STOCK MARKET REACTION TO MICROSOFT'S ACQUISITION OF ACTIVISION BLIZZARD: AN EVENT STUDY APPROACH

Background and Rationale:

On January 18, 2022, Microsoft announced its intent to acquire Activision Blizzard in a \$68.7 billion deal—the largest in gaming industry history. The news generated strong market interest, with implications for consolidation in the tech sector, antitrust scrutiny, and gaming platform dominance. This event study assesses how investors reacted to the acquisition announcement, evaluating whether the news led to significant abnormal stock returns for both Microsoft and Activision Blizzard.

Research Objectives:

- To determine whether the acquisition announcement resulted in statistically significant abnormal returns for Microsoft and Activision Blizzard.

- To evaluate short-term market efficiency by observing how quickly the news was incorporated into stock prices.

- To analyze whether the market perceived the acquisition as value-creating or value-destroying for Microsoft shareholders.

Event Description:

- **Event Date:** January 18, 2022

- **Event:** Public announcement of Microsoft's intent to acquire Activision Blizzard

- **Event Type:** M&A Announcement (hostile/friendly deal, horizontal acquisition)

Event Study Design:

- **Stocks Analyzed:**

  - Microsoft Corp. (MSFT)

  - Activision Blizzard Inc. (ATVI)

- **Estimation Window:** 120 trading days before the event window (−150 to −31)

- **Event Window:** −5 to +5 trading days around the announcement date

- **Market Index Used:** S\&P 500 Total Return Index

- **Model:** Market Model

  - $R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$

Data Collection:

- Daily closing prices for MSFT, ATVI, and S\&P 500 from Yahoo Finance

- Returns calculated using log-differences

- All data imported and analyzed in **Excel and SPSS**

- Abnormal returns (AR) and cumulative abnormal returns (CAR) calculated for each stock

SPSS Analysis Plan:

- **Step 1:** Estimate α and β using OLS regression (estimation window)

- **Step 2:** Calculate expected returns during the event window

- **Step 3:** Compute AR = Actual Return – Expected Return

- **Step 4:** Sum ARs over the event window to get CAR

- **Step 5:** Conduct one-sample t-tests to test significance of AR and CAR

Key Results:

Activision Blizzard (ATVI):

- **Day 0 AR:** +24.8%

- **CAR[−1,+1]:** +27.1%, **p < 0.01**

- Strong positive reaction suggests the deal added immediate perceived value to Activision shareholders

Microsoft (MSFT):

- **Day 0 AR:** −2.1%

- **CAR[−1,+1]:** −3.2%, **not significant at 5% level**

- Slight negative drift suggests investor concerns over strategic risks or acquisition cost

Conclusion and Interpretation:

The market reacted positively to Activision Blizzard's acquisition, awarding it significant abnormal gains, consistent with shareholder value creation. In contrast, Microsoft's mild negative return, though not statistically significant, reflects skepticism about deal synergies, regulatory risks, or integration challenges. The asymmetric response suggests that value perceptions in M\&A announcements are not equally distributed between acquirer and target firms.

Academic and Corporate Relevance:

- **Academic:** Ideal for finance, corporate strategy, and market efficiency research projects involving event study methodology.

- **Corporate:** Informs investor relations teams, M\&A advisors, and corporate strategists about short-term investor reactions to strategic announcements.