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Thread: [Acquisition/Arbitrage Play in a Bear Market - \\$ATVI](#)

Artichoke - May 10, 2022, 3:10 pm

Nobody intelligent will claim to know if this is a dip that will end soon, the beginning of a recession, or something in-between. There is certainly a lot further for the markets to potentially fall, they are still slightly above historical averages even after the decline the last 6 months.

One play with potential for a big payout is \$ATVI - Activision. For those who don't know, Microsoft is slated to buy out Activision for \$95 per share. Right now, it is trading around \$77 per share. This is about a 20% upside potential within a year or two.

Why this strategy? This wins if the market trades flat or goes down, and still pays well if the market rebounds.

Why not just buy dividend aristocrats? That is another percent of my portfolio in sketchy times, but those only pay ~2-6% aside from capital (ap/de)preciation. This has better upside.

Why is it trading so far below acquisition price? The risk of it getting blocked by antitrust. The market is pricing that risk somewhat high based on this, though I think ATVI is being dragged down by the market wrongly because the risks are different for this company and not really relevant to a potential 'crash'. There is a chance of it getting blocked, but I am pretty confident it will go through for a few reasons (especially #2):

1) Microsoft is a very powerful company and believes it will go through. This matters, because part of their deal is Microsoft has to pay \$3 billion as a breakup fee if it falls through. They would not have made this offer without a level of confidence.

2) If this deal goes through, MSFT will become the third largest gaming company (excl. hardware) in terms of revenue (they are fourth right now, following Apple, Sony, and Tencent). So, not like gaming would become a monopoly. Going from fourth to third should not be a huge deal for regulatory boards.

3) Even if the regulatory board does anything, it could just be to force MSFT to sell off a couple titles. Deal still goes fine in this case.

4) Disney was allowed to acquire Fox. Somewhat comparable.

In the worst case scenario where it is hard blocked, you aren't left with nothing. You are left with shares in a profitable company. The NAV of ATVI is lower and it will likely dip a lot, but being down 20% and holding a profitable company isn't the same kind of risk as going for a startup acquisition play and risking going to near 0.

I believe this is a no brainer if you want medium risk investment. Lower potential losses and capped potential gains compared to other kinds of investments. I own a lot of \$ATVI, most of it purchased after reading about the merger (and getting a 140 page document in the mail lmao...).

Good luck!