ATVI BUSINESS DESCRIPTION
Activision Blizzard, Inc. develops and publishes online, personal computer (PC), video game console, handheld, mobile, and tablet games. The company operates through two segments, Activision Publishing, Inc. and Blizzard Entertainment, Inc.

STOCK PERFORMANCE (%)

3 Mo. 1 Yr. 3 Yr (Ann)
Price Change 8.59 37.85 37.61

GROWTH (%)

Last Qtr 12 Mo. 3 Yr CAGR
Revenues 50.38 15.44 2.50
Net Income -40.10 -20.66 -18.03
EPS -41.38 -21.88 -5.63

RETURN ON EQUITY (%)

ATVI Ind Avg S&P 500
Q2 2016 8.75 14.53 11.83
Q2 2015 12.10 10.28 13.71
Q2 2014 10.13 15.38 14.43

P/E COMPARISON

43.99 60.63 25.00
ATVI Ind Avg S&P 500

EPS ANALYSIS¹ ($)

2014 2015 2016
0.10 0.20 0.30
0.03 0.13 0.23
-0.19 -0.21 -0.21
0.03 0.05 0.05
0.00 0.00 0.00

¹ Compustat fiscal year convention is used for all fundamental data items.

RECOMMENDATION
We rate ACTIVISION BLIZZARD INC (ATVI) a BUY. This is driven by several positive factors, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company’s strengths can be seen in multiple areas, such as its robust revenue growth, largely solid financial position with reasonable debt levels by most measures, solid stock price performance, good cash flow from operations and expanding profit margins. We feel its strengths outweigh the fact that the company has had sub par growth in net income.

HIGHLIGHTS
ATVI’s very impressive revenue growth greatly exceeded the industry average of 1.6%. Since the same quarter one year prior, revenues leaped by 50.4%. This growth in revenue does not appear to have trickled down to the company’s bottom line, displayed by a decline in earnings per share.

The current debt-to-equity ratio, 0.59, is low and is below the industry average, implying that there has been successful management of debt levels. Along with the favorable debt-to-equity ratio, the company maintains an adequate quick ratio of 1.25, which illustrates the ability to avoid short-term cash problems.

Compared to its closing price of one year ago, ATVI’s share price has jumped by 37.85%, exceeding the performance of the broader market during that same time frame. Regarding the stock’s future course, although almost any stock can fall in a broad market decline, ATVI should continue to move higher despite the fact that it has already enjoyed a very nice gain in the past year.

Net operating cash flow has significantly increased by 254.81% to $479.00 million when compared to the same quarter last year. In addition, ACTIVISION BLIZZARD INC has also vastly surpassed the industry average cash flow growth rate of 22.18%.

The gross profit margin for ACTIVISION BLIZZARD INC is currently very high, coming in at 84.14%. It has increased from the same quarter the previous year. Regardless of the strong results of the gross profit margin, the net profit margin of 8.08% trails the industry average.
**ACTIVISION BLIZZARD INC**  
**NASDAQ: ATVI**

**Sector:** Technology | Home Entertainment Software | **Source:** S&P

<table>
<thead>
<tr>
<th>Annual Dividend Rate</th>
<th>Annual Dividend Yield</th>
<th>Beta</th>
<th>Market Capitalization</th>
<th>52-Week Range</th>
<th>Price as of 10/6/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.26</td>
<td>0.59%</td>
<td>1.08</td>
<td>$32.6 Billion</td>
<td>$26.49-$45.12</td>
<td>$43.99</td>
</tr>
</tbody>
</table>

**INDUSTRY ANALYSIS**

The US software industry is characterized by growth, innovation and technological advancements. The business remains knowledge intensive and market structure is influenced by ownership of intellectual property. Technology and product innovation shape business models in a rapidly changing environment. The industry can be divided into three main categories: systems software, programming software, and application software.

The industry landscape has seen radical change in recent years due to the growth of mass markets for packaged software. Software development has witnessed rapid evolution over the past few decades with projects increasing in size and complexity as the available computer hardware has dramatically improved in both processing speed and storage size.

The number of patents being issued across the industry has recently surged. Ownership of intellectual property is a key driver of growth and the patent system plays a vital role in the development of the industry. However, piracy remains a pressing issue as copyright infringement and illegal reproduction and transfer of licensed software is widespread.

The software industry is not immune to the global economy. The return to positive slow growth will positively impact all industries and enhance new investments, which could bolster demand for services and add to sales growth in the upcoming quarters. The need to lower costs has triggered global capabilities to evolve in China and India, for instance, has emerged as the number two software talent pool worldwide, capturing more than a quarter of the global outsourcing market. The industry is currently positioned favorably going forward.

