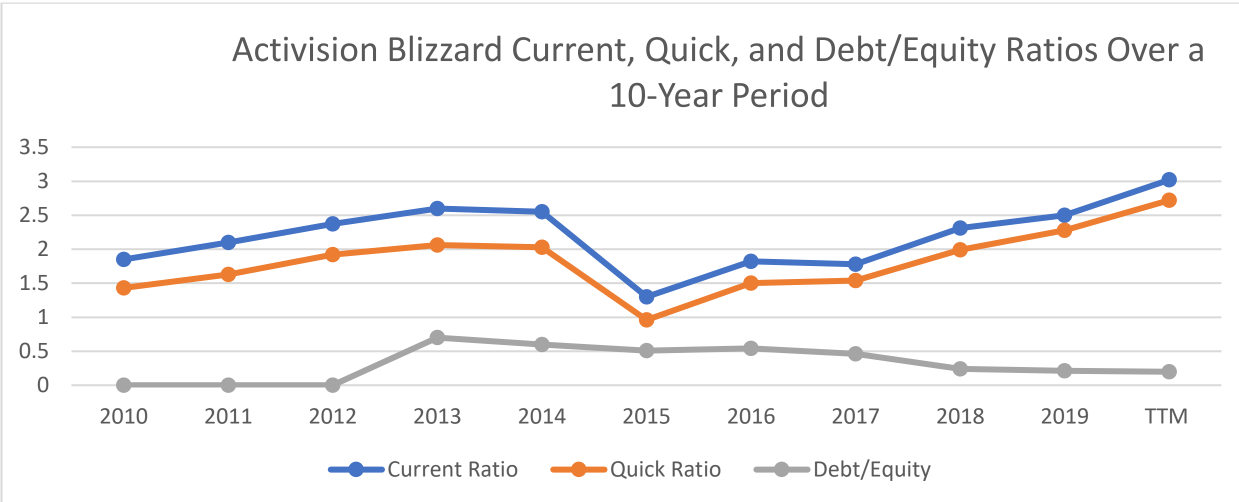
Although the Activision Blizzard faces immense competition from the likes of Electronic Arts and Take-Two in the gaming industry, they are able to stay ahead of the game due to their wide reach of customers, enhanced player investment opportunities, and engaging content.

Quantitative Analysis

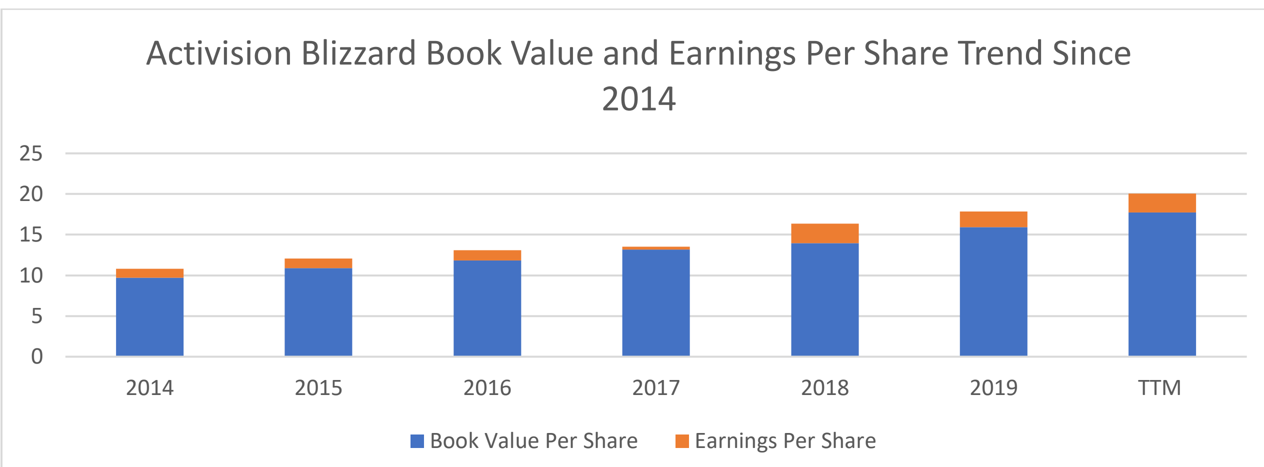
In addition to Activision Blizzard's economic moat and promising environment, their financials also justify why they are set for success in the future. The company boasts a gross margin of 70.4% and an operating margin of 30.7%, perfectly portraying how efficient their operations are. On top of that, they have a ROA, ROE, and ROIC of 9.61%, 14.13%, and 11.88% respectively all growing steadily within a 10-year period.

