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MICROSOFT'S ACQUISITION OF ACTIVISION BLIZZARD:
AN OPPORTUNISTIC MISTAKE OR STRATEGIC WIN

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Abstract:

This case study examines Microsoft's acquisition of Activision Blizzard, the largest in gaming history. It explores the strategic rationale behind the deal, including boosting Xbox Game Pass and strengthening Microsoft's gaming ecosystem. The study addresses key challenges, such as cultural integration and regulatory hurdles, while evaluating financial metrics like valuation and synergies. Designed for corporate finance and M&A courses, it provides insights into the complexities of post-merger integration, competitive dynamics in cloud gaming, and the viability of subscription-based models.

Keywords: Corporate Finance, Corporate Governance, Post-Merger Integration, Acquisitions

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Introduction

On December 20, 2023, Bobby Kotick, the controversial CEO of Activision Blizzard, announced to the public that he would officially step down as CEO at the end of the year.ⁱ This announcement came just two months after celebrating the finalized acquisition of Activision Blizzard by Microsoft, a deal that had taken an exhausting 21 months of negotiations and legal proceedings. On the day of the acquisition announcement in January 2022, Activision Blizzard's stock price jumped by nearly 26%, reflecting investor optimism about the deal. In contrast, Microsoft's stock experienced a slight dip of around 2%, (See Exhibit 1 For Microsoft and Activision stock) indicating some market apprehension about the high acquisition cost and potential regulatory challenges. Microsoft was paying \$95 per share, making it \$68.7 billion inclusive Activision's net cash, but that value was adjusted to \$75.4 billion by the time the deal was completed, as Activision Blizzard issued shares during the 21-month period. (See Exhibit 2 For parts in the acquisition) The acquisition was monumental, marking the largest merger in gaming history and one of the biggest tech deals worldwide.ⁱⁱ For both Microsoft and Activision Blizzard, it represented an opportunity to reshape their futures amidst a rapidly changing landscape of technology, gaming, and consumer expectations. This merger not only highlighted the shifting power dynamics in the gaming industry but also showcased the evolving strategies of major tech giants to stay relevant in an increasingly interconnected digital age.

The acquisition was significant not only because of its size but also due to the implications it had for the future of gaming and the technology sector. It marked a turning point in the way traditional gaming companies and tech giants collaborate and compete. The merger was viewed as a testament to the growing importance of digital entertainment, subscription-based services, and the integration of cloud technology into the gaming experience.ⁱⁱⁱ Microsoft's

acquisition of Activision Blizzard had the potential to reshape consumer expectations, redefine market dynamics, and spark a new era of innovation in gaming.

Industry: Preamble

A game can be developed by a single individual or by a team of hundreds of people, with the scale of the development often reflected in the game's naming conventions. Indie games are typically created by small teams or individual developers, while "A" games represent a step up in scale, featuring larger budgets and more developers. At the top of the spectrum are "blockbuster" games, often classified as AAA titles. These games have the highest production costs and are developed by the largest teams, reflecting their significant financial and resource investment.^{iv}

Microsoft: A Journey from Software to Gaming

Microsoft, founded in 1975 by Bill Gates and Paul Allen, initially established its place in the tech industry through its MS-DOS operating system, which later evolved into the widely adopted Windows OS.^v The company quickly grew into a technology powerhouse, largely thanks to its dominance in the software market. Over the years, Microsoft diversified its offerings, venturing into office productivity software (Microsoft Office), hardware (including the Xbox console), and cloud computing services (Azure).^{vi} By the early 2000s, Microsoft recognized the value of the gaming industry as an avenue for further diversification and growth, viewing it as a critical piece of the entertainment and technology puzzle.

The launch of the Xbox in 2001 marked Microsoft's entry into the gaming market, which was at that time dominated by companies like Sony and Nintendo. Despite the success of Xbox, Microsoft struggled to consistently match the console market share of its rivals.^{vii} This led to a

strategic shift in their approach to deal with their competition, focusing more on game development and acquisitions to offer exclusive content to capture market share. Acquiring companies like Mojang (developer of Minecraft) in 2014^{viii} and ZeniMax Media (parent company to Bethesda, developer of The Elder Scrolls series and the Fallout series) in 2021.^{ix} This signalled Microsoft's intent to strengthen its position in the gaming industry through exclusive content and game development expertise. These acquisitions helped Microsoft build a robust catalogue of first-party titles, positioning itself as a serious competitor in the highly competitive gaming market.

With this strategy, Microsoft aimed to expand its library of major game franchises while also leveraging the potential of cloud gaming to ensure accessibility and scalability for gaming enthusiasts. The overarching goal was to create an ecosystem where games could be enjoyed seamlessly across multiple devices, thanks to the integration of cloud technology. This strategy aligns with the broader industry trend towards cloud-based services, offering consumers the ability to game on-demand without the need for expensive hardware, and emphasizing subscription-based models as the future of content consumption.

Microsoft's cloud gaming vision was further emphasized with the introduction of Xbox Game Pass, a subscription service that offered players access to a large library of games for a monthly fee. This approach represented a shift away from traditional one-time purchases towards a more flexible, service-oriented model. By expanding its gaming library and integrating these franchises into its Xbox Game Pass, Microsoft aimed to boost its subscriber base and make its gaming ecosystem even more appealing to consumers. The focus on providing value through a broad selection of games was intended to attract both casual and hardcore gamers, establishing Microsoft as a leader in subscription-based gaming. (See Exhibit 3 – Exhibit 5 for Microsoft's financial statements and segmented income)

Xbox Game Pass' service model has had quite a bit of questionable feedback as the model struggles with being sustainable, Microsoft has stated that Xbox Game Pass is profitable, however, it has also shut down multiple game studios it previously acquired.^x Microsoft uses a model called "straight to game pass" where the game is available on game pass on the same day it releases, making development studios lose a lot of potential revenue as the players only need to pay a \$19.99 fee to have access to the game for a month. Depending on what type of game it is it has its drawbacks. It also stops companies from selling the games later in their lifespan for shorter lifespan games such as story focused single player games.

