



# Bocconi Students Investment **Arena**

## Newsletter: February 2023

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### ABSTRACT

The football industry largely consists of highly indebted companies, which continue to turn to the markets to be financed to meet the ongoing cash requirements of operations. The Juventus scandal will be investigated further.

Further investigation will be given to the impacts that the Chinese high-altitude balloon that appeared recently in Montana, US. may have on the geopolitical balance between the two nations.

The opportunities and future benefits that PRIME and UFC can gain from their multi-year partnership will be thoroughly discussed.

The dynamics that global antitrust agencies have adopted and are adopting regarding Microsoft's deal to buy Activision will be analyzed.

### ABOUT US:

Bocconi Students Investment Arena was born in 2022 from the idea of bringing together students of different degrees and experience, but all with the same ardent passion for finance. Through dedicated competitions, masterclasses, and a members' forum, we aim to develop a community of students that fosters quantitative and qualitative skills like in-depth practical investments and valuation skills, teambuilding, and analytical skills.

The uniqueness of this association is that members would be able to put their investment knowledge into practice by competing against each other in two main events: portfolio competition and company valuation competition.

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## Football stock market and the Juventus case

By Marco Ricci

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### Trends in the football industry

It is now common to see football companies on the stock market. There are more than 20 of them in Europe and perhaps they will continue to grow... or not. Listing on the stock market can seem like a very attractive financing opportunity, also given the participation of fans who can realize their dream of becoming 'owners' of their favorite team. It sounds like an ideal world but there are problems. As is well known, listed companies have disclosure obligations towards their shareholders, they must ensure maximum transparency and the annual financial statements must be as truthful as possible. This would not be a problem if the world of football was not full of shadows.

### The Juventus scandal

The case that attracted the most attention is the one involving Juventus between the end of 2022 and the beginning of 2023. The resignation of the board of directors at the end of November turned the spotlight on a rather complex situation that the Turin club is experiencing. There are many accusations. Certainly, the one concerning fictitious capital gains, i.e., transfers of players valued in an entirely artificial way, stands out, but the issue of salaries also has its weight. On January 20th, the FIGC's verdict inflicts a 15-point penalty on the Bianconeri in the Serie A championship standings. Such a penalty drastically reduces the team's chances of achieving their season's goals and related financial revenues.

The effect that such a fall has on the company's shares is quite predictable. The stock market crash at the end of November linked to the resignation of the top men of the Turin club, primarily Andrea Agnelli and Maurizio Arrivabene, was very heavy. We are talking about a 10% collapse in a few hours, before the stock was suspended for excessive volatility. What saved the company's stock were the team's positive results in the championship, at least until the fateful date of January 20th, the day on which the penalty sentence was issued. In the week from January 17th to 24th, the Juventus share lost about 10% again, reaching a negative peak of 0.2946 at the end of the month and settling around this value in February. All in all, a moderate descent.

### The reasons behind such a moderate drop

The question that arises is how it is possible that the high probability of a bankruptcy year, the risk of further penalties linked to the wage manipulation, and the near certainty of restructuring at the end of this football season, have not caused a sharp fall in the share price. The answer is probably to be found in the faith of the shareholders. It is no secret that listed football clubs enjoy the good fortune of having fan shareholders. Most of those who hold Juventus shares are supporters who sustain the club, even more so in times of difficulty. Just think of the time in the early 2000s when the fan-shareholders of S.S. Lazio saved the club from bankruptcy by buying shares, while waiting for a new president. This kind of situation, however romantic, makes the performance of shares in football clubs unpredictable and tied to the feelings of the fans, and for a neutral investor it is equivalent to betting on the fate of a team. If one then considers that the

world of sport has its own regulations and penalties are always around the corner, it becomes even more difficult to trust.

### **Is the stock market the right place for football teams?**

The truth is that the world of football is probably not suited to being part of the stock market. In the 1990s, when most football companies went public, it was thought that clubs would become profitable businesses, but looking at the results we can say that was a big lie. We only have to look at the balance sheets of the four most important Italian clubs, which showed losses of more than 200 million in the last year. Interesting is the case of A.S. Roma, which opted for delisting last September. Who knows, maybe other companies will follow this example in the coming years.

## Beyond the balloon: a tale of two economies

By Marcello Fagotto

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The economic relationship between China and the United States has been complex and constantly evolving. In the early 1980s, China began opening up its economy and pursuing economic reforms, which led to increased trade and investment with the United States. However, the China-US relationship has been fraught with tension, particularly in recent years, and this has significant implications for the global economy and monetary policies.

