Financial Analysis of Selected Company

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Description:
1. Introduction
2. Description of the financial analysis methodology
3. Financial characteristic of Blizzard Entertainment
4. Profitability analysis of Blizzard Entertainment
5. Conclusion
Bibliography
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“Herewith I declare that I elaborated the entire thesis, including all annexes, independently”

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ANNEXES
1. INTRODUCTION

This thesis is focus on financial performance of Blizzard Inc. The goal of this thesis is find out the financial situation and performance of Blizzard from 2008 to 2012. In the thesis we can find out the strengths and weaknesses of Blizzard Inc and where the problem is.

Blizzard is the most influential video game company in the world. It released some of the most popular video games and be signed as the premier developer and publisher of entertainment software. [8] After establishing in the 1994, Blizzard quickly became the most popular and well-known video game company in the world.

In this thesis, two methods are using to analysis the financial performance of Blizzard. These are common-size analysis and financial ratios analysis. Also we used DuPont analysis to have a better look at the return on equity and find out the main factors which drive it most.

There are five main chapters in the thesis. Chapter one is introduction and we can see the goal of this thesis. Chapter two is theories of financial analysis. In this chapter we explained the method we used in the thesis. Chapter three is company description. In this chapter we introduced main products of Blizzard and its history. We also introduced the strategy and core culture of Blizzard. At last we compared Blizzard’s competitors and we can see the situation of Blizzard in this industry. Chapter four is financial analysis. By using the financial analysis methods to analyze Blizzard, we can have a look at the financial performance of Blizzard during 2008-2012. Chapter five is conclusion. In this chapter, we will have a brief description of the financial performance and situation of Blizzard and some advices to Blizzard Inc will be presented.
2. DESCRIPTION OF FINANCIAL ANALYSIS METHODS

This chapter will introduce and describe financial analysis method. There are four parts: Introduction of Common-size analysis; Introduction of ratio analysis; Introduction of pyramid decomposition; Introduction of influence analysis.

2.1 Common-size Analysis

Common size analysis is a kind of analysis method who uses percentages to show the structure of financial statement. It sets a base value and all other accounts in the financial statement are compared to this base value using percentages. On the income statement, net sales equal to 100% and all other revenue or expense accounts are related to it in percentages. On the balance sheet, total assets equal to 100% and all other assets account is stated as a percentage of total assets. Also we can find that total liabilities and stockholders’ equity are work in the same way. [9]  
The aim of common size analysis is identify the trends and major differences. We can compare the percentage of an item in the financial statement and find out how important the item is.  
Horizontal analysis is analysis of the evolution of financial statements data over the time. It shows their changes with respect to a given period as a benchmark.  
First chose a given period as a benchmark, then find out the change by comparing other periods’ data with the benchmark.  
Vertical analysis is analysis of the changes in the proportions of selected benchmarks. Vertical analysis is aim to find out the trend of a company by comparative financial statement. Usually vertical analysis used more frequently than horizontal analysis. [10]
2.2 Financial Ratio Analysis

Financial ratio analysis is the most important part in financial analysis. It tries to use financial data of a company and analysis the data to percentages. By comparing of financial data in the form of financial ratios we can know the company is health or not.

The major ratios classifications are these four:

**Profitability ratios**: analysis the company’s ability of get profit from its invested capital.

**Liquidity ratios**: analysis the company’s ability to meet short-term obligations.

**Activity ratios**: analysis the efficiency of assets usage in a company

**Solvency ratios**: analysis the company’s ability to meet long-term obligations.

2.2.1 Profitability Ratios

Profit is the most important part of a company, the profitability ratios evaluating the company for its investment decisions. There is several profitability ratios can help us know the ability of a company to generate profit from invested capital in the form of return during a period of time.

\[ \text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Total revenue}} \]. 

The gross profit margin ratio indicates the health of a company. The higher the gross profit margin ratio, the more money is left over for operating expenses. If the gross profit margin is very high, it means the company is very efficient.

For example, if company A’s gross profit margin ratio is 15%, it shows that company a generated 15% for every sales it had.

On the opposite, if the gross profit margin ratio is very low, it shows that the company has a low level of revenues to pay for its cost. The common reason for low gross
The net profit margin ratio is the ratio of how much money the company earned at last. It shows how much that the company actually keeps in earnings. For example, if company A’s net profit margin ratio is 15%; it shows that company A get 15% of total revenue for net income. Company A got 0.15 euro for each euro of sales. The higher the net profit margin, the higher net income of the percentage is.

The way to calculate net profit margin is:

\[
\text{Net profit margin} = \frac{\text{Net income}}{\text{Total revenue}}. \tag{2.2}
\]

Pretax profit margin is the ratio of earnings before tax to total revenues. Pretax profit margin can show the influence of company’s capital composition and equity trading to their ability of reaps profits.

The way to calculate pretax profit margin is:

\[
\text{Pretax profit margin} = \frac{\text{Earning before tax}}{\text{Total revenues}}. \tag{2.3}
\]

Operating profit margin is a type of ratio that help company decide what type of net profit is actually being generated by a business effort. The higher the operating profit margin ratio is the better.
The way to calculate return on assets is:

\[
\text{ROA} = \frac{\text{Net income}}{\text{Total assets}}. \tag{2.5}
\]

Return on assets is the ratio that indicates how profitable a company is before leverage. It’s used to compare with companies in the same industry, it show how efficient at using assets to generate earnings. The higher return on assets ratio is the better. It shows that the company is earning more money on the same investment. From ROA, we are able to find out the true return on these assets. [15]

The way to calculate pretax return on assets is:

\[
\text{Pretax return on assets} = \frac{\text{Earning before taxes}}{\text{Total assets}}. \tag{2.6}
\]

The pretax return on assets ratio is about measuring earnings from operations before tax. The higher pretax return on assets ratio is the better for the company. It shows that the company has successfully kept its operation cost in a low level. [16]

The way to calculate operating return on assets is:

\[
\text{Operating return on assets} = \frac{\text{Operating income}}{\text{Total assets}}. \tag{2.7}
\]

The operating return on assets ratio shows that how well a company is managing its expenses. [17]

The way to calculate return on equity is:

\[
\text{Return on equity} = \frac{\text{Net income}}{\text{Total equity}}. \tag{2.8}
\]

The return on equity (ROE) ratio is a ratio of net income to average total equity. This ratio measures a company’s profitability. It can used to compare different companies in same industry.
But a high return on equity is not equal to high profitability. There are some special industries need not too much capital will have a very high return on equity, such as information companies. And a low return on equity is not equal to low profitability. Some special industries need to put into a huge amount of money to get start, such as refinery.

In general, we cannot judge companies only by their ROE. [18]

2.2.2 Liquidity Ratios

○ The way to calculate current ratio is:

\[
\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}.
\] (2.9)

The current ratio is a measure of short-term liquidity; it’s a measure of a company’s ability to repay the current liabilities with current assets in a short term. The higher the current ratio is, the better liquidity will have. But when the current ratio is high enough, it shows that circulating assets is too much, it will influence the profitability of a company. [19]

○ The way to calculate quick ratio is:

\[
\text{Quick ratio} = \frac{\text{Cash + Short-term investment + Receivables}}{\text{Current liabilities}}.
\] (2.10)

The quick ratio is a measure of the ability that a company can use its circulating assets to pay for the current debt. Comparing to current ratio, quick ratio deduct assets with low level liquidity, such as deferred expense, this kind of assets cannot use to pay for the current debt. In this way, quick ratio can measure the true level and ability of repay current debt. [20]
The way to calculate cash ratio is:

\[
\text{Cash ratio} = \frac{\text{Cash} + \text{Short-term markable investment}}{\text{Current liabilities}}. \tag{2.11}
\]

The cash ratio is the ratio only calculates cash and cash equivalents for payment of current liabilities. It means it only considered about the most liquid assets of a company, so it’s the most careful ratio in liquidity ratios. [21]

The way to calculate operating cash flow ratio is:

\[
\text{Operating cash flow ratio} = \frac{\text{Cash flow from operation}}{\text{Current liabilities}}. \tag{2.12}
\]

The operating cash flow ratio is a measure of how well the current liabilities are covered by the cash generated from operations of company. The higher operating cash flow ratio, the better financial flexibility will have. [22]

2.2.3 Activity Ratios

The way to calculate inventory turnover is:

\[
\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Total inventory}}. \tag{2.13}
\]

The inventory turnover is a measure of the numbers of times inventory is sold or used in a period of time. It shows the liquid and capital usage is reasonable or not, it helps companies become more efficient.