When it comes to the business model of Xbox Game Pass, it is very similar to how streaming services published tv-shows, but the process of developing a Triple-A(AAA) game like "Call of Duty" could cost between \$200 million and \$1 Billion.^{xi} So when releasing a big budget game on to a platform that costs \$19.99 to access for a month makes the sustainability of the Xbox Game Pass model questionable in the long run.

Activision Blizzard: Growth, Success, and Struggle

Founded in 1979, Activision pioneered the independent video game publishing model, breaking free from the dominance of hardware manufacturers. Over the decades, Activision's franchises like "Crash Bandicoot" and "Call of Duty" became synonymous with gaming culture. With "Call of Duty" achieving particular acclaim as one of the best-selling video game franchises in history.^{xii} Activision's ability to innovate and create blockbuster franchises played a crucial role in establishing its reputation as one of the leading forces in the gaming world.

Blizzard Entertainment, founded in 1991, became known for genre-defining PC games, including “Warcraft”, “StarCraft,” and “Diablo”. Blizzard’s commitment to high-quality storytelling, immersive gameplay, and community-driven multiplayer experiences helped it achieve a strong reputation. The merger of Activision and Blizzard in 2008 created a powerhouse that combined both console and PC gaming expertise ^{xiii}, with its popular franchises propelling Activision Blizzard to the forefront of the gaming industry. Blizzard’s emphasis on player engagement and community fostered strong, loyal fanbases that contributed to its long-term success. And in 2015 Activision Blizzard acquired the Swedish mobile game developer behind “Candy Crush Saga”.

However, Activision Blizzard’s success was not without significant challenges. In the late 2010s, the company faced mounting allegations of workplace misconduct, including claims of harassment, gender discrimination, and fostering a “frat boy” culture. ^{xiv} These controversies led to multiple lawsuits, damaged the company’s reputation, and contributed to growing discontent among employees and shareholders. ^{xv, xvi} The company’s leadership was criticized for its handling of these issues, which ultimately led to protests, employee walkouts, and increased scrutiny from both regulators and shareholders. ^{xvii, xviii, xix} (see Exhibit 6 For Activision stock activity)

The company also faced shifts in the gaming market, including increased competition and evolving consumer preferences towards free-to-play and live-service games. The rapid rise of mobile gaming and new monetization strategies, such as battle passes and in-game purchases, reshaped the landscape of the industry. ^{xx} (See Exhibit 7 – Exhibit 10 for Activision Financial statements)

The Road to Acquisition: Regulatory Scrutiny and Strategic Adjustments

This combination of internal turmoil and external pressures created a period of uncertainty for Activision Blizzard, ultimately making the acquisition offer from Microsoft a timely opportunity for a fresh start. For Microsoft, acquiring Activision Blizzard not only added valuable Intellectual Property to its portfolio but also provided an opportunity to address and transform the troubled culture within Activision Blizzard's studios.

With the cultural challenges at Activision Blizzard, and the reports of systemic issues that had gone unaddressed for years ^{xxi}. Microsoft, known for its strong corporate governance and focus on workplace culture under CEO Satya Nadella, saw an opportunity to make meaningful changes at Activision Blizzard. By implementing new policies, increasing transparency, and creating a more inclusive environment, Microsoft aimed to improve employee morale and restore Activision Blizzard's reputation within the industry. The goal was to ensure that the creative talent within the studios could thrive, free from the issues that had previously plagued the company. ^{xxii}

The acquisition, first announced in January 2022, was valued at \$68.7 billion an all-cash deal that underscored Microsoft's ambition to dominate both traditional and cloud gaming markets. ^{xxiii} (See Exhibit 11 for comparable acquisition in the industry) However, the acquisition faced considerable regulatory scrutiny from multiple authorities, including the European Commission ^{xxiv}, the UK's Competition and Markets Authority (CMA) ^{xxv}, and the United States Federal Trade Commission (FTC) ^{xxvi}. The scale of the acquisition and the potential market dominance it could create raised concerns among regulators worldwide.

The primary concerns revolved around whether Microsoft would gain unfair control over the gaming market, particularly within the nascent cloud gaming sector. Cloud gaming is seen as the future of the gaming industry, and there were fears that Microsoft could monopolize this

space by restricting access to popular titles. In response, regulators imposed conditions to maintain the competition in the industry. The European Commission required Microsoft to provide licensing commitments to ensure that Activision Blizzard's games would be available on multiple cloud gaming platforms, preventing exclusivity to Microsoft services.^{xxvii},^{xxviii} Divesting the cloud streaming rights for Activision Blizzard's games meant that Ubisoft has the rights to publish all present and future games produced by Activision Blizzard. These measures were aimed at preserving an open, competitive landscape in the gaming industry, allowing other companies to continue innovating and providing alternatives for consumers. (See Exhibit 12-13 for the European Commission's requirements and CMA requirements)

The legal and regulatory hurdles were eventually cleared, and the acquisition officially closed on October 13, 2023.^{xxix} After the 21 month process the total value increased to \$75.4 billion but stayed at \$95 per share. For Activision Blizzard, the deal presented an opportunity to stabilize amidst its ongoing cultural challenges and gain access to new resources to support its game development. For Microsoft, it was a strategic move to strengthen Xbox Game Pass and expand its first-party content library, a critical step towards competing with rivals such as Sony and Nintendo. By securing Activision Blizzard's extensive portfolio, Microsoft aimed to reinforce its foothold in the gaming industry and create a unique value proposition for its gaming subscription services.