### History of China-US economic relations

For thirty years following the establishment of the People's Republic of China in 1949, there was virtually no trade between the two countries as Washington had severed ties with the communist government in Beijing. In 1979, the United States and China normalized relations, prompting an explosion of trade over the next four decades from a few billion dollars' worth to hundreds of billions of dollars annually. Since then, the two nations have become interdependent, with the US being the largest market for Chinese exports and China being the second largest for US exports. However, tensions started to escalate in recent years. The US accuses China of unfair trade practices and intellectual property theft and has imposed tariffs on Chinese goods worth billions of dollars, while China retaliated with its tariffs on US goods, leading to a trade war that affected the global economy.

### Impact on the global economy

The economic relationship between China and the US is vital to the global economy. The two nations account for nearly 40% of the world's GDP, and their trade relationship has a significant impact on global trade flows, commodity prices, and currency valuations.

U.S.-China trade ties are significant, but arguably unbalanced, with China exporting to the United States almost three times the value of goods that the United States exports to China. In 2021, China was the fourth-largest U.S. goods trading partner (with total trade at \$ 657.4 billion), the fourth-largest U.S. export market (at \$151.1 billion), and the largest source of U.S. imports (at \$506.4 billion) (Figure 1.).

Top U.S. goods exports to China include semiconductor chips and equipment, agricultural products, aircraft, gas turbines, and advanced medical devices, while top U.S. imports from China include consumer electronics, appliances, consumer goods (e.g., furniture, clothing, footwear, and toys) and key intermediate goods (e.g., auto components and active pharmaceutical ingredients).

**Figure 1. U.S. – China Goods Trade (2007-2021)**

Source: CRS with data from the U.S. Census Bureau

### Beyond the balloon

The recent appearance of a Chinese high-altitude balloon, that flew over North America and hovered over nuclear missile silos in Montana, has raised concerns in the US that China is ramping up surveillance activity in near space. This follows previous US concerns over Huawei and TikTok, which Washington believes could aid China in obtaining US data and continues a trend of increasing intelligence-related presence that the Pentagon has said has doubled since 2018. The balloon may be a highly visible sign of China's espionage efforts, but its more covert operations have been evolving for years.

Nowadays, the espionage action by the Chinese is especially concerning because it demonstrates a significant technological advancement in their intelligence gathering. Their use of high-altitude balloons to conduct surveillance shows their ability to evade traditional detection methods and gain a vantage point from which to collect sensitive information, suggesting that China is investing heavily in its intelligence capabilities and has the potential to conduct more frequent and sophisticated espionage operations against the US.

### Implications and future scenarios

The impact of such actions can have far-reaching implications on the economy of the United States, but most of all, it can be long-lasting. Even if the government agency can identify and contrast an attack, the resulting loss of confidence will have long-term consequences and can result in a reduction in investment, a decline in innovation, and an overall slowdown in economic growth. On the other side, another indirect effect is the loss of trust between the United States and its allies. Indeed, the United States has been working to build alliances with countries such as Japan, South Korea, and Australia to counter the Chinese influence in the region. If these countries perceive the United States as unable to protect its technology and intellectual property, they may question the

effectiveness of the alliance and be less willing to cooperate on economic issues, eventually weakening the position of the United States in the global economy.

As seen, the economic ties between the US and China are deep and complex, and any major disruption to this relationship would have significant consequences for the rest of the world.

However, the balloon, at least, gives the US a chance to prove China is becoming more aggressive about its spy craft and given the level of confidence from US officials on the issue, that could be a revealing moment for Beijing. “China got its hands caught in the cookie jar,” says Bonnie Glaser.

## UFC and PRIME join forces

By Francesco Zunino

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The partnership between the Ultimate Fighting Championship (UFC) and energy drink company PRIME is a high-profile collaboration that has benefited both parties. The multi-year deal was announced in 2023, and it sees PRIME serving as the official energy drink of the UFC.

### **Economic terms of the partnership**

According to reports, the partnership between the UFC and PRIME is worth around \$10 million per year. The UFC is known for securing lucrative sponsorships, and its partnership with PRIME is no exception. The sponsorship includes a significant financial commitment from PRIME, as well as additional promotional and marketing benefits.

As part of the partnership, PRIME's branding is prominently displayed during all UFC events. This includes branding on the UFC's Octagon, as well as on the fighters' gear, including their shorts and shirts. PRIME also has the exclusive rights to use UFC trademarks and logos in its advertising and promotional materials, further enhancing its visibility and credibility in the energy drink market.