For example, if the inventory turnover ratio is 3, it means the company sold off the whole inventory three times a year. If the inventory turnover ratio is high, it means the company is managing its inventory in an efficient way. [23]
○ The way to calculate receivables turnover is

\[ \text{Receivables turnover} = \frac{\text{Sales}}{\text{Account receivables}} \ . \quad (2.14) \]

The receivables turnover ratio is measure how efficiently a company uses its assets; this ratio means how many times the accounts receivable transform to cash. It also shows how fast the company collects their sales.

For example, the receivables turnover ratio is 20, it means the company collected its outstanding credit account and uses it again 20 times in a year. [24]

○ The way to calculate payable turnover is:

\[ \text{Payable turnover} = \frac{\text{Sales}}{\text{Account payables}} \ . \quad (2.15) \]

The payable turnover ratio is measure of the ability of a company to pay for their debt. It can help a company know its cash situation. From this ratio, we can know that how a company is dealing with its outgoing payments. A low payable turnover ratio means that the company has cash shortages. A high payable turnover ratio means that there is a relatively short time between purchase of goods and service and payments for them. [25]

○ The way to calculate working capital turnover is:

\[ \text{Working capital turnover} = \frac{\text{Sales}}{\text{Net working capital}} \ . \quad (2.16) \]

The working capital turnover ratio is measure of how effectively a company is using its capital to generate sales. There is not a general target for working capital turnover ratio, it can only compared with other company in the same industry or compared with data in the past. [26]
The way to calculate fixed assets turnover is:

$$\text{Fixed assets turnover} = \frac{\text{Net sales}}{\text{Net fixed assets}}. \quad (2.17)$$

The fixed assets turnover ratio is measure of how well the company is using its fixed assets to generate sales.

In general, the higher fixed assets turnover ratio, the better. High fixed assets turnover ratios shows that the company has less money tied up in fixed assets for each unit; it can shows that the company have a good efficient in using fixed assets. [27]

The way to calculate total assets turnover is:

$$\text{Total assets turnover} = \frac{\text{Sales}}{\text{Total assets}}. \quad (2.18)$$

The total assets turnover ratio is measure of the amount of revenue generated by a company as a result of its assets.

The higher total assets turnover ratio, the quicker it turnover. It means the company has a good ability to sell. [28]

The way to calculate days sales in inventory is:

$$\text{Days sales in inventory} = \frac{365 \text{ days}}{\text{Inventory turnover}}. \quad (2.19)$$

The days sales in inventory is a ratio that shows the time the company turn its inventory to sales. The lower the ratio is the better.

For example, the days sales in inventory is 120, it means the inventory of the company cost 120 days before it is sold. [29]

The way to calculate days sales in receivables is:

$$\text{Days sales in receivables} = \frac{365 \text{ days}}{\text{Receivables turnover}}. \quad (2.20)$$

The days sales in receivables is a ratio measure of liquidity. This ratio provides...
information about the number of days on average that customers take to pay for the bill. So it’s common used to find out company’s average collection period. [30]

○ The way to calculate average days payable outstanding is:

\[
\text{Average days payable outstanding} = \frac{365 \text{ days}}{\text{Payables turnover}}. \tag{2.21}
\]

The average day’s payable outstanding is an indicator of how long a company is taking to pay its trade creditors. This ratio is typically looked at either 90 or 365 days. In general, the longer average day’s payable outstanding, the better. It measure of company can use payment for goods from suppliers instead of banks. In the same industry, the stronger company will have a higher average day’s payable outstanding ratio. [31]

2.2.4 Solvency Ratios

○ The way to calculate debt to equity ratio is:

\[
\text{Debt to equity ratio} = \frac{\text{Long term debt}}{\text{Total shareholder’s equity}}. \tag{2.22}
\]

The debt to equity ratio is indicating the relative proportion of shareholder’s equity and debt used to finance a company’s assets. It can measure of the debt of a company is high or not. Creditors and investors are concerned with this ratio. Because this ratio can tell them the owner of the company want to borrow money from others to what extent. [32]

○ The way to calculate debt ratio is:

\[
\text{Total debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}. \tag{2.23}
\]

The debt ratio is indicating the percentage of a company’s assets that are providing via debt. In different positions, the opinions will be different. Creditors believe the lower
the debt ratio, the better. In general, creditors will face low level of risk with low debt ratio. But operator hope the debt ratio will in the middle. [33]

○ The way to calculate cash flow to debt ratio is:

\[
\text{Total flow to debt ratio} = \frac{\text{Cash from operating activities}}{\text{Total liabilities}}. 
\]  

(2.24)

The cash flow to debt ratio shows how much money the company earns from its’ core activities. This ratio shows that how well a company can cover its’ debts. This ratio is very important to company’s creditors. [34]

○ The way to calculate interest coverage is:

\[
\text{Interest coverage} = \frac{\text{EBIT}}{\text{Interest expense}}. 
\]  

(2.25)

The interest coverage ratio used to determine how easily a company can pay interest. EBIT equals to earnings before interest and taxes. The interest coverage ratio is calculated by dividing a company’s EBIT of one period by the company’s interest expense of the same period.

If this ratio is under 1, it means the company is having problems generating enough money to pay its interest expenses. In general, the company wants this ratio to be over 1.5. [35]

2.3 Pyramidal Decompositions and DuPont Analysis

2.3.1 Pyramidal Decompositions

The Pyramidal decompositions are methods that can analysis what factor drives the value of financial ratios. DuPont analysis is one of the examples of pyramidal decompositions. It decompose ROE ratio by three component ratios: net profit margin; assets turnover; financial leverage. [36]
We can see the formula:

\[
\text{ROE} = \frac{\text{Net profit}}{\text{Equity}} = \frac{\text{Net income}}{\text{Revenues}} \cdot \frac{\text{Revenues}}{\text{Total assets}} \cdot \frac{\text{Total assets}}{\text{Equity}}.
\] (2.26)

We can also separate the effect of taxes and interest by decompose the profit margin as follows: tax burden; interest burden; EBIT margin.

We can see the formula:

\[
\frac{\text{Net income}}{\text{Revenues}} = \frac{\text{Net income}}{\text{EBT}} \cdot \frac{\text{EBT}}{\text{EBIT}} \cdot \frac{\text{EBIT}}{\text{Revenues}}.
\] (2.27)

So we can get a new formula after substitution into DuPont analysis:

\[
\text{ROE} = \frac{\text{Net income}}{\text{EBT}} \cdot \frac{\text{EBT}}{\text{EBIT}} \cdot \frac{\text{EBIT}}{\text{Revenues}} \cdot \frac{\text{Revenues}}{\text{Total assets}} \cdot \frac{\text{Total assets}}{\text{Equity}}.
\] (2.28)

So we can find that:

\[
\text{ROE} = \text{Tax burden} \cdot \text{Interest burden} \cdot \text{EBIT margin} \cdot \text{Assets turnover} \cdot \text{Financial leverage}.
\]

2.3.2 Dupont Analysis

In 1920s, the DuPont Corporation started using this formula which breaks ROE into three parts. With this method, ROE is affected by three component ratios

1. Operating efficiency (profit margin)
2. Assets use efficiency (total assets turnover)
3. Financial leverage (equity multiplier)

DuPont analysis can easily find out the strengths and weakness of a business. [29]

2.3.3 Gradual Changes Analysis

Gradual changes analysis is the method of influence quantification. This method is enable to quantify the change in the basic ratio by change in the component ratio In this way we can find out which component ratio is the most important part to the change of the basic ratio by analyze indicators.
Here we can see the formula:

\[ \Delta Xa_1 = \Delta a_1 \cdot a_2 \cdot a_3, \quad \Delta Xa_2 = a_1 \cdot \Delta a_2 \cdot a_3, \quad \Delta Xa_3 = a_1 \cdot a_2 \cdot \Delta a_3. \]

Symbols: “X” refers to the basic ratio, “\(\Delta X\)” refers to absolute change in the basic ratio, and “a” refers to component ratios, “\(\Delta a\)” refers to absolute change in the component ratios.
3. INTRODUCTION OF BLIZZARD

The reason why I choose Blizzard Inc is this company is one of the most influential companies in area of computer games. There are four sections in this chapter, including history of Blizzard, Blizzard's main products, strategy and innovation of Blizzard, main competitors of Blizzard.