The regulatory scrutiny also highlighted the broader concerns about the growing influence of tech giants in the entertainment sector. Microsoft's willingness to make concessions, such as divesting cloud streaming rights and offering licensing agreements, demonstrated its commitment to addressing these concerns while pursuing its strategic objectives. These measures were largely about appeasing regulators and ensuring compliance, but they also had

the effect of helping the gaming ecosystem remain diverse and competitive, ultimately benefiting consumers.

The Significance of the Acquisition: Synergies and Challenges

The Activision Blizzard acquisition is the most significant investment Microsoft has made in the gaming industry to date. It brought the major franchises under Microsoft's umbrella, enhancing the value proposition for Xbox Game Pass subscribers and positioning Microsoft to be a leader in mobile, console, and PC gaming segments (See Exhibit 14 for peer companies to Activision Blizzard). The inclusion of these popular titles provided Microsoft with a strong competitive edge, offering a rich library of content to attract and retain subscribers.

However, the acquisition also presented risks, particularly to Microsoft's Environmental, Social, and Governance (ESG) score. Integrating a company with such a challenging history posed a potential threat to Microsoft's well-established ESG credentials.^{xxx} Addressing these issues became critical to mitigating reputational risk and aligning Activision Blizzard's culture with Microsoft's commitment to ethical practices and social responsibility.

Cultural integration has therefore been a particular focus of the post-merger strategy.

Microsoft took active steps to address these problems, including policy changes to create a more inclusive and respectful work environment.^{xxxi} This involved overhauling existing policies, introducing new training programs, and establishing clearer channels for reporting misconduct. Ensuring a positive and productive work culture is essential not only for retaining talent and fostering innovation but also for safeguarding Microsoft's ESG standing, which is critical to the long-term success of the merged entity.

Another key challenge has been aligning the business models of Microsoft and Activision Blizzard. While Microsoft has increasingly focused on subscription services and cloud

gaming, Activision Blizzard's revenue model relied heavily on blockbuster releases and live-service games with in-game purchases. Integrating these differing approaches required careful planning to ensure that the strengths of both companies were utilized effectively. The goal was to create a unified strategy that combined Microsoft's expertise in cloud services and subscription models with Activision Blizzard's ability to develop highly engaging, content-rich games.

One year after the Acquisition: A look at Progress and Challenges

One year after the acquisition, Microsoft has made considerable progress in integrating Activision Blizzard into its broader corporate structure. The positive effects of the merger have started to materialize, particularly in the expansion of Xbox Game Pass. The addition of Activision's popular franchises has been instrumental in attracting millions of new subscribers. Driving significant growth in Microsoft's gaming division and estimated to bring even more when the next blockbuster game from the "Call of duty" franchise launches.^{xxxii} Xbox Game Pass subscriptions have seen double-digit percentage growth,^{xxxiii} reflecting strong consumer interest in the expanded content library now available through the service.

From a financial perspective, Microsoft's gaming revenue has continued to grow, benefiting from increased user engagement and new cross-promotional opportunities. The introduction of exclusive content updates and timed releases for Xbox Game Pass subscribers has added value to the service, further distinguishing it from competitors like PlayStation Plus. Analysts have pointed to the strategic impact of exclusive content, noting that Microsoft's push for unique offerings is paying off in terms of subscriber growth and brand loyalty.^{xxxiv}

However, the process of cultural integration remains an ongoing challenge. Microsoft has faced difficulties in aligning Activision Blizzard's workplace culture with its own. (See Exhibit 15 for changes in management) Microsoft has made it clear that improving Activision Blizzard's culture is a key priority, emphasizing the importance of dignity and respect for all employees as they work to merge both corporate environments.^{xxxv} Despite these challenges, Microsoft remains committed to fostering an environment where all employees feel valued and respected, recognizing that cultural alignment is essential for long-term success.^{xxxvi}

The post-acquisition period has seen Microsoft leveraging Activision Blizzard's IP to boost gaming revenue. During the fiscal year following the merger, Microsoft's gaming revenue increased by 39%^{xxxvii}, largely driven by content and services growth. Xbox Game Pass benefited from the addition of Activision Blizzard's games, attracting new users and increasing subscriber engagement. Despite these gains, the acquisition also presented challenges. Operating expenses rose significantly due to integration costs, cultural adjustments, and increased spending on research and development to ensure that Activision Blizzard's studios were effectively brought into Microsoft's broader corporate structure. These expenses were necessary to align both companies and optimize the value of the combined entity. Microsoft reported a loss of \$1362 million since the acquisition closed. (See Exhibit 16 for the report)

Microsoft has also faced the challenge of maintaining player engagement across Activision Blizzard's franchises. While the integration into Xbox Game Pass has broadened the audience, maintaining the level of community engagement that Blizzard's games are known for has required continued investment in live events, expansions, and player support. To

address this, Microsoft has increased funding for development teams and invested in new infrastructure to support live-service games, ensuring that players continue to receive regular updates and quality content. ^{xxxviii}

On the technological front, Microsoft has made strides in integrating Activision Blizzard's games with its cloud gaming initiatives. Xbox Cloud Gaming now supports several of Activision Blizzard's titles, allowing players to enjoy them on a range of devices without the need for powerful hardware. This move has expanded the reach of these franchises, making them accessible to a broader audience. The push towards cloud gaming has also helped Microsoft advance its goal of making gaming more inclusive and available to players worldwide, regardless of the platform they use.

