

# Microsoft's Acquisition of Activision Blizzard

Mohamad Iskandarani  
Kamila Khalilullina  
Anna Surikova  
Oleg Gonchukov  
Maksym Bilozorov

# Overview and Objective of the Acquisition

- **Timeline:**

- Announcement: January 18, 2022.
- Regulatory Approvals and Challenges: 2022-2023.
- Completion: October 13, 2023.

- **Key Players:**

- **Buyer:** Microsoft (Led by CEO Satya Nadella).
- **Target:** Activision Blizzard (Famous for franchises like Call of Duty and Warcraft).

- **Significance:**

- Record-breaking \$68.7 billion deal.
- Largest acquisition in gaming history.

- **Objective of the Analysis:**

- **Primary Goal:** Evaluate the financial and strategic impact of the acquisition.
- **Accounting Analysis:** Test hypotheses using Microsoft's and Activision Blizzard's 10-K filings (e.g., revenue trends, goodwill adjustments, profitability shifts).

# Microsoft's Goals and Challenges

- **Goals:**

- **Accelerate growth across gaming platforms:** Expand its presence in mobile, PC, console, and cloud gaming to tap into growing markets and diversify revenue streams.
- **Enhance Game Pass offerings:** Integrate Activision Blizzard's popular intellectual properties (e.g., Call of Duty, Warcraft) into Xbox Game Pass to attract more subscribers.
- **Strengthen competitive positioning:** Gain an edge over major competitors like **Sony** (PlayStation) and **Tencent**, leveraging Activision's global reach and established franchises.

- **Rationale for Goals:**

- Consolidate Microsoft's leadership in gaming as a service (e.g., Game Pass subscriptions).
- Bridge gaps in mobile gaming capabilities through Activision's **King** division (creator of Candy Crush).
- Create synergies between Microsoft's Azure cloud services and Activision's gaming ecosystem.

- **Challenges**

- **Slower Revenue Growth**
  - Market saturation and intensified competition limit growth potential.
- **High Dependency on Established Franchises**
  - Heavy reliance on existing titles like *Halo* and *Minecraft* for revenue continuity.
- **Regulatory Scrutiny**
  - Ongoing antitrust concerns over Microsoft's dominant position in technology and gaming sectors.

# Accounting Hypotheses for Analysis

- **Hypothesis 1: The Acquisition Resulted in Significant Goodwill Recognition**
  - **Outcome:** Confirmed.
  - **Conclusion:**
    - The acquisition created a significant increase in Microsoft's goodwill, as seen in the **Goodwill-to-Total Assets Ratio**, which rose from **16.4% to 25.1%**. This supports the idea that the premium paid for Activision Blizzard reflects the strategic value of its intellectual properties and brand.
- **Hypothesis 2: The Acquisition Improved Microsoft's Financial Leverage**
  - **Outcome:** Confirmed.
  - **Conclusion:**
    - The **Debt-to-Equity Ratio** decreased from **0.28 to 0.23**, indicating reduced leverage. Microsoft managed to finance the acquisition without significantly increasing its debt relative to equity, reflecting strong financial management.
- **Hypothesis 3: The Acquisition Enhanced Microsoft's Asset Utilization Efficiency**
  - **Outcome:** Disproved.
  - **Conclusion:**
    - The **Asset Turnover Ratio** declined from **0.51 to 0.48**, suggesting a slight reduction in the efficiency with which Microsoft generates revenue from its assets. This indicates that the integration of Activision Blizzard has not yet fully optimized asset utilization.