In addition to the branding benefits, the partnership also includes product integration. PRIME's energy drinks are made available to athletes and fans at UFC events, providing a valuable opportunity for the company to promote its products and reach new customers. PRIME has also developed a line of CBD-infused products, which are designed to help athletes and fitness enthusiasts recover from their workouts. These products are particularly appealing to the UFC's audience, which is largely made up of fitness enthusiasts and combat sports fans.

### **Benefits for the UFC**

In addition to the financial benefits, the partnership has provided the organization with a valuable marketing and promotional platform. PRIME's branding is especially popular among young people, which are likely to gain interest in the competition.

The partnership has also helped the UFC to strengthen its ties with its long-lasting fans. By providing fans with access to PRIME's energy drinks and CBD products, the UFC can enhance the overall fan experience. This is particularly important given the highly competitive nature of the sports and entertainment industries, where fans have an abundance of options for how they spend their time and money.

### **Benefits for PRIME**

For PRIME, the partnership with the UFC has provided a valuable opportunity to raise awareness of its brand and products. By associating itself with one of the world's most popular combat sports organizations, PRIME has been able to establish itself as a credible and trusted brand in the energy drink market.

The partnership has also enabled PRIME to reach new customers. By making its products available at UFC events, PRIME has been able to promote its products to a captive audience of

sports and fitness enthusiasts. This exposure has helped to drive sales and raise awareness of the brand.

The partnership has also helped PRIME to differentiate itself from its competitors. With so many energy drink brands competing for market share, it can be difficult to stand out. However, by associating itself with the UFC and developing products specifically for athletes and fitness enthusiasts, PRIME has been able to carve out a unique niche for itself in the market.

The partnership between the UFC and PRIME is a prime example of how strategic collaborations can benefit both parties. For the UFC, the partnership has provided a valuable marketing and promotional platform, as well as additional revenue. For PRIME, the partnership has enabled the company to raise awareness of its brand and products, while also driving sales and differentiating itself from its competitors.



## The modern era of global Antitrust enforcement and Microsoft's Activision deal

By Alessio Ventura

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In today's World, even the main Antitrust regulators are ill-adapted to perform their role, which is everyday evolving and struggling to secure competition in the digital-economy arena and enforcement measures against tech-giants and online platforms. Many recent academic writings have consequently called for the need of new approaches and radical changes to antitrust laws to face new worldwide challenges.

### Three regulators, one path to follow

January 18, 2022, Microsoft announces its intent in the acquisition of Activision Blizzard, the Californian video-game holding company, member of the S&P 500 Index since 2010, currently including five business units, at \$95 per share for a total of \$68.7 billion transaction. At that time almost everyone familiar with the matter, was expecting inquiries to come from three of the main regulators in this field involved within this event: the F.T.C (Federal Trade Commission, USA), European Commission, and C.M.A. (Competition and Markets Authority, UK) One year later, all those three institutions are scrutinizing the deal, but with one main difference from the past: the three agencies are working in the same direction and want to be seen as strong regulators and guards of the customers' rights and companies' competition from the huge power gathered in the hands of the tech giants.

Historically the European Commission has been considered as the toughest antitrust regulator. Recently the Competition and Market Authority, UK's antitrust regulator has intensified its investigation and pushed for tougher powers especially after Brexit; on the other side of the Ocean, in 2021 Joe Biden has appointed new antitrust officials: Lina Kahn as chairwoman of the F.T.C. who became known in competition law in 2017 after publishing an influential essay "Amazon's Antitrust Paradox", described by the New York Times as "reframing decades of monopoly law" and Jonathan Kanter as the Assistant Attorney General in the Department of Justice Antitrust Division, who previously served, together with Kahn, as an attorney at the F.T.C. to reform federal merger guidelines. Associated with the anti-monopolistic "New Brandeis Movement" he is also considered to be an influential critic of Big Tech. Moreover, thanks to the growing attention from the public regarding antitrust cases against Big Tech in particular, nowadays "Regulators would rather fight to block a deal and lose than accept a compromise, because the political cost of agreement is too steep" as reported from a former enforcement official whose name remains nowadays anonymous.

