Activision, Inc. (NASDAQ: ATVI)

David Gardner | August 9, 2002

Activision (NASDAQ: ATVI) is the #2 player in the dynamic industry of video and computer games, i.e., interactive entertainment. The company makes games for PCs, Playstation, Xbox, GameCube, and the Game Boy handheld. A good example of its multi-platform business is its *Spiderman* license. The company cranked out a virtually identical *Spiderman* game for each of these major platforms to coincide with the recent smash-hit movie. Even bigger than *Spiderman*, though, has been the *Tony Hawk* series of extreme skateboarding games, which have been a huge hit. The series has opened the way for other extreme sports action games, giving Activision a strong niche presence.

That niche has created nice sustainable profitability. For its fiscal year ended March 31, the company scored net inome of $52.2 million on sales of $786.4 million. That performance represents sales and net income growth of 27% and 154%, respectively, over the year before. And in its fiscal first quarter completed in June, Activision grew revenues to $191.3 million, 73% higher than the year before. Its net income came in at $20.7 million, representing a double-digit profit margin that's well ahead of the flat year-ago first quarter.

Activision recently completed a secondary offering of stock, raising $248 million by selling 7.5 million shares. The profitable game publisher now has a cash hoard of $550 million. I was set to buy this stock earlier, but was put off by the offering, which was completed when the share price was north of $33. When companies offer new stock, it often shows that they themselves think their stock is richly priced and wish to cash in on that. With the stock now down in the $20s, I find the present share price more attractive, following the dilution. I think this investment should beat the market and reward shareholders with a minimum time frame of three years.

Does this pick seem familiar? In May, I selected the #1 company in this industry, Electronic Arts (which is, as of this writing, down 2% vs. the S&P 500's loss of 20% over the same period). So why pick #2? Because they're both good companies that I think will outperform the market. Activision is the Pepsi to Electronic Arts's Coke. That's not a bad thing; in fact, it's quite a good thing. Just as both Coke and Pepsi have been good long-term investments, so too have Electronic Arts and Activision beaten up on the market averages over the past five years.

ACTIVISION BLIZZARD, INC. IN 1 MINUTE

What It Does

Activision Blizzard is a leading publisher of video games, notably World of Warcraft, Call of Duty, Guitar Hero, and Tony Hawk.

Company Guide

- **Industry:** Entertainment
- **Asset Class:** Large
- **Region:** US
- **Price on June 21, 2020:** $ 76.12

Key Data

- **Headquarters:** Santa Monica, CA, US
- **Sector:** Unknown

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While Activision does the bulk of its business via video game systems (like Sony's industry-leading PlayStation 2), its biggest title in the year ahead will be *Doom III*, the next in the line of sequels to one of the biggest computer games of all time. *Doom III* apparently stole the show at this year's Electronic Entertainment Expo (E^3). GameSpot.com, the popular interactive gaming magazine site, wrote, "Hands down, the PC game that drew the most attention from both our readers and our editors was *Doom III*." *Doom III* should be out in 2003, counting toward fiscal 2004.

According to insiders and analysts, the interactive entertainment industry is expected to double from 2002 to 2005. With so much growth expected over the next three years, Activision should have the capital, expertise and positioning to reap rewards for shareholders. The biggest risk, and number one thing to watch, is whether the company can continue to drive sales in flagship products like the *Tony Hawk 4* game (coming out this November) into the fourth, fifth, and succeeding generations. I think they can.