3.1 History of Blizzard Inc.

In 1991, Blizzard founded as Silicon & Synapse by Chairman Allen Adham, President Michael Morhaime and vice president Frank Pearce. And company produced the first game “RPM racing”

In 1993, “the lost Viking” and “Rock N’ roll racing” were released. And the videogames magazine chose the company to be “Best software Developer” .And in that year; the company changed its name from Silicon & Synapse to Chaos studios

In 1994, the company changed its name from Chaos studios to Blizzard Entertainment. In that year, “Warcraft: Orcs & Humans” and “Blackthorne” were released. And “Warcraft: Orcs & Humans” was the first game released under the name of Blizzard Entertainment.

In 1995, the web site “Blizzard.com” launched. The company finally had an official home on the internet. And in the same year, “Warcraft: Tides of Darkness” was released

In 1996, Davidson & Associates (and Blizzard along with it) was acquired by a timeshare company called CUC International. In 1996, Warcraft II sold 1.2 million copies and become the first selling pc title. And in the same year, “Diablo” was released and the battle.net serviced launched along with Diablo. In this way, players of Blizzard could play together online.
In 1997, CUC International (owner of Blizzard) merged with HFS Corporation to form Cendant Software. And in the same year, Battle.net surpassed 150,000 players and 1.5 million games in its first month of operation.

In 1998, "Starcraft" was released and it sold 3 million copies in 3 months. Battle.net hits 1.5 million users and hits 4 million in the end of 1998. In the December of 1998, “Starcraft: Brood War” was released and sold over 1.5 million copies. It became the first selling PC game. And in the same year, Cendant sold Blizzard to Havas, which was acquired by Vivendi and became part of Vivendi Games.

In 2000, the "Diablo II" was released. It sold 1 million copies in 3 weeks, making it become the fastest selling PC game in the history.

In 2002, the "Warcraft III" was released and become the latest fastest selling PC game in the history.

In 2004, the "World of Warcraft" was released. It sold 3.5 million copies and also become the No.1 selling game. It was the eighth No.1 selling game of Blizzard in the history.

In 2008, Activision officially merged with Vivendi Games, culminating in the inclusion of the Blizzard brand name in the title of the resulting holding company.

In 2012, the “Diablo III” was released and sold more than 3.5 million copies within 24 hours, beating the record held by World of Warcraft (also produced by Blizzard) and become the fastest selling PC game in the world [37]

3.2 Blizzard Main Products

Blizzard main products are software of computer games. After establishing the
Blizzard Entertainment label in 1994, Blizzard quickly became one of the most effective and popular computer game company of the world. The main products of Blizzard were famous for their high quality and well designed.

3.2.1 Main franchises
From 1991 till now, Blizzard owns three main franchises in video gaming industry: Warcraft; Diablo; Starcraft. These three franchises are the most popular and successful game in the world. Blizzard Entertainment’s product always set the record of No.1 selling video game in the world, including its most recent releases, “StarCraft II: Heart of the Swarm” and “World of Warcraft: Mists of Pandaria”. In addition, Blizzard Entertainment’s online-game service, Battle.net, is one of the largest platforms in the world, with millions of active players. [38]

Players of Blizzard prove that the products based on Blizzard Entertainments are really in a high quality. These products include action comics, novels, figures, board games, apparel, pen-and-paper role-playing games, and the World of Warcraft Trading Card Game, which is a bestseller in its category. Extending the reach of its games even further, Blizzard Entertainment is currently working at Legendary Pictures, the studio behind the feature films The Dark Knight Rises, Inception, Watchmen, 300, and Superman Returns, on a live-action Warcraft movie.

3.2.2 The StarCraft Universe

On March 12, 2013, Blizzard Entertainment released StarCraft II: Heart of the Swarm, this is the first expansion to the company’s most popular real-time strategy game StarCraft II: Wings of Liberty. Heart of the Swarm features a brand-new campaign focused on the vengeful Queen named Sarah Louise Kerrigan of Blades as she struggles to reunite the fragmented zerg Swarm, also Blizzard did a lot of changes in order to improve the experience of players and added new things to build this game suit for people who love this series.
StarCraft II: Wings of Liberty released on July 27, 2010, and sold more than 1 million copies in the first 24 hours of availability and more than 3 million in the first month, making it the fastest-selling real-time strategy game of all time. When the launch of StarCraft II, Blizzard released a new brand version of its online gaming service, Battle.net, which has been redesigned from the old one to suit for the players who want to communicate and play with others online. And also it added several functions and new features, such as voice communication, cloud file storage, leagues and ladders, achievements, stat-tracking, and more.

The original StarCraft, which Blizzard Entertainment released in March 1998, was the company's third No.1 seller and was one of the bestselling games of 1998 by PC Data. Starcraft: Brood War, the game's expansion set, was named best expansion of 1998 and many players still believe it is the best expansion ever.

The games in the Starcraft series are a long-running staple of professional tournament gaming. Especially in South Korea, even the president of South Korea knows how to play this game. [33] The popularity of Starcraft in South Korea was the main reason of development of professional electronic sport and gaming broadcast industry. [39]

3.2.3 The Diablo Universe

Diablo III was released on May 15, 2012, and sold more than 3.5 million copies in the first 24 hours of availability, setting a new all-time record for fastest-selling PC game. Together with the more than 1.2 million players who received Diablo III as part of signing up for the World of Warcraft Annual Pass promotion, sold more than 6.3 million copies within its first week of release—representing the biggest PC-game launch in history. In the same time, Blizzard announced that the Diablo III for the Sony PlayStation 3 and upcoming PlayStation 4 computer entertainment systems is developing.
The Diablo I, which released to stores in the last week of December 1996, debuted at No.1 in the United States and was widely believed as having a great improvement to revitalize the RPG genre. In 2000, Blizzard Entertainment released the game’s sequel, Diablo II, which also set the record for fastest-selling PC game ever at the time of its release. In 2001, Blizzard followed up with the expansion, Diablo II: Lord of Destruction, which sold more than a million copies in the first month and was one of the biggest sellers of 2001, also became popular all over the world. [40]

3.2.4 The Warcraft Universe

Blizzard Entertainment's most recent release in the Warcraft universe is “World of Warcraft: Mists of Pandaria”, the fourth expansion to the company’s bestselling and most popular online role-playing game, World of Warcraft. Mists of Pandaria was released around the world starting on September 25, 2012 (not including China), and sold through approximately 2.7 million copies during the first week of its release.

World of Warcraft has achieved unprecedented popularity on a global scale, with millions of subscribers worldwide. The previous World of Warcraft expansion, Cataclysm, was released starting on December 7, 2010 (not including China), and sold through more than 3.3 million copies in the first 24 hours of its released, making it become the fastest-selling PC game of all time. (The record it would hold until the release of Blizzard Entertainment’s Diablo III) Prior to Cataclysm, that record was previously held by World of Warcraft’s first two expansions, World of Warcraft: The Burning Crusade and World of Warcraft: Wrath of the Lich King, which sold approximately 2.4 million copies and over 2.8 million copies in the first 24 hours. [41]

World of Warcraft initially released on November 23, 2004 in North America, Australia, and New Zealand, with subsequent launches in South Korea, Singapore, Europe, mainland China (including Hong Kong,), and the regions of Taiwan, and
Macau in 2005, Malaysia in 2006, Thailand in 2007, Latin America and Russia in 2008, and Brazil in 2011. The game has a big success in the world as the most popular online game, with millions of users worldwide. It is released in eleven different languages based on the regions in which it is played, and has earned a great amount of awards and praise from publications around the world.

Blizzard’s recently announced free-to-play strategy card game for PC and iPad, is currently under development, called “Hearthstone: Heroes of Warcraft”, and the beta testing will begin recently. It’s a very simple but interesting trading card game and easy for players to play, even though the players are not familiar with Warcraft or collecting card games.

Blizzard's original Warcraft game, Warcraft: Orcs & Humans was one of the best real-time strategy games of 1994, and the game’s next expansion, 1995’s Warcraft II: Tides of Darkness, won a great amount of awards, including the company’s first Game of the Year award. In July 2002, the Warcraft III: Reign of Chaos released, just like StarCraft, has become a staple of professional tournament gaming, along with its expansion, in July 2003, the Warcraft III: The Frozen Throne was released.

3.3 Strategy and Core Value of Blizzard

The mission statement of Blizzard is very simple:

“Dedicated to creating the most epic entertainment experiences”

There are 8 core value represent the principles and belief’s that have guided Blizzard Entertainment throughout the years. These core values are also reflected in decisions and actions of Blizzard’s employees. [42]

1. Game play first

Everything that Blizzard did is based on the great and impressive gaming experience they provide to players. They try their best to provide the best game in the world to
the players. The goal of the company is to make their games as perfect as possible for as many people as they can reach. They do what they can not only in the design but also in the programming and customer support.