Despite the successes, there are still regulatory considerations that Microsoft needs to navigate. The concessions made during the acquisition process, such as licensing agreements with competitors and the divestment of cloud streaming rights, have required ongoing compliance and coordination. ^{xxxix} Microsoft has had to ensure that these commitments are honored, which has added complexity to its post-acquisition strategy. Nevertheless, the company has managed to balance regulatory requirements with its broader strategic goals, ensuring that it remains compliant while still advancing its ambitions in the gaming industry.

The Future of Gaming: Microsoft's Vision

Microsoft's strategic vision involves creating an interconnected gaming experience across platforms, powered by cloud technology. With Xbox Game Pass and Xbox Cloud Gaming, the goal is to make high-quality gaming content accessible to a broad audience without the need

for expensive hardware. By investing heavily in both first-party content and cloud infrastructure, Microsoft aims to create a seamless gaming ecosystem that extends beyond the traditional console market.^{xi} The acquisition of Activision Blizzard adds considerable weight to this vision, bringing some of the world's most iconic game franchises into the fold and increasing the content available to Xbox Game Pass subscribers. Microsoft aims to differentiate itself from competitors by strengthening its first-party content and expanding the Xbox Game Pass with Activision Blizzard's games. This positions Microsoft as a leader in cloud gaming, creating a future where games are accessible on any device.

This strategic vision aligns with broader trends in the entertainment industry like music, television, and movies, where consumers increasingly favour subscription-based models offering diverse content for a fixed fee. By building a comprehensive content library and investing in cloud infrastructure, Microsoft positions itself as a leader in the next generation of gaming experiences which aims to mirror the availability of streaming. The acquisition also helps Microsoft diversify its gaming portfolio to cater to console, PC, and mobile gamers, enhancing its reach and influence.

In addition to expanding its content library, Microsoft has focused on creating a more socially connected gaming experience. The integration of Activision Blizzard's franchises provides opportunities for cross-platform play and community-driven events that bring players together.^{xli} This emphasis on community and connectivity is a core component of Microsoft's vision for the future of gaming, where players can share experiences, compete, and collaborate in virtual worlds that are more immersive and engaging than ever before.

Microsoft also aims to leverage advancements in artificial intelligence (AI) and machine learning to enhance the gaming experience. From personalized content recommendations to adaptive gameplay that responds to player preferences, AI is set to play a significant role in

the evolution of gaming. By integrating AI-driven features into its platforms, Microsoft hopes to create experiences that are not only entertaining but also deeply personalized, keeping players engaged and invested in the ecosystem. ^{xlii}, ^{xliii}

Charting the Future of Gaming

The acquisition of Activision Blizzard by Microsoft represents a significant milestone in the evolution of the gaming industry. It underscores the growing importance of digital entertainment, subscription services, and cloud gaming as key drivers of future growth. By bringing together two industry giants, the merger has the potential to redefine the competitive landscape, spur innovation, and create new opportunities for players and developers alike.

However, the success of this acquisition will depend on Microsoft's ability to navigate the challenges of cultural integration, regulatory compliance, and strategic alignment. The company's efforts to create a more inclusive work environment, invest in first-party content, and expand its cloud gaming capabilities will be critical to realizing the full potential of this merger. As the gaming industry continues to evolve, Microsoft's vision of an interconnected, cloud-powered gaming ecosystem could set the standard for the future of digital entertainment.

Exhibit 1 – Activision Share price and Microsoft Share price



Orange: Microsoft

Blue: Activision Blizzard

Source: Bloomberg

Exhibit 2 – Parts in the acquisition, \$ in millions

Acquirer	Target Company	Announcement date	Total value Jan 2022	Total value Oct 2023
Microsoft	Activision Blizzard Inc	01/18/22	68 700	75 400

Source: Bloomberg

Exhibit 3 – Microsoft Balance Sheet, \$ in millions

	2024	2023	2022	2021
Assets				
Current Assets:				
Cash and cash equivalents	18 315	34 704	13 931	14 224
Short-term investments	57 228	76 558	90 826	116 110
Total cash, cash equivalents, and short-term investments	75 543	111 262	104 757	130 334
Accounts receivable, net of allowance for doubtful accounts	57 924	48 688	44 261	38 043
Inventories	1 246	2 500	3 742	2 636
Other current assets	26 021	21 807	16 924	13 393
Total current assets	159 734	184 257	169 684	184 406
Property and equipment	135 591	95 641	74 398	59 715
Operating lease right-of-use assets	18 961	14 346	13 148	11 088
Equity investments	14 600	9 879	6 891	5 984
Goodwill	119 200	67 886	67 524	49 711
Intangible assets, net	27 597	9 366	11 298	7 800
Other long-term assets	36 460	30 601	21 897	15 075
Total assets	512 163	411 976	364 840	333 779
Liabilities and stockholders' equity				
Current Liabilities:				
Accounts payable	21 996	18 095	19 000	15 163
Short-term debt	6 693	-	-	-
Current portion of long-term debt	2 249	5 247	2 749	8 072
Accrued compensation	12 564	11 009	10 661	10 057
Short-term income taxes	5 017	4 152	4 067	2 174
Short-term unearned revenue	57 582	50 901	45 538	41 525
Other current liabilities	19 185	14 745	13 067	11 666
Total current liabilities	125 286	104 149	95 082	88 657
Long-term debt	42 688	41 990	47 032	50 074
Long-term income taxes	27 931	25 560	26 069	27 190
Long-term unearned revenue	2 602	2 912	2 870	2 616
Deferred income taxes	2 618	433	230	198
Operating lease liabilities	15 497	12 728	11 489	9 629
Other long-term liabilities	27 064	17 981	15 526	13 427
Total liabilities	243 686	205 753	198 298	191 791
Commitments and contingencies				
Stockholders' equity:				
Common stock and paid-in capital	100 923	93 718	86 939	83 111
Retained earnings	173 144	118 848	84 281	57 055
Accumulated other comprehensive loss	-5 590	-6 343	-4 678	1 822
Total stockholders' equity	268 477	206 223	166 542	141 988
Total liabilities and stockholders' equity	512 163	411 976	364 840	333 779