# Profitability

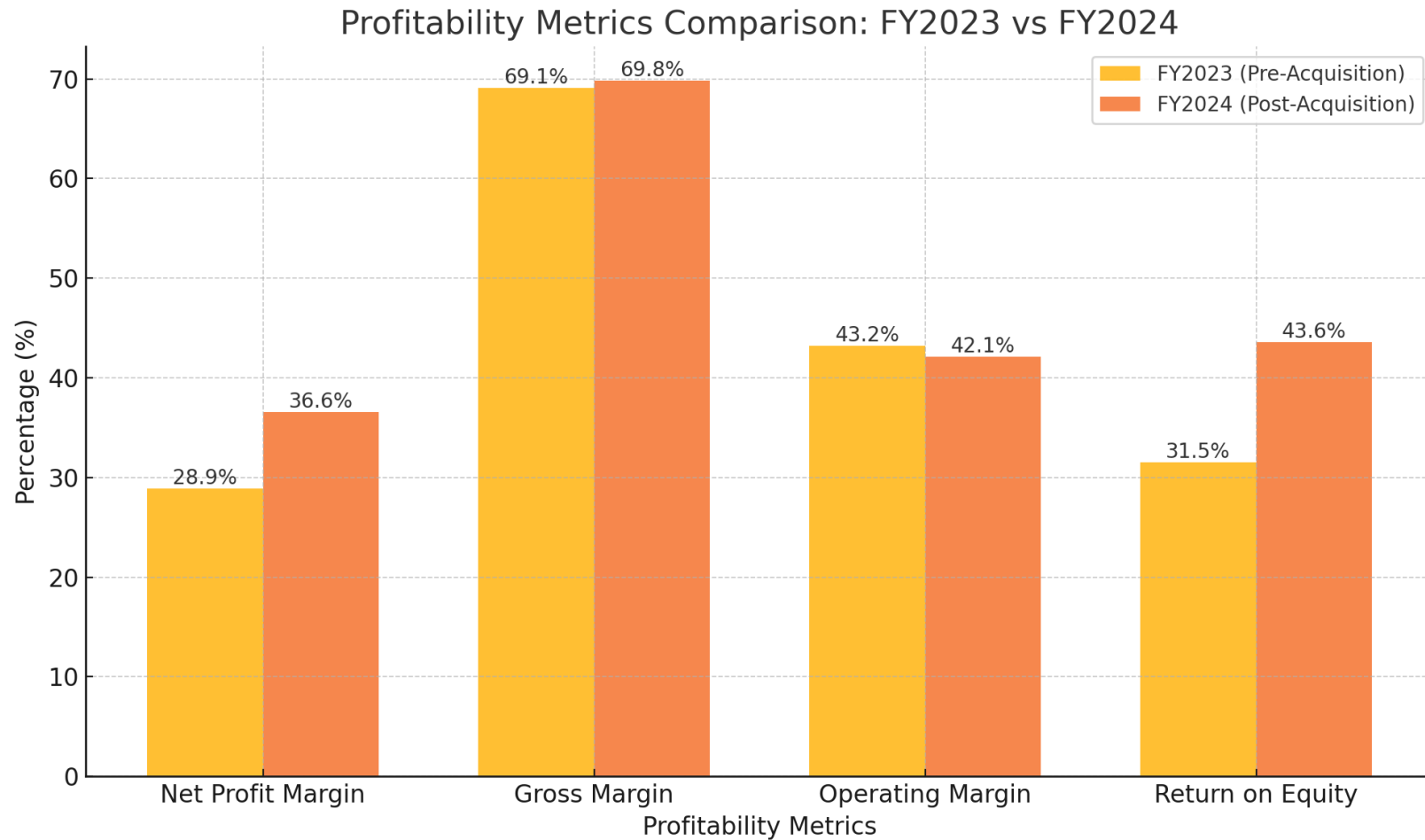
**Motivation:** These will help determine if the acquisition improved Microsoft's overall profitability.

Metric	Formula	FY2023 (Pre-Acquisition)	FY2024 (Post-Acquisition)	Analysis
Net Profit Margin	Net Income ÷ Revenue	28.9% (Net Income: \$61,274M; Revenue: \$211,915M)	36.6% (Net Income: \$72,574M; Revenue: \$198,270M)	Improved from 28.9% to 36.6%, reflecting increased profitability.
Gross Margin	(Revenue - COGS) ÷ Revenue	69.1% (COGS: \$65,423M)	69.8% (COGS: \$59,800M)	Slight improvement from 69.1% to 69.8%, indicating better production efficiency.
Operating Margin	Operating Income ÷ Revenue	43.2% (Operating Income: \$91,564M)	42.1% (Operating Income: \$83,543M)	Declined slightly from 43.2% to 42.1%, suggesting increased operational expenses.
Return on Equity	Net Income ÷ Shareholders' Equity	31.5% (Equity: \$194,413M)	43.6% (Equity: \$166,542M)	Significant improvement from 31.5% to 43.6%, indicating enhanced returns for shareholders.