**PEER GROUP: Software**

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Recent Price ($)</th>
<th>Market Cap ($M)</th>
<th>Price/Earnings</th>
<th>Net Sales TTM ($M)</th>
<th>Net Income TTM ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATVI</td>
<td>ACTIVISION BLIZZARD INC</td>
<td>43.99</td>
<td>32,617</td>
<td>43.99</td>
<td>5,367.00</td>
<td>749.00</td>
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<tr>
<td>COOL</td>
<td>MAJESCO ENTERTAINMENT CO</td>
<td>3.56</td>
<td>10</td>
<td>NM</td>
<td>1.74</td>
<td>-5.02</td>
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<td>ANSS</td>
<td>ANSYS INC</td>
<td>92.11</td>
<td>8,034</td>
<td>31.98</td>
<td>961.46</td>
<td>260.15</td>
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<tr>
<td>ADBE</td>
<td>ADOBE SYSTEMS INC</td>
<td>108.56</td>
<td>53,979</td>
<td>55.39</td>
<td>5,552.42</td>
<td>991.87</td>
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<tr>
<td>CYOU</td>
<td>CHANGYOU.COM LTD</td>
<td>28.04</td>
<td>478</td>
<td>7.99</td>
<td>609.79</td>
<td>184.81</td>
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<tr>
<td>TTWO</td>
<td>TAKE-TWO INTERACTIVE SFTWR</td>
<td>45.49</td>
<td>5,913</td>
<td>35.34</td>
<td>1,449.95</td>
<td>20.15</td>
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<tr>
<td>AMSWA</td>
<td>AMERICAN SOFTWARE</td>
<td>10.67</td>
<td>285</td>
<td>33.43</td>
<td>112.46</td>
<td>9.36</td>
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<tr>
<td>DA</td>
<td>ELECTRONIC ARTS INC</td>
<td>84.58</td>
<td>25,439</td>
<td>23.49</td>
<td>4,464.00</td>
<td>1,154.00</td>
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<tr>
<td>ZNGA</td>
<td>ZYNGA INC</td>
<td>2.92</td>
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<td>NM</td>
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<td>-7.75</td>
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<tr>
<td>RST</td>
<td>ROSETTA STONE INC</td>
<td>8.44</td>
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<td>NM</td>
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<td>-35.22</td>
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<tr>
<td>GRVY</td>
<td>GRAVITY CO LTD -ADR</td>
<td>5.29</td>
<td>18</td>
<td>NM</td>
<td>29.86</td>
<td>-12.55</td>
</tr>
</tbody>
</table>

The peer group comparison is based on Major Home Entertainment Software companies of comparable size.
COMPANY DESCRIPTION
Activision Blizzard, Inc. develops and publishes online, personal computer (PC), video game console, handheld, mobile, and tablet games. The company operates through two segments, Activision Publishing, Inc. and Blizzard Entertainment, Inc. The company develops, publishes, and sells interactive software products and content through retail channels or digital downloads; and downloadable content to a range of gamers. It also publishes subscription-based massively multiplayer online role-playing games; and strategy and role-playing games. In addition, the company maintains a proprietary online gaming service, Battle.net that facilitates the creation of user generated content, digital distribution, and online social connectivity in its games. Further, it engages in creating original film and television content; and provides warehousing, logistical, and sales distribution services to third-party publishers of interactive entertainment software, as well as manufacturers of interactive entertainment hardware products. The company serves retailers and distributors, including mass-market retailers, consumer electronics stores, discount warehouses, game specialty stores, and consumers through third-party distribution, licensing arrangements, and direct digital purchases in the United States, Canada, Canada, the United Kingdom, France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea, China, and internationally. Activision Blizzard, Inc. is headquartered in Santa Monica, California.

ACTIVISION BLIZZARD INC
3100 Ocean Park Boulevard
Santa Monica, CA 90405
USA
Phone: 310-255-2000
http://www.activisionblizzard.com

STOCK-AT-A-GLANCE
Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of ATVI shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR SCORE
Growth 2.0 out of 5 stars weak
Measures the growth of both the company’s income statement and cash flow. On this factor, ATVI has a growth score better than 30% of the stocks we rate.

Total Return 5.0 out of 5 stars strong
Measures the historical price movement of the stock. The stock performance of this company has beaten 90% of the companies we cover.

Efficiency 3.5 out of 5 stars
Measures the strength and historic growth of a company’s return on invested capital. The company has generated more income per dollar of capital than 80% of the companies we review.

Price volatility 5.0 out of 5 stars strong
Measures the volatility of the company’s stock price historically. The stock is less volatile than 90% of the stocks we monitor.

Solvency 4.5 out of 5 stars strong
Measures the solvency of the company based on several ratios. The company is more solvent than 80% of the companies we analyze.

