

Company: Activision Blizzard	Ticker: ATVI	Current Price: \$ 80.10	Sector: Communication Services	Sub Industry: Interactive Entertainment
Target Price: \$80.54 Stop Loss: \$65 52 Week Low / High: \$71.19- \$104.53	TTM P/E: 22.9 Forward P/E: 20.76 EPS: \$3.82	Beta: 0.75 Credit Rating: A- (S&P Global) Rating Outlook: Stable	Market Cap: \$58.3B Dividend Yield: 0.59%	

Investment Thesis:
It is in our opinion that the company Activision Blizzard (NASDAQ: ATVI) is a buy at its current price based on the following value drivers: <ol style="list-style-type: none"> Top Tier Proprietary Franchises - ATVI has a long track record of producing content that consumers know and love. Franchises like Call of Duty, World of Warcraft, and Diablo have been around for years and will continue to dominate the industry. Customer Loyalty / Network Effect - Consumers develop strong brand loyalty once they find a game they like. Also, when more people that have these games user experience improves creating a network effect.. Strong Talent Base - ATVI has a strong ability to recruit and keep its talent base. Since its franchises give ATVI its value, it is important that they have the best developers and we believe they will continue to recruit and retain top talent in the future.

Company Overview:
Activision Blizzard is a global developer and publisher of interactive entertainment for personal computers, video-game consoles, and mobile devices. ATVI benefits from a variety of revenue streams from its three core business segments (Activision, Blizzard, King) and produces many of the top video game franchises that consumers know and love. Activision is the business segment that is focused on producing premium content for consoles (PC and mobile devices to a lesser extent). This segment makes up 48% of total revenue and includes franchises such as Call of Duty and Guitar Hero. Blizzard Entertainment is another segment that is tailored to the computer market. It generates revenue (24%) from game purchase, in-game purchases, and subscriptions for its popular franchise World of Warcraft. Lastly, King Entertainment is a segment that is dedicated to the mobile device market. It produces free to play content and generates revenue (28%) through in game purchases. Its most notable franchise is Candy Crush Saga.

Industry Analysis:
Activision Blizzard operates in the digital interactive entertainment industry. It is estimated that there are over 2.5 billion gamers worldwide, with a vast number of these gamers using their mobile devices to play. Taking a look at the bigger picture, the global gaming market is estimated to be worth between \$250-\$260 billion by 2025 giving it a 9%-11% CAGR for the next 5 years. This is a growing market with lots of opportunities but also fierce competition. Two of Activision Blizzard's closest competitors are Electronic Arts and Take-Two Software. Electronic Arts franchises include games such as Battlefield, Madden, and FIFA. Lasly, another close competitor is Take-Two Software which makes games such as Grand Theft Auto and NBA 2K.

Investment Risks:
Franchise Risk: Large majority of revenues comes from a few key gaming franchises. Need to keep games up to consumer tastes and preferences. Political Risk: 52% of sales come from international markets. Significant regulation or approval standards has the potential to limit ATVI's respective market. Consumer Preferences: Changes in consumers' tastes for interactive entertainment content or general digital content could negatively impact Activion's market share/revenues. Cyclical Risk: Approximately 30% of sales come from Q4 due to the holiday season. Missing this pivotal opportunity could substantially reduce their top line revenue growth. Free to Play: Failure to successfully implement free to play entertainment content could cause financial strain on Activision if consumers don't purchase in game content.

Financial Performance:	Discounted Cash Flow:
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numbers in millions

	2016	2017	2018	2019	2020	2021 - Q1	2021 - Q2
Revenue	\$6,608	\$7,017	\$7,500	\$6,489	\$8,060	\$2,275	\$2,296
Revenue Growth %	41.68%	6.19%	6.88%	-13.48%	24.61%	27.23%	18.84%
Gross Profit	\$4,214	\$4,516	\$4,983	\$4,395	\$6,637	\$1,697	\$1,741
Gross Margin %	63.77%	64.36%	66.44%	67.73%	72.05%	74.59%	75.83%
Operating Income	\$1,412	\$1,309	\$1,988	\$1,607	\$2,734	\$825	\$972
EBIT	\$1,106	\$1,151	\$1,877	\$1,633	\$2,616	\$825	\$972
FCF	\$-3,049	\$1,796	\$1,184	\$1,620	\$1,888	\$765	\$1,015
EPS	\$1.28	\$0.36	\$2.35	\$1.95	\$2.82	\$0.8	\$1.13
Dividend/Share	.3	.34	.37	.41	.47	-	-

Company	Ticker	Market Cap	Revenue TTM	Profit Margin	ROA	ROE	ROIC
Activision Bizzard	ATVI	58.3B	8.93B	30.2%	9.5%	13.6%	9.45%
EA Inc.	EA	38.9B	5.72B	13.1%	8.0%	10.7%	3.7%
Take-Two	TTWO	20B	3.35B	12.1%	8.0%	11.2%	6.22%
Nintendo Co.	NTDOY	58.8B	1.09B	27.0%	24.0%	26.8%	-
Avg	-	-	-	20.6%	12.3%	15.5%	7.05%

Ticker	EV/Sales	EV/EBIT	EV/EBITDA	P/E	P/FCF
ATVI	5.89x	16.85x	18.4x	21.6	23.33
EA	6.53x	41.67x	31.9x	53.0	30.9
TTWO	5.29x	24.56x	29.3x	52.8	42.0
NTDOY	40.67x	6.15x	6.5x	12.3	-
Avg	14.6x	21.5x	22.3x	35.0	32.1

	2016-2020	2021-2030
Avg Revenue growth	13.18%	7.95%
Avg Net Income Margin	18.7%	26.18%
Avg FCF / Margin	8.71%	27.72%
Tax Rate		15%
Hurdle Rate		9%
Perpetuity growth rate		3.5%

Analyst Opinion

Buy: 15	Hold: 2	Sell: 0
	Rating	Target
CFRA	Buy	\$101.43
The Street Ratings	Buy	\$92.02
Average Consensus	Strong Buy	\$113.13

	5 Year Return	YTD Return
ATVI	84.94%	-10.88%
S&P 500	113.97 %	22.95%

CSR Characteristics (Comp Group excludes NTDOY*)

	ATVI	Comp Group
Governance Disclosure Score	51.79	53.58
ESG Disclosure:	17.77	19.84
Social Disclosure Score	19.3	18.43
Environmental Disclosure Score	2.33	5.82

Team Blue:

Connor Avallone, Devin Stachelsky, and Aidan Hamilton

Sources: Bloomberg, TD Ameritrade, Yahoo Finance