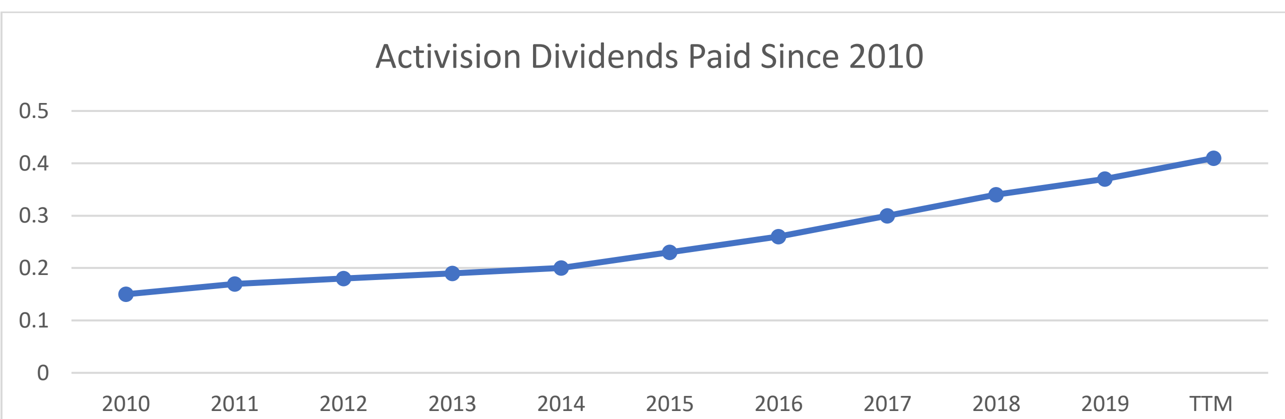


To reflect the company's outstanding performance throughout the pandemic, their TTM revenue, EPS, operating income, and net income overshadow their FY19 metrics completely. Speaking of the pandemic, the company's outstanding balance sheet promises survival and growth through economic downturns. With a strong current ratio of 3.02, quick ratio of 2.72 and a debt/equity ratio of 0.20, it shows how well protected the company is from financial turbulence. In addition, their balance sheet is not only strong, but it is also consistent as their current and quick ratio have both stayed above 1.5 in the past 10 years while their debt/equity ratio have stayed and remains below 1.