2. Commit to quality
Blizzard knows that players of games won’t remember whether the game was late, only whether it was great. So Blizzard is not only focus on the experience of games but also pay attention to every aspect of its job. They approach each task carefully and seriously. And also Blizzard seeks all honest feedback and uses them to improve the quality of their products.

3. Fair
We all know that first impression is very important. But to Blizzard, lasting impression is everything. The company tries as hard as it can to maintain a high level of respect and integrity in all interaction with their consumers and business partners.

4. Inner geek
People in Blizzard love to call themselves “geek”. It does not mean strange or sick, it means people in Blizzard is a geek at heart, they all have great talent and specially thoughts on their works. Whatever it is they are working on, it matters that each employee embraces it. They all enjoy what they are doing and try as hard as they can to make it better.

5. Every voice matters
Blizzard believes that good idea can come from everywhere, not only the decision maker or head of Blizzard but also every employees of the company. Everyone is encouraged to speak up and be respectful of others ideas and opinions. They also focus on what players and consumers are speaking.

6. Think globally
Blizzard provide their games to everywhere on the planet while respecting the cultural diversity. They strive to grow and support their global gaming community.

7. Learn and grow
The gaming industry is changing every second. Not only the technology but also player’s minds are changing. Since the founding of Blizzard, they’ve worked to improve through experience and learn how to improve themselves in the correct way. In this way, Blizzard never stop, products of Blizzard are always standing at the top of gaming industry.

3.4 Main Competitors of Blizzard Inc
Blizzard is a super company in gaming industry; it has the biggest number of users and largest market in the world. But there are still some companies are more powerful than Blizzard in some areas. (Only talk about the part of gaming industry of the company)

3.2.1 Tencent
Talking about Tencent, some people will feel strange to compare Blizzard and Tencent. Tencent is the biggest internet company in China and almost every Chinese use its products. Now Tencent is using its resources to spread its games. If Blizzard wants to have a larger market in China, Tencent is the main hinder of it.
Now Blizzard is corporate with Net ease, Net ease is endorsement of all Blizzard products in China. But net ease does not have such resources and users like Tencent. Because everyone in China use Tencent's products, so the power of publicize is very strong. So even though the quality of Blizzard’s products is better than Tencent’s, but the market is still smaller than Tencent’s in China. The user’s age of Blizzard’s products is 16-35 in general. But the user’s age of Tencent’s is 9-60 in general. In my opinion, Blizzard can focus on the market of young people in China and try to build their products to face young people’s interests. [43]
3.2.2 Sony
Taking about Sony, it’s another totally different situation. We all know that Sony is really good at produces electric equipments. In gaming industry, Sony’s game consoles are world-renowned. Just like PS; PS2; PS3; PSP; PSV, etc. And people in Japan prefer game consoles than PC games. Because of different habits, Blizzard’s products can not open the market in Japan. Even though these two types of products of these two companies are different, but the products of Sony are also occupied the market and in this way the market share of Blizzard is decrease.
Like I mentioned, the gaming industry is changing every second and Blizzard knows they must improve what they already have. But game consoles are playing a more important role than before and Blizzard has nothing in this kind of games. As we can see, not only Sony’s game consoles are popular but also other companies. Such as XBOX of Microsoft, NDS of Nintendo. People are changing the style they entertain and they need fresh styles of what they are having fun. In my opinion, Blizzard has two ways to compete with this kind of company. [44]

3.2.3 Electronic Arts
Electronic Arts (EA) is one of the biggest video game companies in America. Compare to Blizzard, EA owns more product s and franchises. As we can see, Blizzard only has three series of games but EA owns 27 popular series sold more than 1 million copies. Blizzard only focuses on PC games, but EA pay more attention on game consoles. Because the way people entertain is changing all over time, so game consoles become more popular than before. We can measure from that EA have bigger market than Blizzard in potential. [45]

3.2.4 Konami
Konami is a very famous and popular Japanese game company with long history. Compare to Blizzard, Konami also owns more products and franchises. But Konami focus on games in consoles. Also Konami has a very special franchise, called
Yu-Gi-Oh, it’s a card trading game and become the most famous and popular card trading game in the world. Not only Japanese play this game but also Chinese and American. We can see from the Warcraft Universe in 3.1.2, Blizzard is also trying to release a new card trading game. So it’s a big challenge for Blizzard to compete with Konami. In other hand, card trading game from Blizzard has its specific users (people who plays Warcraft), so in this way, Blizzard can use its advantage to take a part of the market. [46]
4. FINACIAL ANALYSIS OF BLIZZARD

In this chapter, we used the financial method in chapter 2 to analyze the financial institution and performance during the years 2008-2012.

4.1 Common-size Analysis

In chapter two, we introduced two kinds of common size analysis, vertical common size analysis and horizontal common size analysis. These two methods were used in this chapter to analysis the financial performance of Blizzard.

4.1.1 Vertical Common-size Analysis

First we can find the data in the table 4.1 of Blizzard from 2008-2012. And we can see the change of them in Figure 4.1

<table>
<thead>
<tr>
<th>Table 4.1 Vertical common size income statement (% of revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Cost of revenue</td>
</tr>
<tr>
<td>Provision for income taxes</td>
</tr>
<tr>
<td>net income</td>
</tr>
<tr>
<td>Selling, General, Admin expense</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>2008 100.00% 100.00% 100.00% 100.00% 100.00%</td>
</tr>
<tr>
<td>Cost of revenue</td>
</tr>
<tr>
<td>60.77% 53.91% 47.81% 36.91% 34.23%</td>
</tr>
<tr>
<td>Provision for income taxes</td>
</tr>
<tr>
<td>-2.64% -2.83% 1.66% 5.17% 6.36%</td>
</tr>
<tr>
<td>net income</td>
</tr>
<tr>
<td>-3.54% 2.64% 9.40% 22.82% 23.66%</td>
</tr>
<tr>
<td>Selling, General, Admin expense</td>
</tr>
<tr>
<td>24.29% 21.94% 20.04% 21.05% 23.46%</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>39.23% 46.09% 52.19% 63.09% 65.77%</td>
</tr>
</tbody>
</table>

Figure 4.1 Vertical common size income statements
In Figure 4.1, we can easily find the change of net income’s percentage of revenues. The net income in 2008 was negative; it means the company was deficit, but only in a low level. In 2009-2012, the net income’s percentage of revenues keeps growing. We can also find the growth of Gross profit’s percentage from 2008-2012.

In 2005, Blizzard had 0.15 billion of deficit, because of extremely high cost of develop new products. In 2008, Blizzard came out with a great new product (World of Warcraft: Wrath of the Lich King); this products was released on November 13th and selling 2.8 million copies with the first 24 hours. This made it become the fastest selling computer game of all time (beat the record set by Blizzard in 2007). In this way, Blizzard started making net profit.

And the cost of revenue’s percentage of revenue was keep decreasing from 2008-2012, we can see from the data, even though the revenue were keep increasing, the cost of revenue were not increasing in the same trend. The cost of revenue in 2008 was 1,839 billion but in 2012 it was 1.662 billion (The revenue in 2008 was 3.0266 billion and in 2012 it was 4.865 billion). It shows that the Blizzard was controlling their cost of revenue in an efficient way.

Table 4.2 Vertical common size balance sheet (% of total assets)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short term investments</td>
<td>20.76%</td>
<td>23.62%</td>
<td>26.08%</td>
<td>26.54%</td>
<td>30.81%</td>
</tr>
<tr>
<td>Receivables</td>
<td>6.74%</td>
<td>5.38%</td>
<td>5.00%</td>
<td>4.88%</td>
<td>4.98%</td>
</tr>
<tr>
<td>inventory</td>
<td>1.81%</td>
<td>1.75%</td>
<td>0.83%</td>
<td>1.08%</td>
<td>1.47%</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1.73%</td>
<td>2.78%</td>
<td>2.56%</td>
<td>3.15%</td>
<td>6.92%</td>
</tr>
<tr>
<td>Total current assets</td>
<td>36.37%</td>
<td>38.78%</td>
<td>40.39%</td>
<td>40.51%</td>
<td>44.18%</td>
</tr>
<tr>
<td>net property, plant &amp; Equipment</td>
<td>1.03%</td>
<td>1.00%</td>
<td>1.25%</td>
<td>1.23%</td>
<td>0.99%</td>
</tr>
<tr>
<td>Long term investments</td>
<td>0.54%</td>
<td>0.17%</td>
<td>0.17%</td>
<td>0.12%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Goodwill &amp; intangibles</td>
<td>61.88%</td>
<td>59.92%</td>
<td>57.64%</td>
<td>57.56%</td>
<td>54.69%</td>
</tr>
<tr>
<td>other long term assets</td>
<td>0.21%</td>
<td>0.07%</td>
<td>0.11%</td>
<td>0.09%</td>
<td>0.08%</td>
</tr>
<tr>
<td>total long term assets</td>
<td>63.67%</td>
<td>61.23%</td>
<td>59.59%</td>
<td>59.47%</td>
<td>55.82%</td>
</tr>
<tr>
<td>Total assets</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
In 2008-2012, we can find the percentage of total long term assets was decreasing; the percentage of total current assets was increasing. Also the cash & short term investments were increasing. Especially from 2011-2012, the total long term assets decreased for 4%, because Blizzard was trying to coordinate the structure of its assets, the percentage of current assets was increasing and the profitability of assets was better than before.