The "Atlantic Cooperation" is therefore expected by Microsoft's legal team to oppose the transaction, in fact, F.T.C. filed a lawsuit stating that this deal would harm consumers (Activision stated they have 370 million monthly active users) since Microsoft could use the game-developing company to take away block buster game such as Call of Duty to lure gamer from rivals. "We continue to believe that this deal will expand create more opportunities for gamers and game developing" declared on the other hand Microsoft's president Brad Smith. F.T.C.'s argument against Microsoft is that by acquiring Activision Blizzard it would "substantially lessen competition" in the "relevant market," per antitrust law as laid out in the Clayton Act, part of the US antitrust law regime seeking to prevent

anticompetitive practices in their incipiency, born in 1914, after the Sherman Antitrust Act of 1890, this Act focuses on specific prohibited conducts, the three level enforcement scheme, the exemptions and the remedial measures. In particular, Section 7 elaborates on specific and crucial concepts of the Clayton Act, prohibiting acquisitions where the effect is to lessen competition or tend to create a monopoly, while the section 7a specifies companies to notify the F.T.C. and the Assistant Attorney General of the US DoJ Antitrust Division of any contemplated M&A that meets or exceeds a certain threshold adjusted yearly with the change in GDP. While other countries such as Brazil, Chile and Saudi Arabia have already accepted the deal, in Europe the main actors are keeping up with the observers' expectations, opposing to the deal.

European Commission has opened in-depth investigation regarding the proposed acquisition under the EU Merger Regulation concerned by the reduction in competition, and is expected to give its response on the 11<sup>th</sup> of April, in particular the article 1 of the regulation is involved, stating that the Commission has the duty to scrutinize and assess mergers and acquisition involving companies with a turnover over a certain threshold to prevent concentrations that would significantly impede effective competition within the EEA (European Economic Area) or any substantial part of it. At the same time the C.M.A. has provisionally found competition concern in their investigation, putting the American company under pressure to persuade UK regulator before the final decision, with the Statutory Deadline fixed on the 26<sup>th</sup> of April 2023. The C.M.A. also stated that the only sure-fire way to prevent any competition related issue in the future is to block the deal from happening, but also gave the option to Microsoft to sell Call of Duty, the biggest title in Activision's portfolio, separately. This because there are said to be evidences analyzed by the UK regulator that Microsoft would benefit from making Call of Duty exclusive to its Xbox or granting a worse version of the videogame to the rival consoles, substantially harming competitors like Sony, that not only has always opposed the deal, but also accused Microsoft of misleading regulators regarding their intention and commitment to keep Call of Duty available on competitors' consoles following their Activision acquisition.

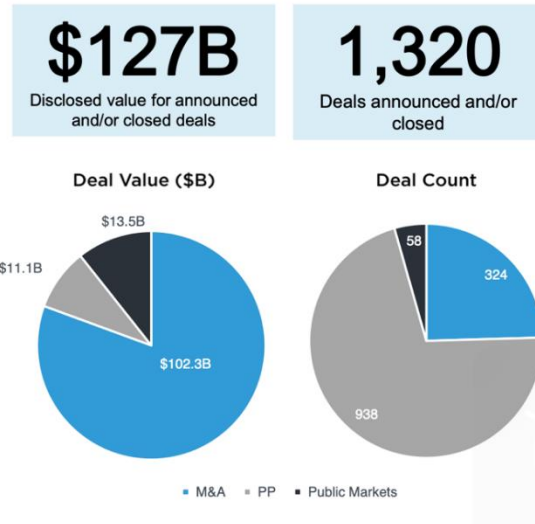
Bobby Kotick in the meantime criticized C.M.A. for "not really using their dependent thought or thinking about how this transaction would positively impact the UK" and again speaking about the UK regulator said, "seem like they have been co-opted by F.T.C.'s ideology". As of today the US tech giant is facing the battle of persuading C.M.A. which seemed to be reluctant to accept behavioral remedies over structural solutions such as sell-offs, indeed Microsoft signed a 10-year deal with Nintendo to bring the Call of Duty saga back on their devices and also offered Sony the same deal together with subscription service, cloud game streaming (said to be the future of gaming by many experts) as well as a better revenue split if compared to what Sony currently receives from Activision. In preparation for the final C.M.A.'s decision and for when it will go to court in August with the F.T.C., Microsoft already laid hefty groundwork, sharing the case to investors, press and ultimately general public, striking a deal with Nvidia, making the firm swap side on the battle for the acquisition, and even launching a website to explain the potential benefits for the gamers, creators and the whole industry if the acquisition is to happen. This case will anyway be the first real test of this new global antitrust enforcers' alignment.