Income 3.0 out of 5 stars strong
Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 90% of the companies we track.

THE STREET RATINGS RESEARCH METHODOLOGY
TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.
ACTIVISION BLIZZARD INC
NASDAQ: ATVI
October 9, 2016
Sector: Technology | Home Entertainment Software | Source: S&P

Annual Dividend Rate: $0.26
Annual Dividend Yield: 0.59%

Consensus EPS Estimates² ($)
IBES consensus estimates are provided by Thomson Financial

| EPS (Q3 FY16) | 1.97 E | 2.18 E |
| Q3 FY16      | 2016(E) | 2017(E) |

INCOME STATEMENT
Q2 FY16 | Q2 FY15
Net Sales ($mil) 1,570.00 1,044.00
EBITDA ($mil) 585.00 437.00
EBIT ($mil) 236.00 332.00
Net Income ($mil) 127.00 212.00

BALANCE SHEET
Q2 FY16 | Q2 FY15
Cash & Equiv. ($mil) 2,285.00 4,521.00
Total Assets ($mil) 16,607.00 14,015.00
Total Debt ($mil) 5,033.00 4,077.00
Equity ($mil) 8,554.00 7,801.00

PROFITABILITY
Q2 FY16 | Q2 FY15
Gross Profit Margin 84.14% 81.61%
EBITDA Margin 37.26% 41.85%
Operating Margin 15.03% 31.80%
Sales Turnover 0.32 0.33
Return on Assets 4.51% 6.73%
Return on Equity 8.75% 12.10%

DEBT
Q2 FY16 | Q2 FY15
Current Ratio 1.56 3.92
Debt/Capital 0.37 0.34
Interest Expense 60.00 50.00
Interest Coverage 3.93 6.64

SHARE DATA
Q2 FY16 | Q2 FY15
Shares outstanding (mil) 741 729
Div / share 0.00 0.00
EPS 0.17 0.29
Book value / share 11.54 10.70
Institutional Own % NA NA
Avg Daily Volume 8,951,416 8,511,669

2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

FINANCIAL ANALYSIS
ACTIVISION BLIZZARD INC’s gross profit margin for the second quarter of its fiscal year 2016 is essentially unchanged when compared to the same period a year ago. Even though sales increased, the net income has decreased. ACTIVISION BLIZZARD INC has average liquidity. Currently, the Quick Ratio is 1.25 which shows that technically this company has the ability to cover short-term cash needs. The company’s liquidity has decreased from the same period last year.

During the same period, stockholders’ equity (‘net worth’) has increased by 9.65% from the same quarter last year. Together, the key liquidity measurements indicate that it is relatively unlikely that the company will face financial difficulties in the near future.

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.
**ACTIVISION BLIZZARD INC**

**Sector:** Technology | **Home Entertainment Software** | **Source:** S&P

<table>
<thead>
<tr>
<th>Annual Dividend Rate</th>
<th>Annual Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.26</td>
<td>0.59%</td>
</tr>
</tbody>
</table>

**RATINGS HISTORY**

Our rating for ACTIVISION BLIZZARD INC has not changed since 2/6/2015. As of 10/6/2016, the stock was trading at a price of $43.99 which is 2.5% below its 52-week high of $45.12 and 66.1% above its 52-week low of $26.49.

**2 Year Chart**

![2 Year Chart](image)

**Price as of 10/6/2016**: $43.99

**Price/Earnings**

<table>
<thead>
<tr>
<th>Stock</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATVI 43.99</td>
<td>premium</td>
<td>Peers 60.63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
- ATVI is trading at a significant discount to its peers.

**Price/Projected Earnings**

<table>
<thead>
<tr>
<th>Stock</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATVI 20.23</td>
<td>premium</td>
<td>Peers 32.41</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Discount. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth expectations.
- ATVI is trading at a significant discount to its peers.

**Price/Book**

<table>
<thead>
<tr>
<th>Stock</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATVI 3.81</td>
<td>premium</td>
<td>Peers 7.58</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Discount. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- ATVI is trading at a significant discount to its peers.

**Price/Sales**

<table>
<thead>
<tr>
<th>Stock</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATVI 6.08</td>
<td>premium</td>
<td>Peers 5.81</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Average. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- ATVI is trading at a valuation on par with its industry on this measurement.

**RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET RATINGS**

(as of 10/6/2016)

**40.18% Buy** - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

**31.73% Hold** - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

**28.09% Sell** - We believe this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

**TheStreet Ratings**

14 Wall Street, 15th Floor
New York, NY 10005
www.thestreet.com
Research Contact: 212-321-5381
Sales Contact: 866-321-8726

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