Blizzard is a technique company for video games and online games, so it needs a big amount of computers and servicers to develop new products and keep its online products. So Blizzard stills own a big amount of fixed assets. But Blizzard came out with other new products, so it needed more cash and short term investment for new products.

Table 4.3 vertical common size balance sheet (equity and liabilities)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>2.21%</td>
<td>2.20%</td>
<td>2.70%</td>
<td>2.94%</td>
<td>2.42%</td>
</tr>
<tr>
<td>accrued expenses</td>
<td>5.82%</td>
<td>5.67%</td>
<td>6.48%</td>
<td>5.23%</td>
<td>4.59%</td>
</tr>
<tr>
<td>deferred revenues</td>
<td>6.38%</td>
<td>10.38%</td>
<td>12.83%</td>
<td>11.08%</td>
<td>11.67%</td>
</tr>
<tr>
<td>total current</td>
<td>14.41%</td>
<td>18.25%</td>
<td>22.01%</td>
<td>19.25%</td>
<td>18.68%</td>
</tr>
<tr>
<td>total liabilities</td>
<td>20.32%</td>
<td>21.73%</td>
<td>24.12%</td>
<td>20.97%</td>
<td>20.30%</td>
</tr>
<tr>
<td>additional paid-in</td>
<td>8.42%</td>
<td>90.10%</td>
<td>91.82%</td>
<td>72.41%</td>
<td>66.55%</td>
</tr>
<tr>
<td>retained earnings</td>
<td>-3.28%</td>
<td>-2.63%</td>
<td>0.42%</td>
<td>7.14%</td>
<td>13.33%</td>
</tr>
<tr>
<td>shareholder's equity</td>
<td>79.74%</td>
<td>78.31%</td>
<td>75.84%</td>
<td>78.99%</td>
<td>79.72%</td>
</tr>
<tr>
<td>total liabilities &amp;</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
In Figure 4.2, we can see the capital structure of Blizzard. According to Figure 4.2, we can see the shareholder’s equity takes their biggest composition. From 2008-2012, shareholder’s equity constantly represented almost 80% of Blizzard’s capital structure. High percentage of shareholder’s equity means the company has low level of financial risk and the financing structure is stable. But it also gains financing cost.

We can also find that current liabilities was the main part of total liabilities, current liabilities’ percentage of total liabilities & equity was increasing during 2008-2010 and was 4 percentage higher in 2012 than 2008. This change decreased the financial cost of Blizzard but gain the financial risk of Blizzard. In this way, Blizzard coordinated the capital structure and reduced the bad influence of high percentage of shareholder’s equity.

Also we can find in 2010, the shareholder’s equity decreased for 3%, it means Blizzard was trying to use leverage to coordinate the capital structure. But Blizzard is still facing the problem of high percentage of shareholder’s equity. Even though creditors will be satisfied with low risk of their investment, but the financial leverage was can’t work in an efficient way.

The retained earnings in 2008-2009 was negative, the deficit of Blizzard in 2008-2009 was the main reason of it.
Table 4.4 Horizontal common size income statement (2008 as base year)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>100.0%</td>
<td>141.4%</td>
<td>146.9%</td>
<td>157.1%</td>
<td>160.4%</td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>100.0%</td>
<td>125.4%</td>
<td>115.6%</td>
<td>95.4%</td>
<td>90.3%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>100.0%</td>
<td>166.1%</td>
<td>195.3%</td>
<td>252.7%</td>
<td>269.0%</td>
</tr>
<tr>
<td>Research &amp; Development Expense</td>
<td>100.0%</td>
<td>105.9%</td>
<td>107.2%</td>
<td>109.1%</td>
<td>102.0%</td>
</tr>
<tr>
<td>Selling, General, Admin expense</td>
<td>100.0%</td>
<td>127.7%</td>
<td>121.2%</td>
<td>136.1%</td>
<td>154.9%</td>
</tr>
<tr>
<td>Total Operating expense</td>
<td>100.0%</td>
<td>132.1%</td>
<td>122.0%</td>
<td>105.1%</td>
<td>104.4%</td>
</tr>
</tbody>
</table>

Figure 4.4 Horizontal common size income statements (2008 as base year)

From 2008-2012, the gross profit and revenue was keep growing and in 2009 the cost of revenue began to decrease. And the total operating expense was decreasing from 2009-2012, so we can indicate that the decrease of total operating expense was the main reason of the decrease of cost of revenue.

We can also find that the gross profit was increasing in a very fast way during 2008-2012 and the selling, general, admin expense was increased from 2010-2012. In this three years Blizzard released three new products (Star craft II; World of Warcraft: Cataclysm; Diablo III). These three products were really popular among the world and the great sales was the main reason of increasing of gross profit.
Table 4.5 Horizontal common size balance sheet (assets, 2008 as base year)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short term investments</td>
<td>100.00%</td>
<td>108.09%</td>
<td>116.86%</td>
<td>117.42%</td>
<td>145.74%</td>
</tr>
<tr>
<td>Receivables</td>
<td>100.00%</td>
<td>75.87%</td>
<td>69.10%</td>
<td>66.63%</td>
<td>72.59%</td>
</tr>
<tr>
<td>inventory</td>
<td>100.00%</td>
<td>91.98%</td>
<td>42.75%</td>
<td>54.96%</td>
<td>79.77%</td>
</tr>
<tr>
<td>Other current assets</td>
<td>100.00%</td>
<td>152.80%</td>
<td>137.60%</td>
<td>167.20%</td>
<td>393.20%</td>
</tr>
<tr>
<td>Total current assets</td>
<td>100.00%</td>
<td>102.53%</td>
<td>103.29%</td>
<td>102.30%</td>
<td>119.30%</td>
</tr>
<tr>
<td>net property, plant &amp; Equipment</td>
<td>100.00%</td>
<td>92.62%</td>
<td>113.42%</td>
<td>109.40%</td>
<td>94.63%</td>
</tr>
<tr>
<td>Long term investments</td>
<td>100.00%</td>
<td>29.49%</td>
<td>29.49%</td>
<td>20.51%</td>
<td>10.26%</td>
</tr>
<tr>
<td>Goodwill &amp; intangibles</td>
<td>100.00%</td>
<td>92.01%</td>
<td>86.65%</td>
<td>85.43%</td>
<td>86.79%</td>
</tr>
<tr>
<td>other long term assets</td>
<td>100.00%</td>
<td>30.00%</td>
<td>50.00%</td>
<td>40.00%</td>
<td>36.67%</td>
</tr>
<tr>
<td>total long term assets</td>
<td>100.00%</td>
<td>91.39%</td>
<td>87.06%</td>
<td>85.78%</td>
<td>86.09%</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>100.00%</td>
<td>95.02%</td>
<td>93.64%</td>
<td>91.84%</td>
<td>98.20%</td>
</tr>
</tbody>
</table>

Figure 4.5 Horizontal common size balance sheets (assets, 2008 as base year)

From 2008-2011, we can see the total assets was decreasing, we can indicate that the decrease of total long term assets was the main reason of the decrease of total assets. But from 2011-2012, the total assets began to increase. Even though the total current assets; cash and short term investment was growing. But we can easily find in the Figure that from 2011-2012, the trend growth of total current assets; cash and short term investment was faster than 2008-2011. We can indicate that to the increase of these assets was the main reason of increase of total assets during 2011-2012.

From 2011-2012, cash & short term investment had a big change from 117% to 145%. Two global new products released (Diablo III and World of Warcraft: Mist of
Pandaria) was the main reason of this change. The cash flow provided by operating activities in 2011 was $952 million and in 2012 was $1345 million. Blizzard’s source of cash flow varies with its release schedule. So in 2012 it had two new releases, it got a higher cash flow than 2011.

