

# In depth analysis of the Gaming Industry: Part 1

## **Introduction**

When the very first game machine was presented at the New York World's Fair in 1940, very few people would have betted on gaming becoming the \$180bn monster industry it is today. Expected to reach a value of \$314bn by 2027, registering a CAGR of 9% over 2022-2027, gaming is set to become the new battleground for BigTech. What is clear is that the industry's success has developed gradually, and several technological booms have contributed to the industry's rampant growth.

As computers became widely affordable in the 1970s thanks to the mass production of microprocessors, games went from arcade to households and started to become part of everyday life. Then, the relationship between users and their games further strengthened with the introduction of the handheld Game Boy by Nintendo in 1988. Nevertheless, it was not until the rise of the internet and mobile in the 2000s that the gaming industry grew from tens of billions to hundreds of billions in revenue. It was indeed in 2001 that Microsoft launched the Xbox Live online gaming platform. Another fundamental turn takes place between 2007 and 2009, when mobile gaming becomes the "new cigarette". People smoked less, but phone usage went up and built-in games contributed both to the increase in screen time and the rapid growth of the gaming industry. When Angry Birds was first released in 2009, the Apple Appstore registered its first ever boom for a mobile game. During the same years, virtual reality gaming rears its head and is now on its way to become an affirmed gaming experience. Similarly, emerging at about the same time, cloud gaming is today a reality that generated over \$400m in 2021. From consoles to computer playing, online gaming, and finally cloud computing, the industry managed to ride productive waves and take the helm by fragmenting into different segments that are becoming progressively more consolidated.

While the US was initially the gaming pioneer, it is undeniable that Asia is currently surpassing the US. With the number of video gamers approaching 3bn globally, Asia Pacific alone accounts for over half of this figure. China, which overtook the US gaming market in 2015, tops the list not only with the highest revenues of \$49bn in 2021, but also with its growth prospects thanks to companies like Tencent. Japan, home to the gaming giant Nintendo, comes in third place right before South Korea. But what sets Asia Pacific apart? One of the elements that set these Asia Pacific giants apart is their early success in developing games on cell phones such as those offered by WeChat. As users have become progressively more used to integrated systems, the possibility to use games without having to download additional applications seems to be a relevant incentive. Nevertheless, there must be more to it. For instance, another trend that has been fueling the gaming industry in Southeast Asia are eSports. These are online gaming competitions that have risen in popularity. The region's growing regional incomes also contributed to the boom in the area.

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The PC's subsector, emerged later in time, and as opposed to the console industry is highly fragmented. Companies in this subsector, like Corsair and Republic of Gamers, focus on providing the hardware necessary to play games having the best possible experience. They offer products like keyboards, advanced PC components and monitors to support gaming. These products have reached all-time highs during the pandemic as people sought for means of distraction. For instance, Alienware by Dell recorded its best third quarter in history of \$28.4bn, up 21%, driven by durable competitive advantages, strong execution, and robust demand. Indeed, the number of PC video gamers has been increasing since 2008 and is expected to touch \$1.8bn by 2024.

Smartphone gaming is the newest sector within the industry, recording \$79bn in revenues in 2021, and is also the most profitable subsector. As a highly fluid system, it was able to morph from applications only gaming to in-app game experiences like those from WeChat and users are progressively incorporating these games in their daily routines. These games work as they are fast and easy and Wordle is a great example: it simply asks players to guess a 5-letter long word. The game launched in October and by the end of January there were more than 45m players, resulting in an acquisition at an undisclosed price by the New York Times just last week. Obviously, when talking about big players in the video gaming smartphone subsector we cannot forget to mention Activision Blizzard and its incredibly famous game Candy Crush Saga, which contributed to bringing the number of cellphone game players to over 2.2bn.

## **Industry Growth**

Due to the rising popularity of gaming, particularly on mobile devices, deal-making among video game businesses has increased in recent years. Mobile games are the most prominent and fastest-growing segment of the overall videogame business. Last year, players spent \$93.2bn on mobile games, which was more than the \$87.1bn spent on console and PC games combined.