Source: Microsoft annual report 2024, Microsoft annual report 2022

Exhibit 4 – Microsoft Income statement, \$ in millions, except earnings per share

Year Ended June 30,	2024	2023	2022
Revenue			
Product	64 773	64 699	72 732
Service and other	180 349	147 216	125 538
Total revenue	245 122	211 915	198 270
Cost of revenue			
Product	15 272	17 804	19 064
Service and other	58 842	48 059	43 586
Total cost of revenue	74 114	65 863	62 650
Gross Margin	171 008	146 052	135 620
Research and development	29 510	27 195	24 512
Sales and Marketing	24 456	22 759	21 825
General and administrative	7 609	7 575	5 900
Operating income	109 433	88 523	83 383
Other income, net	(1 646)	788	333
Income before income taxes	107 787	89 311	83 716
Provision for income taxes	19 651	16 950	10 978
Net Income	88 136	72 361	72 738
Earning per share:			
Basic	\$11.86	\$9.72	\$9.70
Diluted	\$11.80	\$9.68	\$9.65
Weighted average shares outstanding:			
Basic	7431	7446	7496
Diluted	7469	7472	7540

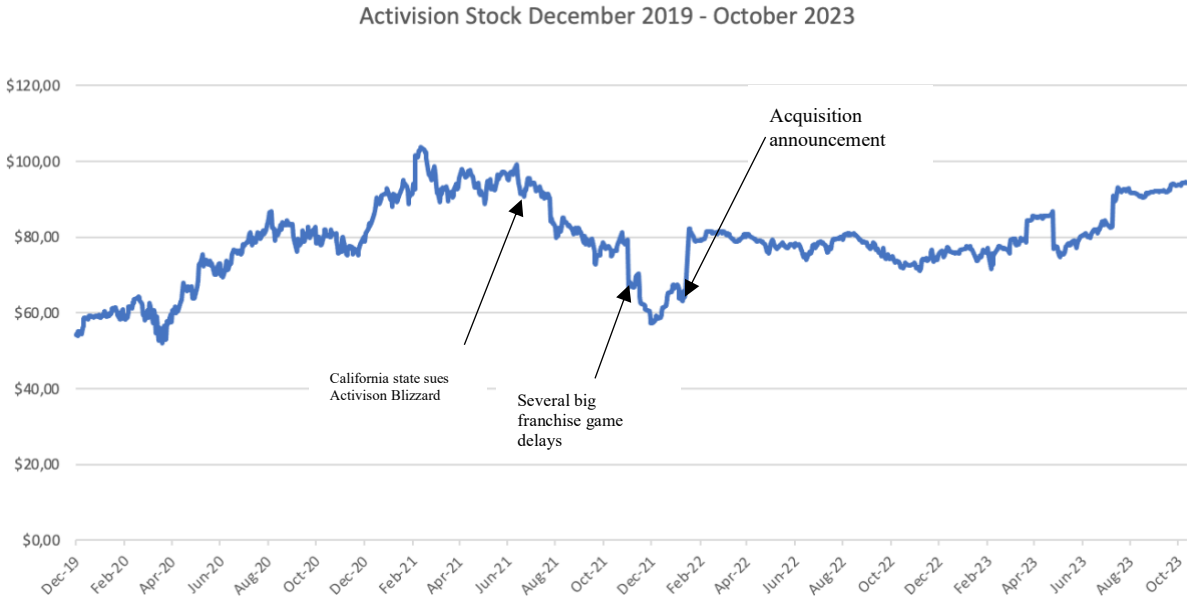
Source: Microsoft Annual report 2024

Exhibit 5 – Microsoft segmented income statement, \$ in millions

Year Ended June 30,	2024	2023	2022
Server products and cloud services	97 726	79 970	67 350
Office products and cloud services	54 875	48 848	44 970
Windows	23 244	21 507	24 732
Gaming	21 503	15 466	16 230
LinkedIn	16 372	14 989	13 631
Search and news advertising	12 576	12 158	11 526
Enterprise and partner services	7 594	7 900	7 605
Dynamics products and cloud services	6 481	5 437	4 687
Devices	4 706	5 521	7 306
Other	45	119	233
Total	245 122	211 915	198 270

Source: Microsoft Annual Report 2024

Exhibit 6 – Activision Share Price December 2019 – October 2023



Source: Bloomberg

Exhibit 7 – Activision Income Statement - \$ in millions, except earnings per share

	For the Years ended December 31				
	2021	2020	2019	2018	2017
Net revenues					
Product sales	2 311	2 350	1 975	2 255	2 110
In-game subscription and other revenues	6 492	5 736	4 514	5 245	4 907
Total net revenues	8 803	8 086	6 489	7 500	7 017
Costs and expenses					
Cost of revenues—product sales:					
Product costs	649	705	656	719	733
Software royalties amortization and intellectual property licenses	346	269	240	371	300
Cost of revenues—in-game subscription and other:					
Game operations and distribution costs	1 215	1 131	965	1 028	984
Software royalties amortization and intellectual property licenses	107	155	233	399	484
Product development	1 337	115	998	1 101	1 069
Sales and marketing	1 025	1 064	926	1 062	1 378
General and administrative	788	784	732	822	745
Restructuring and related costs	77	94	132	10	15
Total costs and expenses	5 544	5 352	4 882	5 512	5 708
Operating income	3 259	2 734	1 607	1 988	1 309
Interest and other expense (income) net (Note 18)	95	87	-26	71	146
Loss on extinguishment of debt		31		40	12
Income before income tax expense	3 164	2 616	1 633	1 877	1 151
Income tax expense	465	419	130	29	878
Net income	2 699	2 197	1 503	1 848	273
Earnings per common share					
Basic	\$3.47	\$2.85	\$1.96	\$2.43	\$0.36
Diluted	\$3.44	\$2.82	\$1.95	\$2.40	\$0.36