Table 4.6 Horizontal common size balance sheet (equity, 2008 as base year)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>100.00%</td>
<td>94.67%</td>
<td>113.79%</td>
<td>122.26%</td>
<td>107.52%</td>
</tr>
<tr>
<td>accrued expenses</td>
<td>100.00%</td>
<td>92.52%</td>
<td>103.44%</td>
<td>82.42%</td>
<td>77.43%</td>
</tr>
<tr>
<td>deferred revenues</td>
<td>100.00%</td>
<td>154.50%</td>
<td>187.00%</td>
<td>159.48%</td>
<td>179.52%</td>
</tr>
<tr>
<td>total current liabilities</td>
<td>100.00%</td>
<td>120.30%</td>
<td>142.03%</td>
<td>122.65%</td>
<td>127.26%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>100.00%</td>
<td>101.63%</td>
<td>110.42%</td>
<td>94.79%</td>
<td>98.13%</td>
</tr>
<tr>
<td>additional paid-in capital</td>
<td>100.00%</td>
<td>101.73%</td>
<td>101.48%</td>
<td>79.01%</td>
<td>77.65%</td>
</tr>
<tr>
<td><strong>shareholder's equity</strong></td>
<td>100.00%</td>
<td>93.32%</td>
<td>88.46%</td>
<td>90.98%</td>
<td>98.18%</td>
</tr>
<tr>
<td><strong>total liabilities &amp;shareholders’ equity</strong></td>
<td>100.00%</td>
<td>95.02%</td>
<td>93.02%</td>
<td>91.84%</td>
<td>98.20%</td>
</tr>
</tbody>
</table>

Figure 4.6 Horizontal common size balance sheets (equity, 2008 as base year)

From 2008-2010, we can see the total current liabilities and total liabilities were keep increasing. But the total liabilities and shareholders’ equity was decreased. In vertical analysis (Figure 4.3) we know that shareholder’s equity is almost 80% in Blizzard, so we can indicate the decrease of shareholder’s equity was the main reason of decrease of total amount. From 2010-2011, even though the shareholder’s equity was increased,
but the liabilities were decrease very fast. So the total amount was still decrease. From 2011-2012, we can easily find that not only the shareholder’s equity was increase but also the liabilities. So the total amount was increasing during 2011-2012.

4.2 Financial Ratios Analysis

In this part there will be four different kinds of ratios to analysis the financial institutions and performance. They are liquidity ratios; activity ratios; leverage ratios; profitability ratios.

4.2.1 Liquidity Ratios

Table 4.7 current ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>5259</td>
<td>5329</td>
<td>5432</td>
<td>5380</td>
<td>6274</td>
</tr>
<tr>
<td>total current liabilities</td>
<td>2084</td>
<td>2507</td>
<td>2960</td>
<td>2556</td>
<td>2652</td>
</tr>
<tr>
<td>current ratios</td>
<td>2.524</td>
<td>2.126</td>
<td>1.835</td>
<td>2.105</td>
<td>2.366</td>
</tr>
</tbody>
</table>

Figure 4.7 current ratio

Formula (2.9) has been used for this table. In general, the current ratios should higher than 1 at least. Company will have problems meeting its short obligations when the current ratio is less than 1. 2 for current ratio is a better situation for a company. We can see from 2008-2010, the current ratio of Blizzard was decreased, from 2.5-1.8. The increase of current liabilities was the main reason of it, from 2507 million to 2960 million. The main reason of this change is a plan called “BEP” (Blizzard equity plan) [47]. Under this plan, restricted shares of Blizzard stock and cash settled to reward
employees of Blizzard. And $87 million related to this plan, which was settled in 2010. Also there was a big change in deferred revenues (from 1426-1726). From 2010-2012, the current ratio of Blizzard was increased, from 1.8-2.3. It measures that Blizzard try to coordinate the current liabilities and strengthen the ability of solvency.

Table 4.8 quick ratios

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short term investments</td>
<td>3002</td>
<td>3245</td>
<td>3508</td>
<td>3525</td>
<td>4375</td>
</tr>
<tr>
<td>Receivables</td>
<td>974</td>
<td>739</td>
<td>673</td>
<td>649</td>
<td>707</td>
</tr>
<tr>
<td>total current liabilities</td>
<td>2084</td>
<td>2507</td>
<td>2960</td>
<td>2556</td>
<td>2652</td>
</tr>
<tr>
<td>quick ratios</td>
<td>1.90786</td>
<td>1.58915</td>
<td>1.4125</td>
<td>1.63302</td>
<td>1.91629</td>
</tr>
</tbody>
</table>

Figure 4.8 quick ratios

Formula (2.10) has been used for this table. Just like current ratios, quick ratios can also show the liquidity of a company. This ratio should be 1 or higher for a health company. We can see the decrease from 2008-2010 and increase from 2010-2012. The total current liabilities were changing in these years.

We can find that the increase of total current liabilities was the main reason of the decrease from 2008-2010. It had the same reason with current ratio. We can also indicate that the increase of cash & short term investments from 2011-2012 was the main reason of the increase from 2011-2012.

Table 4.9 cash ratios

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short term investments</td>
<td>3002</td>
<td>3245</td>
<td>3508</td>
<td>3525</td>
<td>4375</td>
</tr>
<tr>
<td>total current liabilities</td>
<td>2084</td>
<td>2507</td>
<td>2960</td>
<td>2556</td>
<td>2652</td>
</tr>
<tr>
<td>cash ratios</td>
<td>1.44049</td>
<td>1.29437</td>
<td>1.18513</td>
<td>1.37910</td>
<td>1.64969</td>
</tr>
</tbody>
</table>
Figure 4.9 cash ratios

Formula (2.11) has been used for this table. We can see that the cash ratios of Blizzard from 2008-2012 is 1.1-1.6. From 2008-2010, because total current liabilities and cash & short term investments were increasing, so the cash ratio was decreasing. From 2010-2011, the decrease of total current liabilities led the increase of cash ratio. The decrease of deferred revenue was the main reason of this fact. (From 1726-1472) [48]

And from 2011-2012, the increase of cash & short term investments led the increase of cash ratio.

4.2.2 Activity Ratios

Table 4.10 Inventory turnover

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>cost of goods sale</td>
<td>1149</td>
<td>1960</td>
<td>1928</td>
<td>1772</td>
<td>1542</td>
</tr>
<tr>
<td>inventory</td>
<td>262</td>
<td>241</td>
<td>112</td>
<td>144</td>
<td>209</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>4.3854</td>
<td>8.1327</td>
<td>17.214</td>
<td>12.305</td>
<td>7.3779</td>
</tr>
</tbody>
</table>

Figure 4.10 Inventory turnover
Formula (2.13) has been used for this table. Blizzard is a software company, so most of its inventories are software and video game CDs. From 2008-2010, the inventory turnover was increasing. Because from 2008-2009, the increase of cost of sale was the main reason of this. Higher cost of sale related to the manufacturing and unfavorable impact of changes in foreign exchange rate. And from 2009-2010, the decrease of inventory was the main reason of this.

But from 2010-2012, the inventory turnover was decreasing. Total cost of sale was decreasing during 2010-2012, lower cost of products and increasing number of products distributed through digital online channel were the main reason of this. And inventory was increasing from 2010-2012.

The inventory turnover in 2012 was 7.38 and it’s lower than the average 13.9. So Blizzard can coordinate its sales strategy to become a healthier company.

Table 4.11 Receivable turnover

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3026</td>
<td>4279</td>
<td>4447</td>
<td>4755</td>
<td>4856</td>
</tr>
<tr>
<td>Receivables</td>
<td>974</td>
<td>739</td>
<td>673</td>
<td>649</td>
<td>707</td>
</tr>
<tr>
<td>receivables turnover</td>
<td>3.1067</td>
<td>5.7902</td>
<td>6.6077</td>
<td>7.3266</td>
<td>6.86845</td>
</tr>
</tbody>
</table>

Figure 4.11 Receivable turnovers

Formula (2.14) has been used for this table. According to the table we can find that Blizzard collected its outstanding credit accounts more than 3.1 times and less than 7.4 times a year from 2008-2012. It shows that Blizzard was gain the ability of collecting outstanding from 2008-2011. In these years, the customers become satisfied.
with products from Blizzard and willing to pay for them on time. But from 2011-2012, the receivables turnover was decreased. The increase of receivable was the main reason of it.