According to statistics from PitchBook, venture capital investments in the worldwide gaming business doubled last year to \$11.2bn, up from \$6.4bn in 2020, while mergers and acquisitions expenditure nearly tripled to \$26.2bn, up from \$8.9bn in 2020.

The worldwide gaming industry was valued at \$173.7bn in 2021 and is forecasted to reach \$314.40bn by 2026. The increase can be attributed to worldwide lockdowns during the pandemic, during which individuals stayed at home and turned to game platforms to pass the time. The onset of the new era of gaming could be associated with the restrictions imposed by the outbreak of Covid-19.

The worldwide number of gaming video content users would have topped 1.2bn in 2020, up from 944m in 2019. According to research conducted by Streamlabs and Stream Hatchet, when the epidemic struck, Twitch - the world's top live streaming platform for gaming witnessed an 83% year-on-year increase in viewing, with over 5bn hours of video seen in the second quarter of 2020 alone.

Another development in the video game business is the demographic growth of the market. While the gender ratio is approaching parity, the age difference of video game players is drifting apart with a prevalence of older or younger people. Top-level gamers playing in eSports competitions have achieved enough reputation to be eligible for the professional athlete visa while visiting the United States.

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The video game industry is bigger than the film and music industries combined. Even though the attention is mainly focused on the film and music industries, there are over 2bn gamers worldwide. That equates to 26% of the world's population. The changing demographics of gamers are perhaps the most intriguing trend in the video gaming business. With more people playing games, the need for more immersive entertainment, and a desire for more straightforward access to games, the future of the video game industry appears bright.

### **Microsoft acquisition of Activision Blizzard**

This year has so far been a blockbuster year for mergers in the gaming industry, with an all-time high in acquisition activity. Microsoft will pay \$95.00 per share for Activision Blizzard in an all-cash transaction valued at \$68.7bn. Microsoft will be the world's third-largest gaming firm by revenue when the deal is completed, trailing only Tencent and Sony. Microsoft's \$95 per share offer is a 45 % premium over Activision's January 14 closing price.

With a \$69bn deal for "Call of Duty" developer Activision Blizzard, Microsoft took a significant step toward positioning itself for the "metaverse" – an immersive experience where people game, shop, and socialize online. Microsoft's CEO Satya Nadella said in a statement: "Gaming is the most dynamic and exciting category in entertainment across all platforms today and will play a key role in the development of metaverse platforms."

Microsoft's acquisition of Activision is made feasible by its diverse business portfolio, including software and cloud services, and its market valuation, which is more than 14 times that of the Japanese conglomerate, Sony. According to Refinitiv statistics, the Microsoft-Activision transaction would be the biggest all-cash purchase on record, surpassing Bayer's \$63.9bn bid for Monsanto in 2016 and InBev's \$60.4bn bid for Anheuser-Busch in 2008.

Microsoft's capacity to establish a foothold in the video gaming industry organically is restricted. Purchasing a top-tier brand is a more straightforward option for a tech behemoth with a \$2.3tn enterprise value and a \$130 bn cash position. Microsoft's gaming income would be cut in half if it bought Activision. According to FactSet, analysts anticipate Activision's revenues in 2021 to be \$8.7 bn. In contrast, Microsoft earned \$15.4 bn in gaming revenue for the fiscal year through June, accounting for nearly 9% of its entire income.

Despite the hype around the deal, just weeks after Microsoft Corp. announced its \$69 bn acquisition of Activision Blizzard Inc., the video game publisher posted earnings and sales that fell short of analysts' expectations. The setback could be connected to Activision's systemic sexism and harassment charges. Following the accusations, Activision said in a statement on Thursday that adjusted sales declined 18% to \$2.49 bn in the fourth quarter. According to Bloomberg's average of analyst expectations, \$2.84 bn was projected. Adjusted profits per share were \$1.25, compared to \$1.31 expected by analysts.

TAGS: Gaming, Personal Computer, Console, Smartphone, Microsoft, Sony, Xbox, PS5

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