Source: Activision Blizzard annual report 2021 and 2019

Exhibit 8 – Activision Balance Sheet - \$ in millions

Assets	For the Years ended December 31				
	2021	2020	2019	2018	2017
Current assets:					
Cash and cash equivalents	10423	8647	5794	4225	4713
Accounts receivable	972	1052	848	1035	918
Inventories, net			32	43	46
Software development	449	352	322	264	367
Other current assets	712	514	296	539	476
Total current assets	12556	10565	7292	6106	6520
Software development	211	160	54	65	86
Property and equipment, net	169	209	253	282	294
Deferred income taxes, net	1377	1318	1293	403	459
Other assets	497	641	658	482	440
Intangible assets, net	447	451	531	735	1106
Goodwill	9799	9765	9764	9762	9763
Total assets	25056	23109	19845	17835	18668
Liabilities and Shareholders' Equity					
Current liabilities: Accounts payable	285	295	292	253	323
Deferred revenues	1118	1689	1375	1493	1929
Accrued expenses and other liabilities	1008	1116	1248	896	1411
Total current liabilities	2411	3100	2915	2642	3663
Long-term debt, net	3608	3605	2675	2671	439
Deferred income taxes, net	506	418	505	18	21
Other liabilities	932	949	945	1147	1132
Total liabilities	7457	8072	7040	6478	9206
Additional paid-in capital	11715	11531	11174	10963	10747
Less: Treasury stock	-5563	-5563	-5563	-5563	-5563
Retained earnings	12025	9691	7813	6558	4916
Accumulated other comprehensive loss	-578	-622	-619	-601	-638
Total shareholders' equity	17599	15037	12805	11357	9462
Total liabilities and shareholders' equity	25056	23109	19845	17835	18668

Source: Activision Blizzard annual report 2021, 2019, and 2018

Exhibit 9 – Activision Cash flow statement, \$ in millions

Source: Activision Blizzard Annual report 2021 and 2019

	For the Years ended December 31				
	2021	2020	2019	2018	2017
Cash flows from operating activities - \$ in millions:					
Net income	2 699	2 197	1 503	1 848	273
Adjustments to reconcile net income to net cash provided by operating activities:					
Deferred income taxes	7	-94	-352	-35	-181
Non-cash operating lease cost	65	65	64		
Depreciation and amortization	116	197	328	509	888
Amortization of capitalized software development costs and intellectual property licenses (1)	324	249	225	489	311
Loss on extinguishment of debt				40	12
Share-based compensation expense (Note 16) (2)	508	218	166	209	176
Realized and unrealized gain on equity investment (Note 10)	-28	-3	-38		
Other	2	31	42	7	40
Changes in operating assets and liabilities:					
Accounts receivable, net	71	-194	182	-114	-165
Software development and intellectual property licenses	-426	-378	-275	-372	-301
Other assets	-114	-88	186	-50	-90
Deferred revenues	-537	216	-154	-122	220
Accounts payable	-7	-10	31	-65	85
Accrued expenses and other liabilities	-266	-154	-77	-554	945
Net cash provided by operating activities	2 414	2 252	1 831	1 790	2 213
Cash flows from investing activities:					
Proceeds from maturities of available-for-sale investments	214	121	153	116	80
Proceeds from sale of available-for-sale investments	66				
Purchases of available-for-sale investments	-248	-221	-65	-209	-135
Capital expenditures	-80	-78	-116	-131	-155
Other investing activities	-11		6	-6	3
Net cash used in investing activities	-59	-178	-22	-230	-207
Cash flows from financing activities:					
Proceeds from issuance of common stock to employees	90	170	105	99	178
Tax payment related to net share settlements on restricted stock units	-246	-39	-59	-94	-56
Dividends paid	-365	-316	-283	-259	-226
Proceeds from debt issuances, net of discounts		1 994			3 741
Repayment of long-term debt		-1 050		-1 740	-4 251
Payment of financing costs		-20		-25	
Premium payment for early redemption of note		-28		-1	-10
Net cash (used in) provided by financing activities	-521	711	-237	-2 020	-624
Effect of foreign exchange rate changes on cash and cash equivalents	-48	69	-3	-31	76
Net increase (decrease) in cash and cash equivalents and restricted cash	1 786	2 854	1 569	-491	1 458
Cash and cash equivalents and restricted cash at beginning of period	8 652	5 798	4 229	4 720	3 262
Cash and cash equivalents and restricted cash at end of period	10 438	8 652	5 798	4 229	4 720

Exhibit 10 – Activision Blizzard outstanding debt

Unsecured Senior Notes

As of December 31, 2021 and December 31, 2020, we had \$3.7 billion of gross unsecured senior notes outstanding. A summary of our outstanding unsecured senior notes is as follows (amounts in millions):