## Conclusion

Post-acquisition, Microsoft experienced improvements in **Net Profit Margin**, **Gross Margin**, and **Return on Equity (ROE)**, indicating enhanced profitability and efficient utilization of shareholders' equity. However, the slight decline in **Operating Margin** suggests that operational expenses increased relative to revenue, which may warrant further analysis.

# Profitability



# Liquidity

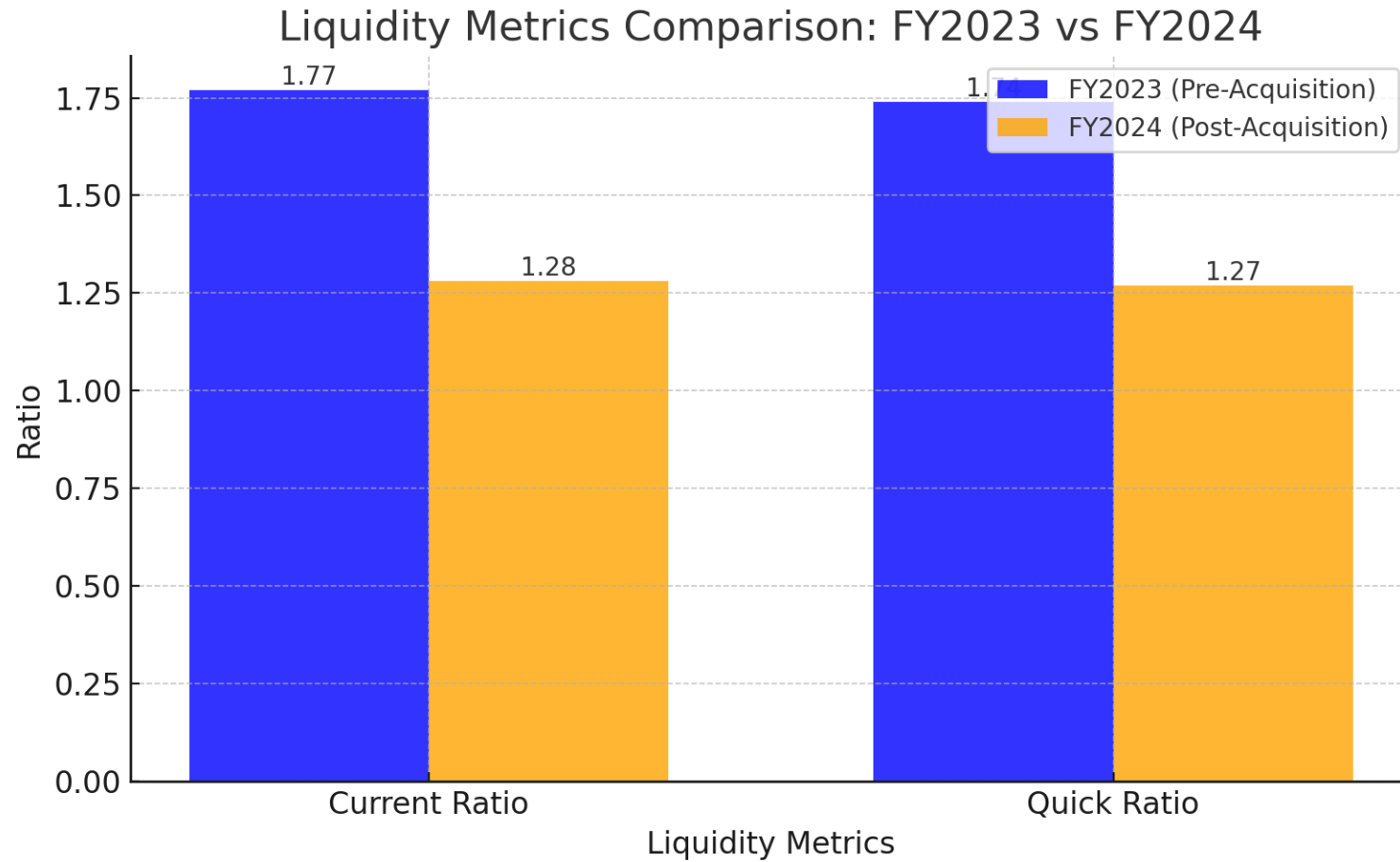
**Motivation:** Assess Microsoft’s ability to meet short-term obligations, especially given the significant cash outlay for the acquisition.