### **Growing gaming industry, now facing worldwide recession, game over?**

During the main recession of this millennium, in 2008, gaming industry seemed recession-proof with the sale of millions of copies of Nintendo Wii and DS, outpacing the sales of many other retail products and since then, the industry has only been growing in both profits and popularity.

E-sports industry expert and partner at global tech investment banking firm Drake Star Michael Metzger stated that “Games is the largest segment in entertaining by far [...] There’s a good amount of new players coming into” furthermore global gaming industry saw a surprising year with 1320 announced and closed deals and \$127 billion in disclosed deal value.

**Microsoft’s deal size with Activision**



Source: CapIQ, Pitchbook & DSP Research

Despite this tentatively optimistic view and encouraging signals, the gaming industry might not be as invincible as some of their players, and surely many of the strengths that carried it across the previous recession, no longer exist. Both historical circumstances and industry have changed and evolved: “free-to-play” games took on the lucrative sales titles, and the once niche revenue stream “in-game purchase” are now the main, if not the only one source of revenue for game developers.

In the past, during 2008 crisis, people were sacrificing out-door entertainment in favor of consoles costing an average of 35% less than today, when, after a pandemic, people are less likely to spend much time at home playing videogames and mostly important, spending their money during a recession on a free-to-play videogame.

**Gaming Public Markets – Market Performance**



Source: The World Economic Forum

“The market hasn’t really existed in past recessions, so it’s not like we have much in the way of historic data to find out which people were buying skins, emotes, hats, whatever it is that they’re going to use to represent themselves in these online spaces.” Said Chris Beer, a data journalist at

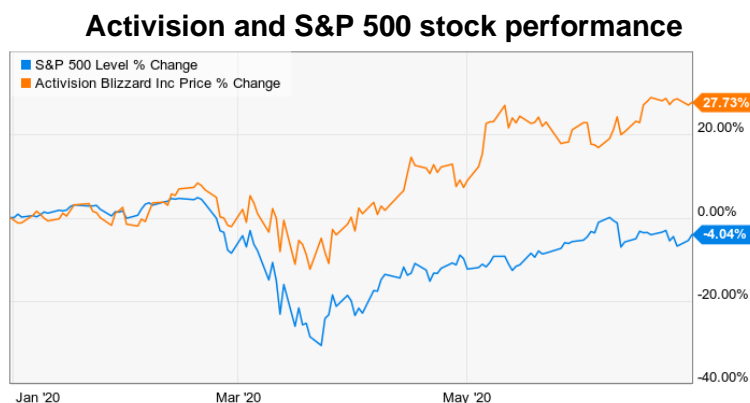
GW. Today, as for many other industries, the key word is “uncertainty” and surely the gaming industry this time, won’t be as recession-proof as it has been in 2008.

### The 69 billion deal, what will happen to the shareholders?

As Microsoft declared, the intention is to buy Activision Blizzard in a all-cash transaction at \$95.00 per share for a total of \$68.7 billion, inclusive of Activision’s net cash, iconic franchises like “Warcraft”, “Overwatch”, “Candy Crush” and the famous “Call of Duty” and the global Esports activities through Major League Gaming.

The CEO, Bobby Kotick who has declared to be very excited for the acquisition, and his team, will keep their position and drive their focus on strengthening company’s growth. Once and if the deal will be closed, the firm will report to Phil spencer, CEO of Microsoft Gaming making Gate’s company the third largest by revenue in the gaming industry immediately behind Tencent and Sony. On Microsoft’s side, Goldman Sachs & Co is serving as financial advisor, Simpson Thacher & Bartlett as legal counsel, on Activision’s side these roles are fulfilled respectively by Allen & Company, and Skadden, Arps, Slate, Maegher & Flom.

The game-developing company during the pandemic, has seen record-high revenues surging close to \$9 billion, and later, sharply declining after the end of the pandemic. During 2020 Activision (ATVI) has been able to outperform S&P 500 due to the Covid-19 spread which kept gamers home and drove up game developers’ revenues.



Source: *The Motley Fool*

After the stock price surging close to \$100 in the mentioned period, it has now stabilized at around \$76 per share with no significant oscillation in the last 52 weeks. If Microsoft’s acquisition is to happen, shareholders will be rewarded for the forced sale of their stocks with a significant premium considering these days’ prices and the tech company commitment into paying \$95 per share. Activision’s main investors are on the other side are Vanguard Group, BlackRock and Berkshire Hathaway with a stake of 7.91%, 7.19% and 6.74% respectively.