

# The Wrap Up



## It's Time to Play the Game

Markets have had a positive week, with Wednesday's lower than expected inflation report providing a jolt of confidence for equity investors. Beyond this positive news, one of our key holdings also received a major green light this week: a federal court rejected the Federal Trade Commission's request to block Microsoft's acquisition of Activision Blizzard. Let's look at this deal a little closer and what it means for America's second largest company.

Last year, Microsoft offered to purchase gaming company Activision Blizzard for \$95/share, or a total acquisition cost of \$69 billion. Activision produces the very popular and very successful Call of Duty franchise (the most successful game to come out of America with over 400 million copies sold world wide) as well as the free to play Candy Crush Saga (amongst many other successful games). Activision Blizzard had a less than stellar corporate governance which led to financial results being questioned and the California Department of Fair Employment and Housing filing a suit alleging harassment and employee discrimination. The company share price peaked during the Covid bubble, with demand for video games experiencing huge growth. As share prices retreated from their stretched valuations, Microsoft came in with their offer.

Microsoft is no stranger to gaming: in its early days it had published Microsoft Flight Simulator as well as several compilations of mini games. They would go on to acquire FASA Interactive and established publishing deals with studios such as Ensemble Studios (maker of the popular Age of Empires series). At the turn of the century, they decided to launch the Xbox console where they went on to find success competing with Sony's Playstation. As the gaming industry began to evolve with the shift to mobile gaming, something that the company was not at the forefront of, Microsoft revisited buying gaming studios, with the most recent example being their 2021 acquisition of Zenimax Media (owner of Bethesda Softworks) for an estimated \$7.5 billion.

## Let's connect

**David Colasurdo, CFA, Fin. Pl.**  
Portfolio Manager and Investment Advisor  
Tel: 514-286-3563  
david.colasurdo@nbpcd.com

**Leon Sabbaghian Fin. Pl., MBA**  
Investment Advisor & Financial Planner  
Bureau: 450-978-2531  
Cell: 514-557-8055  
leon.sabbaghian@nbpcd.com

**Myles Strong**  
Client Service Associate  
Tel: 514-282-5996  
myles.strong@nbpcd.com

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The shift of gaming from console to mobile had a huge impact on the industry and it has vastly expanded the market in every sense. Gamers today are no longer defined by the stereotypical young man hiding out in his parents' basement; there are now many female gamers and gamers across all age spectrums and with representation amongst many cultures and geographies. Gaming became a bigger component of our lives as it shifted onto phones; mobile phones could go anywhere while gaming rigs needed to stay home. The introduction of free games with ads or in game purchases, allowed for a greater number of people to play the same game; as an example, Candy Crush Saga was downloaded 2.7 billion times.

The other catalyst responsible for transforming the landscape was the shift to online gaming which has really accelerated in the last 20 years. Here Microsoft was at the forefront, launching Xbox Live in November 2002. By 2007, there were 7 million users; today, Xbox Live boasts more than 100 million users. The most important change that came with this shift was the user being no longer confined to challenging those in the same household as they could now compete with anyone, anywhere in the world. This shift created a whole new economy for gaming: gamers would be able to livestream their playing, allowing for the emergence of new voices within the community as well as the possibility to generate ad dollars for gamers. The world of Esports is only possible because of this online shift, with audiences growing to watch the best of best compete against each other in tournaments.

It is likely that the next big shift within gaming will be centered around two aspects: the cloud and the virtual reality headset. By shifting games onto the cloud, the game can constantly update and expand without ever reaching a maximum capacity. The game can be accessed from anywhere, with gaming profiles and progress following the user wherever they choose to play. While virtual reality headsets are not new in the world of gaming, their full potential has yet to be discovered and the content created around these devices will only increase with time as devices improve and developers create more content. The user experience is likely to change significantly as we go from screens to immersive worlds, limited only by our imaginations.

All these changes and all these new possibilities are why Microsoft is buying Activision. It is also why Sony campaigned aggressively to have this deal blocked. Sony, the largest gaming company in the world, was concerned with Microsoft restricting access to the Call of Duty gaming franchise. As a form of appeasement, Microsoft offered a 10 year minimum commitment to both Sony and Nintendo, that the franchise would not be an Xbox exclusive. Having followed the legal challenges closely, I found it odd watching the FTC almost campaigning on behalf of Sony. Never did I think I would see a federal agency taking the side of a foreign company against an American company, especially that the FTC is there to protect the consumer and enforce antitrust legislation, not to protect corporations afraid of competition. As there was little in the argument that the consumer would lose out from this acquisition, a federal court rejected the FTC's attempt to block the deal. While the FTC has filed an appeal, the odds are currently in Microsoft's favour.

As Microsoft is one of our most important positions, as well as one we intend to hold for the long term, we believe that this move is a big positive for our clients. Microsoft is competing on multiple fronts, with a very diversified revenue stream, yet all of its businesses are more or less intertwined. Under CEO Satya Nadella's leadership, the company transformed itself from 'the one that missed the mobile revolution' to the \$2.5 trillion firm that it is today. We can only hope that the 55 year old Nadella, having become CEO in 2014, has a few more years left to offer!

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## Healthy Distraction

This week we had the opportunity to participate in Jonathan Huberdeau's second annual golf tournament which supports the Cité de la Santé hospital network. The event was a great success, having raised over \$350,000 which would go towards helping those with mental health challenges. As it stands today, our health system has not fully recovered from the pandemic days as many doctors, nurses and support staff have retired, leaving many hospitals and clinics with staff shortages. Furthermore, the backlog of surgeries and treatments for all other ailments has still not yet cleared out, with many waiting more than a year for a simple hip replacement.

On top of all this, mental health issues have doubled in the last few years, placing further strain on the medical system. One way or another, we all rely on our health system and it is in our collective interest that it functions well.

While we, as ordinary citizens, cannot attract more doctors to the province, we can help these institutions raise money and raise awareness about what they do. Please support your local hospitals.

Have a great weekend!



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