Unsecured Senior Notes	Interest Rate	Semi-Annual Interest Payments Due On	Maturity	At December 31, 2021		At December 31, 2020	
				Principal	Fair Value (Level 2)	Principal	Fair Value (Level 2)
2026 Notes	3.40%	Mar. 15 & Sept. 15	Sept. 2026	\$ 850	\$ 912	\$ 850	\$ 970
2027 Notes	3.40%	Jun. 15 & Dec. 15	Jun. 2027	400	430	400	454
2030 Notes	1.35%	Mar. 15 & Sept. 15	Sept. 2030	500	463	500	490
2047 Notes	4.50%	Jun. 15 & Dec. 15	Jun. 2047	400	480	400	525
2050 Notes	2.50%	Mar. 15 & Sept. 15	Sept. 2050	1,500	1,320	1,500	1,462
Total gross long-term debt				<u>\$ 3,650</u>		<u>\$ 3,650</u>	
Unamortized discount and deferred financing costs				(42)		(45)	
Total net carrying amount				<u>\$ 3,608</u>		<u>\$ 3,605</u>	

Source: Activision Blizzard Annual report 2021

Exhibit 11 – Comparable acquisitions – Total value in \$ millions

Acquirers	Target Company	Ann Date	Total Value	Transaction Value/EBITDA	Transaction Value/Rev	Premium
Take Two interactive	Zynga Inc	01/10/22	12 006.42	37.79	4.29	67%
Evolution Ab	NetEnt AB	06/23/20	2 208.69	23.2	11.06	54%
Electronic Arts inc	Glu Mobile Inc	02/08/21	1 953.7	52.74	3.46	36%
Tencent Holdings Ltd	Leyou Technologies Holdings Ltd	08/26/20	1 325.43	24.05	6.17	7%
Tencent Holdings Ltd	Sumo Group PLC	07/18/21	1 090.15	124.59	12.84	41%
Vivendi SE	Gameloft SE	02/18/16	493.41	101.67	2.53	61%

Source: Bloomberg

DECISION ON CONSENT UNDER THE FINAL ORDER

The CMA's decision to consent to Microsoft Corporation acquiring Activision Blizzard, Inc. (excluding Activision Blizzard's non-EEA cloud streaming rights) under paragraph 12 of the Microsoft and Activision Merger Inquiry Order 2023 made by the CMA pursuant to section 84 of the Enterprise Act 2002, given on 13 October 2023. Full text of the decision published on 13 October 2023.

Summary

1. The CMA has decided to give Microsoft Corporation (**Microsoft**) consent to acquire Activision Blizzard, Inc. (**Activision**) (the **Parties**) excluding Activision's cloud streaming rights outside of the European Economic Area (**EEA**) (the **Merger**) subject to the condition that the sale of Activision's cloud streaming rights completes prior to completion of the Merger. As set out below, this consent is required as a result of the CMA's **Final Order** prohibiting Microsoft's acquisition of the whole of Activision (the **First Proposed Merger**).¹
2. This **Consent Decision** is separate from the decisions on:²
 - (a) Whether it is or may be the case that the Merger creates a relevant merger situation that may be expected to result in a substantial lessening of competition (**SLC**) in any market or markets in the UK under section 33(1) of the Enterprise Act 2002 (the **Act**) (the **Phase 1 Decision**); and
29. The CMA notes that, to ensure that the Merger does not give rise to the competition concerns identified in the Final Report, the Ubisoft Divestment Agreement must be completed. Accordingly, the CMA considers it appropriate to make this consent conditional on the Ubisoft Divestment Agreement first completing.
30. Therefore, in light of the above, the CMA has decided that it would be appropriate to give consent to the Parties under paragraph 12 of the Final Order, conditional on the Ubisoft Divestment Agreement completing ahead of the Merger completing.

Decision

31. The CMA gives its consent to the Merger under paragraph 12 of the Final Order.

Martin Coleman, as Chair of the Microsoft and Activision Merger Inquiry Order Sub-Committee
Competition and Markets Authority
13 October 2023

Source:

https://assets.publishing.service.gov.uk/media/652864062548ca000dddf22d/Full_text_decision_final_order.pdf

Exhibit 13 – EC Requirements

The Commission's in-depth market investigation indicated that Microsoft **would not be able to harm rival consoles and rival multi-game subscription services**. At the same time, it confirmed that **Microsoft could harm competition in the distribution of games via cloud game streaming services** and that **its position in the market for PC operating systems would be strengthened**.

In particular, the Commission found that:

- Microsoft **would have no incentive to refuse to distribute Activision's games to Sony, which is the leading distributor of console games** worldwide, including in the European Economic Area ('EEA') where there are four Sony PlayStation consoles for every Microsoft Xbox console bought by gamers. Indeed, Microsoft would have strong incentives to continue distributing Activision's games via a device as popular as Sony's PlayStation.
- **Even if Microsoft did decide to withdraw Activision's games from the PlayStation, this would not significantly harm competition in the consoles market**. Even if *Call of Duty* is largely played on console, it is less popular in the EEA than in other regions of the world, and is less popular in the EEA within its genre compared to other markets. Therefore, even without being able to offer this specific game, Sony could leverage its size, extensive games catalogue and market position to fend off any attempt to weaken its competitive position.
- Even without this transaction, Activision would not have made **its games available for multi-game subscription services**, as this would cannibalize sales of individual games. Therefore, the situation for third-party providers of multi-game subscription services would not change after the acquisition of Activision by Microsoft.
- The acquisition would **harm competition in the distribution of PC and console games via cloud game streaming services**, an innovative market segment that could transform the way many gamers play video games. Despite its potential, cloud game streaming is very limited today. The Commission found that the popularity of Activision's games could promote its growth. Instead, if Microsoft made **Activision's games exclusive to its own cloud game streaming service**, *Game Pass Ultimate*, and withheld them from rival cloud game streaming

providers, it would **reduce competition** in the **distribution of games via cloud game streaming**.

- If Microsoft made Activision's games exclusive to its own cloud game streaming service, Microsoft could also strengthen the **position of Windows in the market for PC operating systems**. This could be the case, should Microsoft hinder or degrade the streaming of Activision's games on PCs using operating systems other than Windows.