Metric	Formula	FY2023 (Pre-Acquisition)	FY2024 (Post-Acquisition)	Analysis
Current Ratio	Current Assets ÷ Current Liabilities	1.77 (Assets: \$184.257B; Liabilities: \$104.149B)	1.28 (Assets: \$159.734B; Liabilities: \$125.286B)	Decreased from 1.77 to 1.28, indicating reduced ability to cover short-term obligations.
Quick Ratio	(Current Assets - Inventory) ÷ Current Liabilities	1.74 (Inventory: \$2.500B)	1.27 (Inventory: \$1.246B)	Declined from 1.74 to 1.27, reflecting weaker liquidity post-acquisition.

## Conclusion

Post-acquisition, both the **Current Ratio** and **Quick Ratio** have declined, suggesting a weaker liquidity position. This can be attributed to the significant cash outlay for the acquisition and an increase in current liabilities. While still above 1.0, these declines may indicate tighter liquidity management post-deal.

# Liquidity





# Leverage and solvency

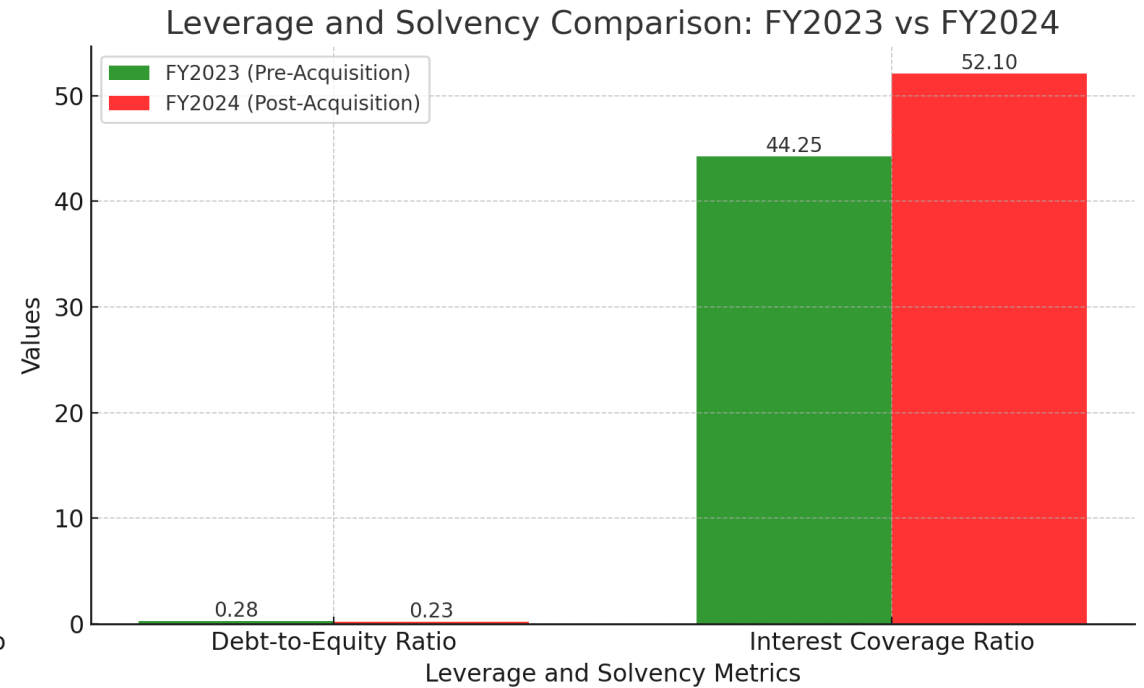
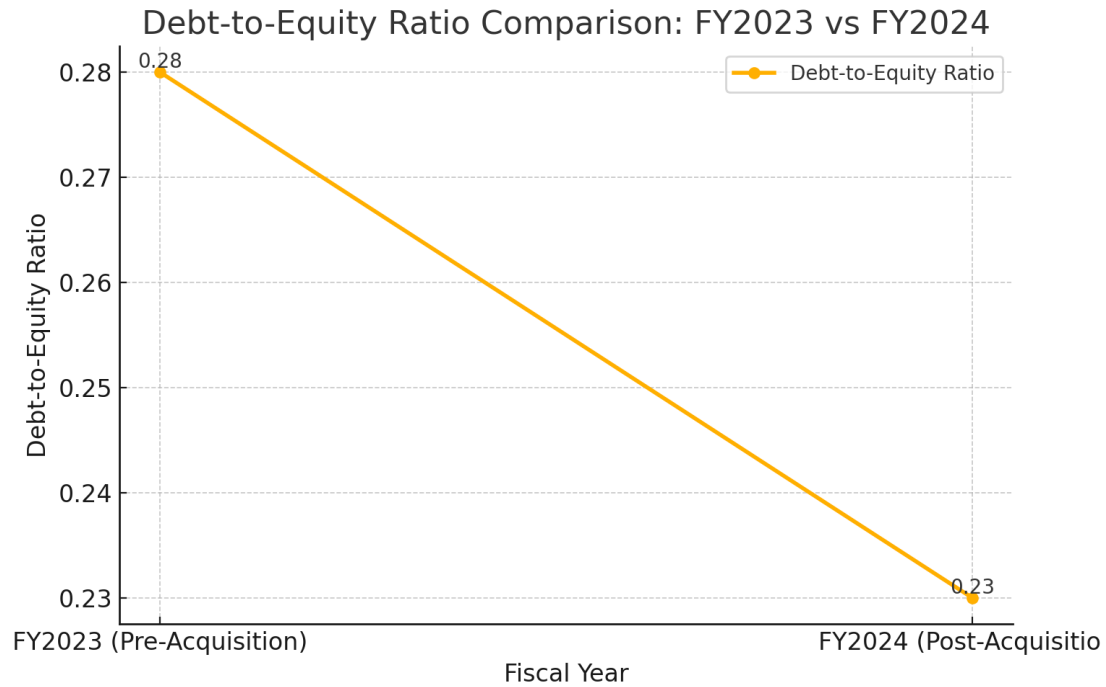
**Motivation:** Understand how Microsoft financed the acquisition and its impact on leverage.