Table 4.12 Total assets turnover

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3026</td>
<td>4279</td>
<td>4447</td>
<td>4755</td>
<td>4856</td>
</tr>
<tr>
<td>Total assets</td>
<td>14460</td>
<td>13740</td>
<td>13450</td>
<td>13280</td>
<td>14200</td>
</tr>
<tr>
<td>total assets turnover</td>
<td>0.2092</td>
<td>0.3114</td>
<td>0.3306</td>
<td>0.3580</td>
<td>0.3419</td>
</tr>
</tbody>
</table>

Figure 4.12 Total assets turnover

Formula (2.18) has been used for this table. Total assets turnover was keep increasing during 2008-2011 from 0.2-0.35. And the average of industry total assets turnover is 0.4. We can indicate that Blizzard’s efficiency at using its assets in generating sales or revenue was not quite good. The scale of the company is the main reason of it. But from this trend, we can find that Blizzard was trying to coordinate the way they use its assets.

Table 4.13 Working capital turnover

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3026</td>
<td>4279</td>
<td>4447</td>
<td>4755</td>
<td>4856</td>
</tr>
<tr>
<td>working capital</td>
<td>3175</td>
<td>2882</td>
<td>2472</td>
<td>2824</td>
<td>3622</td>
</tr>
<tr>
<td>working capital turnover</td>
<td>0.9530</td>
<td>1.4847</td>
<td>1.7989</td>
<td>1.6837</td>
<td>1.3406</td>
</tr>
</tbody>
</table>
Formula (2.16) has been used for this table. From the table we can find that the working capital turnover of Blizzard during 2008-2012 was higher than 0.95 and lower than 1.8. From 2008-2010, the ratio was keep growing and from 2011-2012, the ratio was decreasing. We can indicate that Blizzard was effectively using its working capital to generate sales. But there were still decrease from 2011-2012. The increase of working capital is the main reason of it. We can see from 2010-2012, working capital increased from 2472 to 3622. It because Blizzard needed more working capital to support their operational requirements and fund their stock repurchased program and dividends. [49]

<table>
<thead>
<tr>
<th>Table 4.14 payable turnover</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3026</td>
<td>4279</td>
<td>4447</td>
<td>4755</td>
<td>4856</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>319</td>
<td>302</td>
<td>363</td>
<td>390</td>
<td>343</td>
</tr>
</tbody>
</table>
Formula (2.15) has been used for this table. The payable turnover of Blizzard was increase from 2008-2009 and 2011-2012, it means in these years, Blizzard paid off its supplier more frequently. It measure of the relationship with supplier became tension than before. The cost of basic materials was increase in price. The pressure was bigger from suppliers than before. And we can also indicate that Blizzard’s market share was lower than before. [48]

Table 4.15 day’s sales ratios

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day's sales in inventory</td>
<td>83.2289</td>
<td>44.8801</td>
<td>21.2033</td>
<td>29.6614</td>
<td>49.4715</td>
</tr>
<tr>
<td>Day's sales in receivables</td>
<td>117.4851</td>
<td>63.0369</td>
<td>55.2384</td>
<td>49.8181</td>
<td>53.1415</td>
</tr>
<tr>
<td>average days payable outstanding</td>
<td>38.4782</td>
<td>25.7607</td>
<td>29.7942</td>
<td>29.9369</td>
<td>25.7815</td>
</tr>
</tbody>
</table>

Figure 4.15 day’s sales ratios

Formulas (2.19) (2.20) (2.21) have been used for this table. As we can see these three data of Blizzard, day’s sales in inventory and day’s sales in receivables were decreasing during 2008-2010. From 2010-2012, the day’s sales in inventory were increasing and the day’s sales in receivables was keep decreased. The industry average of the day’s sales in receivables is 65.81 days which is higher than Blizzard’s.
4.2.3 Leverage ratios

Table 4.16 Debt ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td>2938</td>
<td>2986</td>
<td>3244</td>
<td>2785</td>
<td>2883</td>
</tr>
<tr>
<td>Total assets</td>
<td>14460</td>
<td>13740</td>
<td>13450</td>
<td>13280</td>
<td>14200</td>
</tr>
<tr>
<td>debt ratio</td>
<td>0.2031</td>
<td>0.2173</td>
<td>0.2411</td>
<td>0.20971</td>
<td>0.20302</td>
</tr>
</tbody>
</table>

Figure 4.16 debt ratio

Formula (2.23) has been used for this table. The debt ratio for Blizzard from 2008-2010 was increasing, from 0.2-0.24. From 2010-2012, the debt ratio became 0.2 for two years. The average of industry is 0.38. So Blizzard can take more debt in order to grow profits. But it’s not necessary to take too much. The higher the ratio, the greater risk will face by the company’s operation.

In the Figure we can find that Blizzard was coordinate the debt ratio in order to gain profits or have a low level of risk. It’s depends on the company’s needs.

In 2010, the debt ratio was higher than other years. Higher total liabilities were the main reason of it. The increasing of current liabilities was the main reason of it. And we can see in 2010, total assets and share holder’s equity were lower than other years. It shows that Blizzard coordinated its financial structure.
Table 4.17 Cash flow to debt ratio

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>cash from operating activates</td>
<td>379</td>
<td>1183</td>
<td>1376</td>
<td>952</td>
<td>1345</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>2938</td>
<td>2986</td>
<td>3244</td>
<td>2785</td>
<td>2883</td>
</tr>
<tr>
<td>cash flow to debt ratio</td>
<td>0.1289</td>
<td>0.39618</td>
<td>0.42416</td>
<td>0.34183</td>
<td>0.466528</td>
</tr>
</tbody>
</table>

Figure 4.17 Cash flow to debt ratio

Formula (2.24) has been used for this table. The cash flow to debt ratio of Blizzard was increase from 2008-2010 and 2011-2012. From the table we can see Blizzard was able to pay for 46% of debt using its current cash flows in 2012. It means Blizzard was trying to hold more cash flow than before. The solvency of Blizzard became better than before.

4.2.4 Profitability ratios

Table 4.18 gross profit margin

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td></td>
<td>1187</td>
<td>1972</td>
<td>2321</td>
<td>3000</td>
<td>3194</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>3026</td>
<td>4279</td>
<td>4447</td>
<td>4755</td>
<td>4856</td>
</tr>
<tr>
<td>gross profit margin</td>
<td></td>
<td>0.392267</td>
<td>0.460855</td>
<td>0.521925</td>
<td>0.630915</td>
<td>0.657743</td>
</tr>
</tbody>
</table>
Figure 4.18 gross profit margins

Formula (2.1) has been used for this table. The gross profit margin of Blizzard was increasing from 2008-2012. We can indicate that Blizzard get a higher level of revenues to pay for operating expense and net profit.

The main reason of this is Blizzard has several popular franchises. According to NPD group (a group investigates the popularity of games), the top 10 titles accounted for 30% of the sales in the U.S. video game industry in 2012. So Blizzard got a high percentage of their profit based on these video games. For example, in 2012, these popular franchises—Diablo, World of Warcraft, Call of duty—accounted for 83% of Blizzard’s net revenues.

In every annual report of Blizzard, we can find Blizzard expected these popular franchises would continue to produce a high percentage of the industry and their profit. And Blizzard tried their best to do as much as they can to make their franchises better and fresher. It is the main reason for increase of gross profit.

Table 4.19 summary of profit margin

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>net income</td>
<td>-107</td>
<td>113</td>
<td>418</td>
<td>1085</td>
<td>1149</td>
</tr>
<tr>
<td>Revenue</td>
<td>3026</td>
<td>4279</td>
<td>4447</td>
<td>4755</td>
<td>4856</td>
</tr>
<tr>
<td>Earnings before tax</td>
<td>-184</td>
<td>-8</td>
<td>492</td>
<td>1331</td>
<td>1458</td>
</tr>
<tr>
<td>Operating income</td>
<td>-233</td>
<td>-26</td>
<td>469</td>
<td>1328</td>
<td>1451</td>
</tr>
<tr>
<td>net profit margin</td>
<td>-3.54%</td>
<td>2.64%</td>
<td>9.40%</td>
<td>22.82%</td>
<td>23.66%</td>
</tr>
<tr>
<td>pretax profit margin</td>
<td>-6.08%</td>
<td>-0.19%</td>
<td>11.06%</td>
<td>27.99%</td>
<td>30.02%</td>
</tr>
<tr>
<td>operating profit margin</td>
<td>-7.70%</td>
<td>-0.61%</td>
<td>10.55%</td>
<td>27.93%</td>
<td>29.88%</td>
</tr>
</tbody>
</table>
Formulas (2.2) (2.3) (2.4) have been used for this table. The net profit margin of Blizzard was kept increasing from 2008-2012. We can see in 2008, the net profit margin was negative. It means in 2008 Blizzard was deficit. The main reason of Blizzard’s deficit was the financial crisis from 2007-2009. We can see even though the net profit margin in 2009 was positive, but still in a very low level. The increasing of this ratio shows that Blizzard was generating more sales than before. The increasing trend in the net profit margin ratio over time means that Blizzard was taking efficiency improvements and it can take less debt to pay for its expense. Blizzard had better sales and its franchises help Blizzard walked out its deficit. We can also find the same trend of pretax profit margin and operating profit margin. Blizzard also controlled the cost of revenue. From Table 4.4, the Horizontal common size income statement analysis, we can find the cost of revenue from 2010-2012 were very low. The revenue from 2008-2012 increased a lot, but the cost of revenue still keep in the same level compare with 2008, even less.
Table 4.20 summary of return ratios