The proposed remedies

To address the competition concerns identified by the Commission in the **market for the distribution of PC and console games via cloud game streaming services**, Microsoft offered the following comprehensive licensing commitments, with a 10-year duration:

- A **free license to consumers in the EEA** that would allow them to stream, via **any cloud game streaming services** of their choice, **all current and future Activision Blizzard PC and console games** for which they have a license.
- A corresponding **free license to cloud game streaming service providers** to allow EEA-based gamers to stream any Activision Blizzard's PC and console games.

Today, Activision Blizzard does not license its games to cloud game streaming services, nor does it stream the games itself. These licenses will ensure that **gamers** that have purchased one or more Activision games on a PC or console store, or that have subscribed to a multi-game subscription service that includes Activision games, **have the right to stream those games with any cloud game streaming service of their choice and play them on any device using any operating system**. The remedies also ensure that Activision's games available for streaming will have the same quality and content as games available for traditional download.

These commitments **fully address** the competition concerns identified by the Commission and **represent a significant improvement for cloud game streaming compared to the current situation**. They will **empower millions of EEA consumers to stream Activision's games using any cloud gaming services operating in the EEA**, provided they are purchased in an online store or included in an active multi-game subscription in the EEA. In addition, the availability of Activision's popular games for streaming via all cloud game streaming services will **boost the development of this dynamic technology in the EEA**. Ultimately, the commitments will unlock significant benefits for competition and consumers, by bringing Activision's games to new platforms, including smaller EU players, and to more devices than before.

The Commission carefully investigated the effectiveness of the remedies, collecting views from a large number of market participants and stakeholders. In particular, **cloud game streaming service providers gave positive feedback and showed interest in the licenses**. Some of these providers have **already entered** into bilateral agreements with Microsoft based on the proposed licenses to stream Activision's games, once the transaction is completed.

Taking into consideration the feedback of the market, the Commission concluded that the proposed acquisition, as modified by the commitments, would no longer raise competition concerns and would ultimately unlock significant benefits for competition and consumers. The Commission's decision is conditional upon full compliance with the commitments. Under supervision of the Commission, an independent trustee will be in charge of monitoring their implementation.

Source:

https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_23_2705/IP_23_2705_EN.pdf

Exhibit 14 – Comparable companies – Values in \$ millions

**Peer
Analysis**

Data as of 2021

Peer	Lev. Beta	Total Debt	Market Cap	Net debt
BANDAI NAMCO HOLDINGS IN-ADR	0.91	248	15 676	-1 600
ELECTRONIC ARTS INC	0.71	2154	38 716	-4 210
EMBRACER GROUP AB	0.93	208	12 701	-1 430
NINTENDO CO LTD-UNSPONS ADR	0.83	52	66 567	-15 700
SONY GROUP CORP - SP ADR	1.03	26268	129 905	6 390
TAKE-TWO INTERACTIVE SOFTWARE	0.76	191	20 349	-2 540
TENCENT HOLDINGS LTD-UNS ADR	1.18	50892	561 995	9 340
UBISOFT ENTERTAINMENT	0.63	2462	9 420	267

Source: Bloomberg

Exhibit 15 – Changes in management

Position	Previous Leader	New Leader	Effective Date
CEO of Activision Blizzard	Bobby Kotick	Position eliminated	December 29, 2023
President of Blizzard Entertainment	Mike Ybarra	Johanna Faries	February 5, 2024
Chief Design Officer of Blizzard Entertainment	Allen Adham	Position eliminated	January 25, 2024
Vice Chairman of Activision Blizzard	Thomas Tippl	Position eliminated	March 1, 2024
President of Activision	Rob Kostich	Rob Kostich	Ongoing
President of King	Tjodolf Sommestad	Tjodolf Sommestad	Ongoing
Chief Content Officer of Activision Blizzard	Lulu Meservey	Position eliminated	January 31, 2024

Exhibit 16 – Activision Performance post-acquisition.

Following is the net impact of the Activision Blizzard acquisition on our consolidated income statements since the date of acquisition:

(In millions)		
Year Ended June 30,		2024
Revenue	\$	5,729
Operating loss		(1,362)

The change of Activision Blizzard content from third-party to first-party is reflected in the net impact.

Following are the supplemental consolidated financial results of Microsoft Corporation on an unaudited pro forma basis, as if the acquisition had been consummated on July 1, 2022:

(In millions, except per share amounts)			
Year Ended June 30,		2024	2023
Revenue	\$	247,442	\$ 219,790
Net income		88,308	71,383
Diluted earnings per share		11.82	9.55

Source: Microsoft annual report 2024

Exhibit 17 – US treasury rates, December 2021-December 2022, rates in %

US GOVT 10yr

Dec-21	1.5101
Jan-22	1.7767
Feb-22	1.825
Mar-22	2.338
Apr-22	2.9336
May-22	2.8441
Jun-22	3.0129
Jul-22	2.6487
Aug-22	3.1926
Sep-22	3.8286
Oct-22	4.0478
Nov-22	3.6054
Dec-22	3.8748

Source: Bloomberg

Exhibit 18 – Aswath Damodaran Equity Risk Premium, December 2021 – December 2022

Dec-21	4.79%
Jan-22	4.24%
Feb-22	4.56%
Mar-22	4.75%
Apr-22	4.73%
May-22	5.14%
Jun-22	5.07%
Jul-22	6.01%
Aug-22	5.42%
Sep-22	5.45%
Oct-22	6.21%
Nov-22	5.48%
Dec-22	5.26%

Source: Aswath Damodaran, ERPbymonthly.xlsx, <https://pages.stern.nyu.edu/~adamodar/>

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