Metric	Formula	FY2023 (Pre-Acquisition)	FY2024 (Post-Acquisition)	Analysis
Debt-to-Equity Ratio	Total Debt ÷ Shareholders' Equity	0.28 (Debt: \$58.7B; Equity: \$206.2B)	0.23 (Debt: \$62.7B; Equity: \$268.5B)	Decreased from 0.28 to 0.23, indicating reduced leverage post-acquisition.
Interest Coverage Ratio	Operating Income ÷ Interest Expense	44.25 (Operating Income: \$88.5B; Interest: \$2.0B)	52.10 (Operating Income: \$109.4B; Interest: \$2.1B)	Increased from 44.25 to 52.10, reflecting improved ability to cover interest payments.

## Conclusion

Post-acquisition, Microsoft's **Debt-to-Equity Ratio** decreased, and its **Interest Coverage Ratio** improved, showcasing strong financial management. Microsoft effectively managed the acquisition financing without significantly increasing debt relative to equity. The improved Interest Coverage Ratio highlights enhanced capacity to meet interest obligations, supported by a rise in operating income.

# Leverage and solvency



# Activity

**Motivation:** Analyze whether Microsoft is using its assets effectively post-acquisition.

Metric	Formula	FY2023 (Pre-Acquisition)	FY2024 (Post-Acquisition)	Analysis
Asset Turnover Ratio	Revenue ÷ Total Assets	0.51 (Revenue: \$211.9B; Assets: \$411.98B)	0.48 (Revenue: \$245.1B; Assets: \$512.16B)	Slight decline from 0.51 to 0.48, indicating a reduction in asset utilization efficiency.
Goodwill-to-Total Assets	Goodwill ÷ Total Assets	16.4% (Goodwill: \$67.5B; Assets: \$411.98B)	25.1% (Goodwill: \$128.6B; Assets: \$512.16B)	Increased from 16.4% to 25.1%, reflecting substantial goodwill from the acquisition.

## Conclusion

Post-acquisition, Microsoft's **Asset Turnover Ratio** decreased slightly, suggesting a marginal reduction in revenue generation efficiency relative to its assets. Meanwhile, the **Goodwill-to-Total Assets Ratio** significantly increased, highlighting the premium paid in the acquisition and the prominence of goodwill in Microsoft's asset base.

# Activity