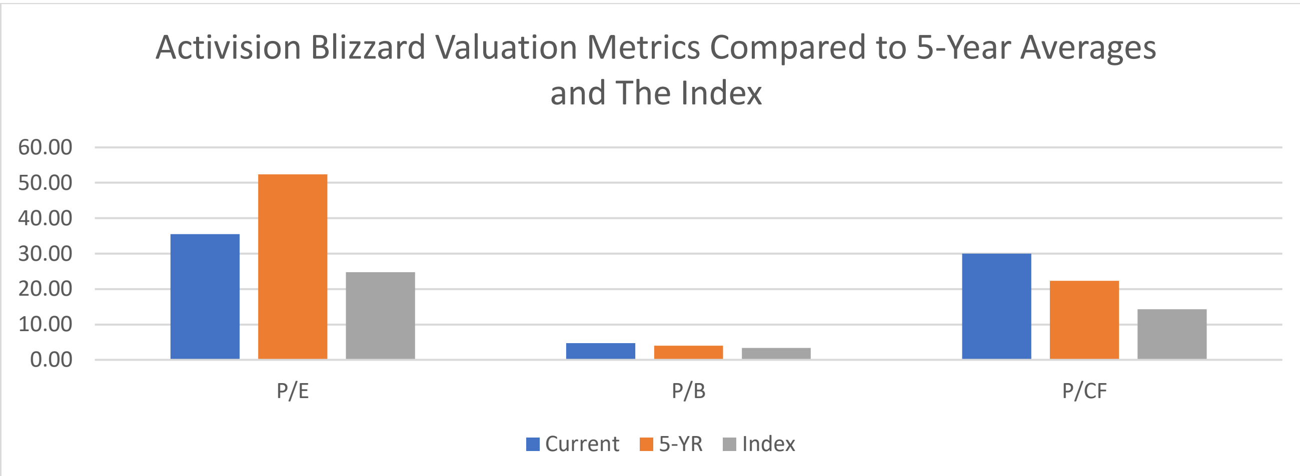


The company displays wise capital allocation through a consistently increasing book value per share that follows an upwards trending earnings per share while still being able to consistently increase its dividends.





Another quantitative factor that contributes to the company's strength is their cash position. Currently, they have enough cash and cash equivalents to pay off all their long-term debts. In terms of valuation, they are slightly overvalued with a price-to-earnings, price-to-cash flow, price-to-book ratio of 35.56, 30.03, and 4.69, respectively. Both the P/CF and P/B ratios are higher than the 5-year company average as well as the index reflecting how the price may be currently skewed by optimism and overvaluation.



Investment Thesis

Activision Blizzard always was and will continue to be an industry leader in the video game industry, whether it be on mobile, console or PC. The company's continuous innovation towards its products result in tremendous engagement and investment from users which ultimately leads to healthy overall performance. Although the company has solid financials, Activision Blizzard is currently slightly overvalued due to consumer speculation and optimism. Therefore, the company is recommended to be held at the current price and a buy rating is recommended at a price in the low to mid 70s range.

Massive Scale

Despite the fact that Activision Blizzard has clear competitors such as Electronic Arts, Take-Two, and Zynga on the mobile platform, they still stand on top. This is due to the wide breadth of games that Activision Blizzard provides as well as its size. With a market capitalization of over $60 billion USD, it completely eclipses its competitors. Moreover, Activision Blizzard's history of success with franchises such as Call of Duty, give the company an outstanding reputation that would no doubt attract more and more users over time. Another feat that the company was able to accomplish from it's scale is their ownership of the top e-sport league, the Overwatch league as well as the Call of Duty league which ranks in third after League of Legends. Their dominance in the competitive video game industry allows them to collect an additional amount of revenue and boost their engagement as well.

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Favourable Environment

From the external analysis, it is clear that the video game industry is growing at a promising rate, especially with the work-at-home procedures in place, it makes video games much more accessible. Due to the convenient and addicting nature of video games, the company is able to hedge against certain economic downturns such as pandemics. Activision Blizzard also has an advantage as they tap into the top 3 most popular video game genres on the market, action, shooter, and role-playing. In addition, the mobile platform is growing at a swift rate which keeps the company's candy crush saga as well as their Call of Duty Mobile to gain traction amongst their audience.

Resilient Financials

It is clear from Activision's robust balance sheet that they are safeguarded from any sort of financial trouble as well as economic crisis. Additionally, they have shown resilience when opinions were against them. In late 2018 when investors were skeptical about the economy, the company started to underperform and see a decrease in their monthly active users. This led to a 26% drop in their stock price. Despite the turbulence, Activision Blizzard has rebounded from that period, hitting all time highs during the pandemic as well as bringing their earnings and revenue back as well. The company's efficient operations can be credited to their substantial performance as their returns and margins distinctly show how the company is able to make the most of what they do.