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>shareholder's equity</td>
<td>11530</td>
<td>10760</td>
<td>10200</td>
<td>10490</td>
<td>11320</td>
</tr>
<tr>
<td>Operating income</td>
<td>-233</td>
<td>-26</td>
<td>469</td>
<td>1328</td>
<td>1451</td>
</tr>
<tr>
<td>earnings before tax</td>
<td>-184</td>
<td>-8</td>
<td>492</td>
<td>1331</td>
<td>1458</td>
</tr>
<tr>
<td>net income</td>
<td>-107</td>
<td>113</td>
<td>418</td>
<td>1085</td>
<td>1149</td>
</tr>
<tr>
<td>Total assets</td>
<td>14460</td>
<td>13740</td>
<td>13450</td>
<td>13280</td>
<td>14200</td>
</tr>
<tr>
<td>return on assets</td>
<td>-0.74%</td>
<td>0.82%</td>
<td>3.11%</td>
<td>8.17%</td>
<td>8.09%</td>
</tr>
<tr>
<td>pretax return on assets</td>
<td>-1.27%</td>
<td>-0.06%</td>
<td>3.66%</td>
<td>10.02%</td>
<td>10.27%</td>
</tr>
<tr>
<td>operating return on assets</td>
<td>-1.61%</td>
<td>-0.19%</td>
<td>3.49%</td>
<td>10.00%</td>
<td>10.22%</td>
</tr>
<tr>
<td>return on equity</td>
<td>-0.93%</td>
<td>1.05%</td>
<td>4.10%</td>
<td>10.34%</td>
<td>10.15%</td>
</tr>
</tbody>
</table>

Figure 4.20 Summary of return ratios

Formulas (2.5) (2.6) (2.7) have been used for this table. The return on assets of Blizzard during 2008-2012 was kept increasing. It means Blizzard was better at converting its investment into profit. We can see in 2008 the return on assets was negative. It means in 2008 Blizzard was deficit. And in 2011 and 2012, the return on assets kept in the same level.

The return on equity of Blizzard was kept increasing from 2008-2011 and kept same from 2011-2012. Just like other profitability ratios above Blizzard. It means the profitability of Blizzard was kept increasing.
4.3 DuPont Analysis

Table 4.25 Method of Gradual Change

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$a_1 = \text{EAT/REV}$</td>
<td>1.62%</td>
<td>2.69%</td>
<td>5.85%</td>
<td>0.38%</td>
</tr>
<tr>
<td>$a_2 = \text{REV/ASSET}$</td>
<td>0.34%</td>
<td>0.23%</td>
<td>0.83%</td>
<td>-0.48%</td>
</tr>
<tr>
<td>$a_3 = \text{ASSET/EQUITY}$</td>
<td>0.02%</td>
<td>0.13%</td>
<td>-0.43%</td>
<td>-0.09%</td>
</tr>
</tbody>
</table>

Figure 4.21 Influence quantification

Formula (2.27) has been used for this table. We can indicate that the main reason of change in ROE was the change of profit margin. So Blizzard should pay more attention on its operating efficiency. Blizzard should keep focus on its products and its profitability. Try to build its franchises more popular and fresher.

Also Blizzard should focus on its cost of revenues. In order to have a healthier financial situation, Blizzard should decrease the cost of revenues to make more net profit. In this way, the ROE will become higher and more investments will come to Blizzard.
5. CONCLUSION

As a result of financial analysis, we can find that the financial performance and situation of Blizzard is becoming better than before. First of all, Blizzard is making more net profit than before. We can find that in the increase of gross profit and decrease of cost of revenues. Blizzard did a great job during 2008-2012 and products produced by Blizzard were popular among its customers. Also Blizzard was controlling its cost in an efficient way.

From liquidity ratios, we can indicate that Blizzard had some problem during 2008-2010 but became better from 2010 till now. It shows that Blizzard has a better ability to pay its current liabilities than before. And the financial risk of Blizzard is decrease with higher liquidity ratios.

From activity ratios, we can indicate that Blizzard’s activity ability is having some problems. The industry average of activity ratios is higher than Blizzard’s.

From leverage ratios, we can find that shareholder’s equity is higher than the percentage of liabilities, the ratios is 4:1. Also the average of industry debt ratio is much higher than Blizzard’s. It shows that even though Blizzard has a low level of financial risk, but it is lack of leverage ability.

From profitability ratios, we can indicate that Blizzard’s profitability is becoming better these years. Less cost of revenue and more net profit are the main reason of it. But during 2011-2012, the profitability ratios almost kept in the same level.

There are some advices for Blizzard according to the financial performance and situation during 2008-2012.

First, even though Blizzard’s game are in high quality and very popular among the
world, but Blizzard still need to develop new fresher products for different customers. We all know that the way people entertain is changing every day, so Blizzard should try as much as it can to catch these changes. Develop new products not only in traditional ways (PC) but also in other fresher ways. For example, trading card game for Blizzard is a very good thought.

Second, Blizzard can coordinate its financial structure. Expand the percentage of debt. In this way, Blizzard can use its leverage in an efficient way. And fund from public can help Blizzard do new researches and have new invests.

Last, Blizzard own a great platform called Battle.net. It’s convenient for users of Blizzard to get information and communicate on battle.net. So Blizzard can try to improve its way of selling new products and try to combine the platform with new products.

Blizzard is the spiritual leader of the video game industry. The things it did in the past can be called as miracle. But big success in the past will generate a lot of pressure for the future. We believe that Blizzard will not let us down.
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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>Return on Asset</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>EBIT</td>
<td>Earnings before interest and taxes</td>
</tr>
<tr>
<td>EAT</td>
<td>Earnings after taxes</td>
</tr>
<tr>
<td>COGS</td>
<td>Cost of goods sold</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>EA</td>
<td>Electronic Arts</td>
</tr>
</tbody>
</table>
Declaration of Utilization Results from a Bachelor Thesis

Herewith I declare that

- I am informed that Act No. 121/2000 Coll. — the Copyright Act, in particular, Section 35 — Utilization of the Work as a Part of Civil and Religious Ceremonies, as a Part of School Performances and the Utilization of a School Work — and Section 60 — School Work, fully applies to my diploma (bachelor) thesis;

- I take account of the VSB — Technical University of Ostrava (hereinafter as VSB-TUO) having the right to utilize the diploma (bachelor) thesis (under Section 35(3)) unprofitably and for own use;

- I agree that the diploma (bachelor) thesis shall be archived in the electronic form in VSB-TUO's Central Library and one copy shall be kept by the supervisor of the diploma (bachelor) thesis. I agree that the bibliographic information about the diploma (bachelor) thesis shall be published in VSB-TUO's information system;

- It was agreed that, in case of VSB-TUO’s interest, I shall enter into a license agreement with VSB-TUO, granting the authorization to utilize the work in the scope of Section 12(4) of the Copyright Act;

- It was agreed that I may utilize my work, the diploma (bachelor) thesis, or provide a license to utilize it only with the consent of VSB-TUO, which is entitled, in such a case, to claim an adequate contribution from me to cover the cost expended by VSB-TUO for producing the work (up to its real amount).

Ostrava dated 9.5.2013

Luomai Wang

Luomai Wang
List of annexes

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Annex 2 Blizzard Entertainment liabilities & equity from 2008 to 2012
Annex 3 Blizzard Entertainment income statements from 2008 to 2012
Annex 4 Blizzard Entertainment cash flows of operating activities & investing activities from 2008 to 2012
Annex 5 Blizzard Entertainment cash flows of financing activities from 2008 to 2012
Annex 6 Blizzard Entertainment’s Influence quantification of ROE from 2008 to 2012