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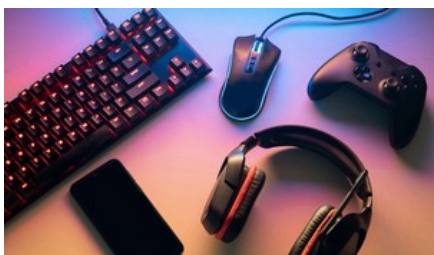
Press release


Microsoft / Activision deal prevented to protect innovation and choice in cloud gaming

The CMA has prevented Microsoft's proposed purchase of Activision over concerns the deal would alter the future of the fast-growing cloud gaming market, leading to reduced innovation and less choice for UK gamers over the years to come.

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- Microsoft’s solution had significant shortcomings and would require regulatory oversight by CMA
 - Panel Chair: “Cloud gaming needs a free, competitive market to drive innovation and choice”

The final decision to prevent the deal comes after Microsoft’s proposed solution failed to effectively address the concerns in the cloud gaming sector, outlined in the Competition and Markets Authority’s (CMA) provisional findings published in February.

Microsoft entered into a \$68.7 billion deal to buy Activision, one of the most popular video games publishers in the world, in January 2022. The CMA launched an in-depth review of the deal in September 2022, and in February 2023 provisionally found that the merger could make Microsoft even stronger in cloud gaming, stifling competition in this growing market.

Cloud gaming concerns

The UK cloud gaming market is growing fast. Monthly active users in the UK more than tripled from the start of 2021 to the end of 2022. It is forecast to be worth up to £11 billion globally and £1 billion in the UK by 2026. By way of comparison, sales of recorded music in the UK in 2021 amounted to £1.1 billion.

Microsoft has a strong position in cloud gaming services and the evidence available to the CMA showed that Microsoft would find it commercially beneficial to make Activision’s games exclusive to its own cloud gaming service.

Microsoft already accounts for an estimated 60-70% of global cloud gaming services and has other important strengths in cloud gaming from owning Xbox, the leading PC operating system (Windows) and a global cloud computing infrastructure (Azure and Xbox Cloud Gaming).

The deal would reinforce Microsoft's advantage in the market by giving it control over important gaming content such as Call of Duty, Overwatch, and World of Warcraft. The evidence available to the CMA indicates that, absent the merger, Activision would start providing games via cloud platforms in the foreseeable future.

The cloud allows UK gamers to avoid buying expensive gaming consoles and PCs and gives them much more flexibility and choice as to how they play. Allowing Microsoft to take such a strong position in the cloud gaming market just as it begins to grow rapidly would risk undermining the innovation that is crucial to the development of these opportunities.

The remedy

Microsoft submitted a proposal to address some of these concerns which the CMA examined in considerable depth. The proposed remedy set out requirements governing what games must be offered by Microsoft to what platforms and on what conditions over a ten-year period.

Such remedies are described as 'behavioural' because they seek to regulate the behaviour of the businesses involved in a merger, requiring them to behave in a way which may be contrary to their commercial incentives. This therefore takes the form of a type of ongoing regulation of the sector, replacing market forces in a growing and dynamic market with mandated regulatory obligations ultimately overseen, and enforced by, the CMA – in this case at a global level.

Microsoft's proposal contained a number of significant shortcomings connected with the growing and fast-moving nature of cloud gaming services:

- It did not sufficiently cover different cloud gaming service business models, including multigame subscription services.
- It was not sufficiently open to providers who might wish to offer versions of games on PC operating systems other than Windows.
- It would standardise the terms and conditions on which games are available, as opposed to them being determined by the dynamism and creativity of competition in the market, as would be expected in the absence of the merger.

Given the remedy applies only to a defined set of Activision games, which can be streamed only in a defined set of cloud gaming services, provided they are purchased in a defined set of online stores, there are significant risks of disagreement and conflict between Microsoft and cloud gaming service providers, particularly over a ten-year period in a rapidly changing market.

Accepting Microsoft's remedy would inevitably require some degree of regulatory oversight by the CMA. By contrast, preventing the merger would effectively allow market forces to continue to operate and shape the development of cloud gaming without this regulatory intervention.

Considering the potential benefits of the merger

The CMA carefully considered whether the benefit of having Activision's content available on Game Pass outweighed the harm that the merger would cause to competition in cloud gaming in the UK. The CMA found that this new payment option, while beneficial to some customers, would not outweigh the overall harm to competition (and, ultimately, UK

gamers) arising from this merger, particularly given the incentive for Microsoft to increase the cost of a Game Pass subscription post-merger to reflect the addition of Activision's valuable games.

Martin Coleman, chair of the independent panel of experts conducting this investigation, said:

“ Gaming is the UK's largest entertainment sector. Cloud gaming is growing fast with the potential to change gaming by altering the way games are played, freeing people from the need to rely on expensive consoles and gaming PCs and giving them more choice over how and where they play games. This means that it is vital that we protect competition in this emerging and exciting market.

“ Microsoft already enjoys a powerful position and head start over other competitors in cloud gaming and this deal would strengthen that advantage giving it the ability to undermine new and innovative competitors.

“ Microsoft engaged constructively with us to try to address these issues and we are grateful for that, but their proposals were not effective to remedy our concerns and would have replaced competition with ineffective regulation in a new and dynamic market.

“ Cloud gaming needs a free, competitive market to drive innovation and choice. That is best achieved by allowing the current competitive dynamics in cloud gaming to continue to do their job.”

Notes to editors

1. For media enquiries, contact the CMA press office on 020 3738 6460 or press@cma.gov.uk.
2. Microsoft is a global technology company offering a wide range of products and services, with a

global turnover of nearly £125 billion the financial year 2021. Since 2001, it has sold various generations of Xbox gaming consoles. Gamers typically download digital copies of the games they want to play on Xbox from Microsoft's Xbox Store. Microsoft also offers a multigame subscription service, Xbox Game Pass, where gamers pay a monthly fee to gain access to a library of games.

3. Activision Blizzard is a game developer and publisher with global turnover of £6.3 billion in the financial year 2021, with over £700 million of this in the UK. It develops popular gaming content for consoles, PC, and mobile, which includes titles such as Call of Duty, World of Warcraft, and Candy Crush.
4. In an update to its provisional findings, the CMA said in March that it provisionally had no concerns about the impact of the deal on the console gaming market. This followed analysis which found that Microsoft would not have a financial incentive to make Call of Duty exclusive to Xbox. The CMA has today concluded that the deal may not be expected to result in a significant lessening of competition in console gaming services in the UK.
5. For more information, visit the [Microsoft / Activision inquiry page](#).

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