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Comparable Companies Analysis

Operating Statistics:	Capitalization							Projected	Projected			Source: Company Filings
	Equity		EBITDA			Net Income		Revenue	EBITDA		EBITDA Margin	
Company Name	Value	LTM	FY20	FY21	LTM	FY20	FY21	Growth	Growth	LTM	FY20	FY21
Electronic Arts Inc.	$ 40,576.4	$ 1,652.0	$ 1,816.0	$ 2,056.0	$ 1,019.0	$ 3,039.0	$ 1,007.0	4.5%	13.2%	28.5%	30.2%	32.7%
Take-Two Interactive Software, Inc.	19,062.8	544.3	740.0	692.0	334.0	404.0	394.0	12.7%	(6.5%)	16.1%	24.7%	20.5%
Zynga Inc.	10,065.7	(5.5)	508.0	625.0	473.0	(414.0)	148.0	21.2%	23.0%	(0.3%)	22.9%	23.2%
NetEase, Inc.	65,585.6	2,594.1	2,811.2	3,258.8	3,069.3	2,217.4	2,500.9	15.6%	15.9%	27.4%	26.6%	26.7%
Maximum	$ 65,585.6	$ 2,594.1	$ 2,811.2	$ 3,258.8	$ 3,069.3	$ 3,039.0	$ 2,500.9	21.2%	23.0%	28.5%	30.2%	32.7%
75th Percentile	46,828.7	1,887.5	2,064.8	2,356.7	1,531.6	2,422.8	1,380.5	17.0%	17.7%	27.7%	27.5%	28.2%
Median	**$ 29,819.6**	**$ 1,098.2**	**$ 1,278.0**	**$ 1,374.0**	**$ 746.0**	**$ 1,310.7**	**$ 700.5**	**14.2%**	**14.6%**	**21.7%**	**25.7%**	**25.0%**
25th Percentile	16,813.6	406.9	682.0	675.3	438.3	199.5	332.5	10.7%	8.3%	12.0%	24.3%	22.6%
Minimum	10,065.7	(5.5)	508.0	625.0	334.0	(414.0)	148.0	4.5%	(6.5%)	(0.3%)	22.9%	20.5%
Activision Blizzard, Inc.	**$ 63,174.2**	**$ 2,417.0**	**$ 3,274.0**	**$ 3,455.0**	**$ 1,503.0**	**$ 1,958.0**	**$ 2,094.0**	**6.8%**	**5.5%**	**37.2%**	**48.8%**	**48.2%**

Valuation Statistics:	Capitalization		Enterprise Value /			Enterprise Value /					
	Equity	Enterprise		Revenue			EBITDA			P / E Multiple	
Company Name	Value	Value	LTM	FY20	FY21	LTM	FY20	FY21	LTM	FY20	FY21
Electronic Arts Inc.	$ 40,576.4	$ 35,845.5	6.2 x	6.0 x	5.7 x	21.7 x	19.7 x	17.4 x	39.8 x	13.4 x	40.3 x
Take-Two Interactive Software, Inc.	19,062.8	16,955.8	5.0 x	5.7 x	5.0 x	31.2 x	22.9 x	24.5 x	57.1 x	47.2 x	48.4 x
Zynga Inc.	10,065.7	9,231.0	5.8 x	4.2 x	3.4 x	NM	18.2 x	14.8 x	21.3 x	NM	68.0 x
NetEase, Inc.	65,585.6	56,737.0	6.0 x	5.4 x	4.6 x	21.9 x	20.2 x	17.4 x	21.4 x	29.6 x	26.2 x
Maximum	$ 65,585.6	$ 56,737.0	6.2 x	6.0 x	5.7 x	31.2 x	22.9 x	24.5 x	57.1 x	47.2 x	68.0 x
75th Percentile	46,828.7	41,068.4	6.0 x	5.7 x	5.2 x	26.5 x	20.9 x	19.2 x	44.1 x	38.4 x	53.3 x
Median	**$ 29,819.6**	**$ 26,400.7**	**5.9 x**	**5.5 x**	**4.8 x**	**21.9 x**	**20.0 x**	**17.4 x**	**30.6 x**	**29.6 x**	**44.3 x**
25th Percentile	16,813.6	15,024.6	5.6 x	5.1 x	4.3 x	21.8 x	19.3 x	16.8 x	21.3 x	21.5 x	36.8 x
Minimum	10,065.7	9,231.0	5.0 x	4.2 x	3.4 x	21.7 x	18.2 x	14.8 x	21.3 x	13.4 x	26.2 x
Activision Blizzard, Inc.	**$ 63,174**	**$ 59,630**	**9.2 x**	**8.9 x**	**8.3 x**	**24.7 x**	**18.2 x**	**17.3 x**	**42.0 x**	**32.3 x**	**30.2 x**

