

ACTIVISION BLIZZARD, INC. (ATVI-NASDAQ)

Internet | Digital Media

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Model Update for 1Q22 Results

RECOMMENDATION

Activision Blizzard reported 1Q22 results significantly below expectations, driven by continued weakness in *Call of Duty* and a low ebb of content in Blizzard. We continue to see sizable headwinds for *Call of Duty* through the rest of the year until the anticipated release of *Modern Warfare II* this winter, which we believe could easily reverse the franchise's fortunes. Blizzard results continue to disappoint (with the MAU bleed becoming somewhat concerning), though the segment could get a shot in the arm with the surprise reveal of *Diablo: Immortal* for PC launching in early June. King was a bright spot with in-game bookings holding up solidly and ad bookings continuing to grow well. ATVI was more transparent than normal in in-process titles, suggesting a strong roadmap, with *Modern Warfare II*, *Warzone 2*, and *Warzone Mobile* in the Activision segment; and *Diablo: Immortal* for PC and mobile (June 2022), *World of Warcraft Classic* and *Modern* expansions, and *Overwatch 2* and *Diablo IV*. Despite the rosier outlook, we expect continued sluggish results until a reset this winter as new content comes out. We are updating our model for our updated estimates following the print, and continue to believe that the pending MSFT acquisition is likely to close. We maintain our **Market Perform** rating.

1Q22 Results: Total non-GAAP revenue was -28% y/y to \$1.48B (vs. our/consensus \$1.66B/\$1.82B). Activision segment revenue was -49% y/y to \$453M, Blizzard was -43% y/y to \$274M, and King was +12% y/y to \$682M. Adj. EBITDA was \$396M (vs. our/consensus \$667M/\$793M) and non-GAAP EPS was \$0.38 (vs. our/consensus \$0.65/\$0.71). GAAP revenue was -22% y/y to \$1.77B and GAAP EPS was \$0.50.

Read-throughs for rest of gaming space limited. While commentary on macro gaming trends was limited in the company's press release, we believe that ATVI's poor results were largely indicative of company-specific issues rather than slowdowns in the gaming industry more broadly. Our 1Q22 Interactive Entertainment preview saw neutral-to-slightly-negative data for the industry, and did not suggest a shortfall of this magnitude (though there may be some macro impact for ATVI on the margins of its 1Q results). The Activision segment's underperformance is being driven by poor reception to this year's *Call of Duty* cycle and Blizzard remains pressured by a dearth of content. EA and TTWO traded off in sympathy to ATVI's results; we think that especially TTWO's move is unwarranted given the solid performance of the King segment and the mobile exposure of TTWO post the ZNGA deal close.

Still assume 70-80% likelihood of MSFT deal close. This quarter's results do not materially change our view on the likelihood of the closure of the pending MSFT/ATVI deal, which we estimate at 70-80%. We believe these near-term results will have largely been considered as part of the due diligence process, and that MSFT's interests in ATVI's industry-leading content far outweigh a few rocky quarters.

Estimates. Our 2022/2023 non-GAAP revenue estimates decrease by -9.2%/-1.5%, and our non-GAAP EPS estimates move to \$2.79/\$4.01 from \$3.51/\$4.59.

APRIL 26, 2022 | 1:00 AM EDT
COMPANY COMMENT

Market Perform 3 Target Price NM

Suitability

MA/ACC

MARKET DATA

Current Price (Apr-25-22)	\$78.05
Market Cap (mln)	\$61,347
Current Net Debt (mln)	\$(7,359)
Enterprise Value (mln)	\$53,988
Shares Outstanding (mln)	786.0
30-Day Avg. Daily Value (mln)	\$462.1
Dividend	\$0.47
Dividend Yield	0.6%
52-Week Range	\$56.40 - \$99.46

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
Non-GAAP EPS (\$, Dec FY)				
2021A	0.84	0.91	0.72	1.25
2022E	0.65	0.63	0.81	1.42
new	0.38 A	0.52	0.55	1.34
2023E	UR	UR	UR	UR
	2021A	2022E	2023E	
Non-GAAP EPS (\$, Dec FY)				
old	3.72	3.51	4.59	
new	3.72	2.79	4.01	
P/E (Non-GAAP)	21.0x	28.0x	19.5x	
Revenue (mln) (\$, Dec FY)				
old	8,354	8,461	9,983	
new	8,354	7,682	9,838	
Adj. EBITDA (mln) (\$, Dec FY)				
old	3,613	3,654	4,657	
new	3,613	3,020	4,180	
EV/EBITDA (Adj.)	14.9x	17.9x	12.9x	
GAAP EPS (\$, Dec FY)				
old	3.44	2.47	3.79	
new	3.44	1.81	3.19	

Source: Thomson One, Raymond James & Associates. Quarterly figures may not add to full year due to rounding.

Non-GAAP EPS excludes stock-based compensation, non-recurring items, and includes change in deferred revenue.