Comparable Companies Rationale

The companies that Activision Blizzard is being compared to are all video game creators with a market capitalization of over $10 billion. Within the comparable companies, Electronic Arts and Take-Two produce games that are accessible across all platforms, however, their greatest presence is on the Playstation and Xbox console. On the other hand, Zynga is primarily a mobile game developer while NetEase focuses on PC and mobile games.

When analyzing the table, it shows that Activision Blizzard is slightly overvalued when comparing itself to the median P/E multiple, EV/EBITDA multiple as well as the EV/Revenue multiple. This shows the optimism that is applied to the company's current share price and justifies exactly why right now is not the right time to buy despite their amazing fundamentals.

The company's revenue and EBITDA levels remain well above average compared to other companies, however, projected revenue and EBITDA growth lags behind. Although the numbers are above the median, the growth rates show do not reflect the growth in stock, portraying another trait of overvaluation. Despite the low growth rates, the company possesses an efficient operating process as the EBITDA margins remain well above the median.

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Discounted Cash Flow Analysis

Activision Blizzard, Inc. - FCF Projections:	Units:	Historical			Projected									
		FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Operating Income (EBIT):	$ M	1,297.0	1,948.0	1,607.0	2,010.9	2,164.4	2,317.5	2,472.0	2,626.0	2,766.2	2,877.7	2,980.4	3,081.9	3,186.8
Net Operating Profit After Taxes (NOPAT):	$ M	983.8	1,477.6	1,218.9	1,525.3	1,641.7	1,757.8	1,875.0	1,991.8	2,098.2	2,182.7	2,260.7	2,337.6	2,417.2
Adjustments for Non-Cash Charges:														
(+) Depreciation & Amortization:	$ M	888.0	509.0	328.0	268.4	250.8	228.7	202.0	170.5	178.5	184.5	189.8	195.1	200.4
% Revenue:	%	12.7%	6.8%	5.1%	4.0%	3.5%	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
(+/-) Deferred Income Taxes:	$ M	(181.0)	(35.0)	(352.0)	(667.1)	(718.0)	(768.7)	(820.0)	(871.1)	(917.6)	(954.6)	(988.7)	(1,022.3)	(1,057.1)
% Income Statement Taxes:	%	(20.6%)	(120.7%)	(270.8%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)
Net Change in Working Capital:	$ M	1,352.0	(1,134.0)	93.0	(19.8)	(36.7)	(31.9)	(27.3)	(22.4)	(15.9)	(12.0)	(10.7)	(10.4)	(10.7)
(-) Capital Expenditures:	$ M	(116.0)	(131.0)	(116.0)	(288.5)	(286.7)	(266.8)	(242.4)	(213.1)	(205.2)	(202.9)	(199.3)	(204.8)	(210.4)
Unlevered Free Cash Flow:	$ M	$ 2,926.8	$ 686.6	$ 1,171.9	$ 818.3	$ 851.3	$ 919.0	$ 987.3	$ 1,055.7	$ 1,137.9	$ 1,197.7	$ 1,251.8	$ 1,295.1	$ 1,339.3
Growth Rate:	%	*N/A*	*(76.5%)*	*70.7%*	*(30.2%)*	*4.0%*	*8.0%*	*7.4%*	*6.9%*	*7.8%*	*5.3%*	*4.5%*	*3.5%*	*3.4%*
Discount Period:	#				1	2	3	4	5	6	7	8	9	10
Discount Rate (WACC):	%				4.58%	4.58%	4.58%	4.58%	4.58%	4.58%	4.58%	4.58%	4.58%	4.58%
Cumulative Discount Factor:	#				0.956	0.914	0.874	0.836	0.799	0.764	0.731	0.699	0.668	0.639
PV of Unlevered FCF:	$ M				$ 782.5	$ 778.3	$ 803.4	$ 825.3	$ 843.8	$ 869.7	$ 875.3	$ 874.7	$ 865.3	$ 855.7
EBITDA:	$ M	$ 2,185.0	$ 2,457.0	$ 1,935.0	$ 2,279.3	$ 2,415.3	$ 2,546.2	$ 2,674.0	$ 2,796.5	$ 2,944.7	$ 3,062.1	$ 3,170.3	$ 3,277.0	$ 3,387.2
Growth Rate:	%	*N/A*	*12.4%*	*(21.2%)*	*17.8%*	*6.0%*	*5.4%*	*5.0%*	*4.6%*	*5.3%*	*4.0%*	*3.5%*	*3.4%*	*3.4%*

Terminal Value - Multiples Method:	
Discount Rate (WACC):	4.58%
Median EV / EBITDA of Comps:	21.9 x
Baseline Terminal EBITDA Multiple:	21.0 x
Baseline Terminal Value:	$ 71,130.8
Implied Terminal FCF Growth Rate:	2.6%
(+) PV of Terminal Value:	45,444.6
(+) Sum of PV of Free Cash Flows:	8,374.0
Implied Enterprise Value:	**$ 53,818.5**
Implied Equity Value:	**57,325.4**
Diluted Shares Outstanding:	776.000
Implied Share Price from DCF:	**$ 73.87**
Premium / (Discount) to Current:	**(9.3%)**

NASDAQGS: ATVI

Discounted Cash Flow Rationale

The discounted cash flow model was built to provide greater depth into Activision Blizzard's valuation by projecting the company's future cash flows 10-years into the future and discounting it back to the present to see what it is worth today. Despite the company's robust fundamentals, streamlined operations and a promising environment, this analysis gives further justification for why Activision Blizzard is not an attractive investment at its current price

The weighted average cost of capital is used as the discount rate for discounting free cash flows because the cash a company generates should at least be able to cover its costs to breakeven. The WACC used was calculated by first taking the median unlevered beta of Foot Locker's comparable companies and then re-levering the beta to find the current and optimal capital structure for Foot Locker. The cost of equity is then calculated based on the current capital structure, the optimal capital structure and based on historical beta. After finding the 3 types of costs of equity, 3 WACC percentages are calculated based on the current, optimal and historical costs of equity. Lastly, the average WACC between the 3 costs of equity is the one used as the discount rate.

After examining the discounted cash flow analysis with the terminal value – multiples method, it has been concluded that the fair price of Activision Blizzard should be at least $73.87 which is a 9.3% discount from the price of the stock at the time of this report being written. The COVID-19 pandemic provided the general population with greater accessibility to Activision's products due to the quarantine procedure. From this, it is safe to assume that Activision Blizzard will see an increase in active users and engagement in general. Unfortunately, a price of $81.42 is too optimistic even if the pandemic proves to be a favourable condition for the company.

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Risks

One of the most eminent risks that come with operating in the video game industry is the change in consumer preference and threat of competition. Activision Blizzard's revenue stream and performance in general relies heavily on consumer engagement. If consumers were to change their preferences, for example, from first person shooter to racing or sport games, Activision Blizzard will lose out on its current games and also have to spend various resources in developing new games to entice customers. This leads to the threat of competitors, as consumer preferences change, this gives their competitors a chance to capitalize on the opportunity. From here, Activision Blizzard may lose its large scale and its financial performance will be impacted

Another risk that Activision Blizzard faces is that if they fail to attract, retain, and motivate their employees, their operations will collapse. This risk is being brought to attention because in recent weeks, it was reported that the company underpaid their employees while the CEO, Bobby Kotick took home $40 million USD. When this news broke out, it gave birth to skepticism surrounding the company's compensation philosophy and prevented the stock price from reaping the benefits of beating earnings estimates. Should the unfair compensation be continued, Activision will have trouble producing the quality that its customers are so used to getting.

Catalysts

The most recent catalyst for a company like Activision Blizzard would be the quarantine procedures implemented due to the COVID-19 pandemic. By forcing everyone to stay at home whether it be for work or recreational purposes, it makes video games much more accessible. Thus, this event increases player engagement and fuels Activision Blizzard's operations.

A long-term catalyst for Activision Blizzard would be how video games are becoming geared towards a wider area of demographics now. Before, it was just for children, now, even adults play and compete due to the development of the e-sports league. Additionally, the CEO, Bobby Kotick is confident that in 5 years, Activision Blizzard will be able to see over a billion users worldwide. That is almost triple the number of users that are using the company's products today.

Conclusion

In general, Activision Blizzard is a well-structured company when it comes to their numbers and fundamentals. With a balance sheet that can withstand a barrage of financial turbulence and along with their size, innovation and surrounding environment, the company is destined for a prosperous future. Unfortunately, the company is slightly overvalued at its current price which repels investment at this time. Should the company's price return to a more appropriate level, then a strong buy is recommended.

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Appendices

Revenue and Operating Margin Projections

		Historical			Projected									
Revenue and Expense Projections:	*Units:*	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Net Sales by Segment:														
Digital Online Channels	$ M	$ 5,479.0	$ 5,786.0	$ 4,932.0	$ 5,425.2	$ 5,886.3	$ 6,298.4	$ 6,707.8	$ 7,110.2	$ 7,465.8	$ 7,727.1	$ 7,958.9	$ 8,181.7	$ 8,410.8
Retail Channels	$ M	1,033.0	1,107.0	909.0	981.7	1,050.4	1,113.5	1,169.1	1,215.9	1,252.4	1,277.4	1,303.0	1,329.0	1,355.6
Other Segments:	$ M	505.0	607.0	648.0	680.4	711.0	739.5	765.3	788.3	804.1	816.1	828.4	840.8	853.4
Total Consolidated Sales:	$ M	$ 7,017.0	$ 7,500.0	$ 6,489.0	$ 7,087.3	$ 7,647.8	$ 8,151.3	$ 8,642.3	$ 9,114.5	$ 9,522.2	$ 9,820.6	$ 10,090.2	$ 10,351.6	$ 10,619.8
Annual Growth Rate:	%	*6.2%*	*6.9%*	*(13.5%)*	*9.2%*	*7.9%*	*6.6%*	*6.0%*	*5.5%*	*4.5%*	*3.1%*	*2.7%*	*2.6%*	*2.6%*
Revenue Segment Growth Rates:														
Digital Online Channels	%	12.6%	5.6%	(14.8%)	10.0%	8.5%	7.0%	6.5%	6.0%	5.0%	3.5%	3.0%	2.8%	2.8%
Retail Channels	%	(25.5%)	7.2%	(17.9%)	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	2.0%	2.0%	2.0%
Other Segments:	%	41.5%	20.2%	6.8%	5.0%	4.5%	4.0%	3.5%	3.0%	2.0%	1.5%	1.5%	1.5%	1.5%
Operating Income by Segment:														
Total	$ M	1,297.0	1,948.0	1,607.0	2,466.4	3,143.2	3,329.0	3,638.4	3,855.4	4,046.9	4,193.4	4,328.7	4,461.5	4,598.4
Operating Margin by Segment:														
Total	%	18.5%	26.0%	24.8%	34.8%	41.1%	40.8%	42.1%	42.3%	42.5%	42.7%	42.9%	43.1%	43.3%

Financials and Operating Model

		Historical			Projected									
Activision Blizzard, Inc. - FCF Projections:	*Units:*	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
Revenue:	$ M	**$ 7,017.0**	**$ 7,500.0**	**$ 6,489.0**	**$ 6,708.9**	**$ 7,167.0**	**$ 7,623.3**	**$ 8,078.6**	**$ 8,526.0**	**$ 8,923.3**	**$ 9,223.3**	**$ 9,491.8**	**$ 9,752.9**	**$ 10,021.2**
Revenue Growth Rate:	%	*(3.7%)*	*6.9%*	*(13.5%)*	*3.4%*	*6.8%*	*6.4%*	*6.0%*	*5.5%*	*4.7%*	*3.4%*	*2.9%*	*2.8%*	*2.8%*
Operating Income (EBIT):	$ M	**1,297.0**	**1,948.0**	**1,607.0**	**2,010.9**	**2,164.4**	**2,317.5**	**2,472.0**	**2,626.0**	**2,766.2**	**2,877.7**	**2,980.4**	**3,081.9**	**3,186.8**
Operating Margin:	%	*18.5%*	*26.0%*	*24.8%*	*30.0%*	*30.2%*	*30.4%*	*30.6%*	*30.8%*	*31.0%*	*31.2%*	*31.4%*	*31.6%*	*31.8%*
Growth Rate:	%	*231.6%*	*50.2%*	*(17.5%)*	*25.1%*	*7.6%*	*7.1%*	*6.7%*	*6.2%*	*5.3%*	*4.0%*	*3.6%*	*3.4%*	*3.4%*
(-) Taxes, Excluding Effect of Interest:	$ M	(313.2)	(470.4)	(388.1)	(485.6)	(522.7)	(559.7)	(597.0)	(634.2)	(668.0)	(695.0)	(719.8)	(744.3)	(769.6)
Net Operating Profit After Taxes (NOPAT):	$ M	**983.8**	**1,477.6**	**1,218.9**	**1,525.3**	**1,641.7**	**1,757.8**	**1,875.0**	**1,991.8**	**2,098.2**	**2,182.7**	**2,260.7**	**2,337.6**	**2,417.2**
Adjustments for Non-Cash Charges:														
(+) Depreciation & Amortization:	$ M	888.0	509.0	328.0	268.4	250.8	228.7	202.0	170.5	178.5	184.5	189.8	195.1	200.4
% Revenue:	%	12.7%	6.8%	5.1%	4.0%	3.5%	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
(+/-) Deferred Income Taxes:	$ M	(181.0)	(35.0)	(352.0)	(667.1)	(718.0)	(768.7)	(820.0)	(871.1)	(917.6)	(954.6)	(988.7)	(1,022.3)	(1,057.1)
% Income Statement Taxes:	%	(20.6%)	(120.7%)	(270.8%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)	(137.4%)
Net Change in Working Capital:	$ M	**1,352.0**	**(1,134.0)**	**93.0**	**(19.8)**	**(36.7)**	**(31.9)**	**(27.3)**	**(22.4)**	**(15.9)**	**(12.0)**	**(10.7)**	**(10.4)**	**(10.7)**
% Change in Revenue:	%	(494.8%)	(234.8%)	(9.2%)	(9.0%)	(8.0%)	(7.0%)	(6.0%)	(5.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)
% Revenue:	%	*19.3%*	*(15.1%)*	*1.4%*										
(-) Capital Expenditures:	$ M	**(116.0)**	**(131.0)**	**(116.0)**	**(288.5)**	**(286.7)**	**(266.8)**	**(242.4)**	**(213.1)**	**(205.2)**	**(202.9)**	**(199.3)**	**(204.8)**	**(210.4)**
% Revenue:	%	1.7%	1.7%	1.8%	4.3%	4.0%	3.5%	3.0%	2.5%	2.3%	2.2%	2.1%	2.1%	2.1%