

Sector View

Video Games

	1 M	3 M	6 M	31/12/14
Softw.& Comp.	-5.5%	3.8%	-1.1%	18.9%
DJ Stoxx 600	-8.3%	-8.6%	-17.5%	-3.7%

*Stoxx Sector Indices

Companies covered

GAMELOFT	BUY	EUR6.7
Last Price	EUR5.1	Market Cap. EUR434m
UBISOFT	BUY	EUR37
Last Price	EUR24.22	Market Cap. EUR2,694m

US packaged software sales in December and CY15

The NPD Group has released data for December's packaged video games sales in the US. Hardware sales were down 3% Y/Y in Dec. and 2% in CY15 (the PS4 was the top-selling console for the 10th time). Packaged software was down 6% in Dec. and 4% in CY15 (vs. BG ests: +5%e and stable), mainly due to declines in handheld and last generation consoles and the strong trend towards digital. Activision Blizzard's *Call of Duty: Black Ops III* was the best-selling game. Note that calendar Q4 represented 49.2% of CY sales (Oct. 6.5%, Nov. 19.2% and Dec. 23.4%). We are making no change to recommendations for our sector coverage: Buy on UBISOFT with a FV of EUR37 and GAMELOFT with a FV of EUR6.7. Speculation has heightened now that Vivendi has sold its remaining 5.7% stake in Activision Blizzard (net proceeds of ~EUR1bn). We believe in this and our FVs reflect minimum prices for potential public offers.

ANALYSIS

- On Thursday overnight, the NPD Group released its monthly sales report for December's packaged video games in the US** (5-week period ending on 2nd January, 2016). Bear in mind that these numbers only represent a fraction of the industry (i.e. around 50% of spending). NPD only tracks new games sold at US retailers. This does not include second-hand software, mobile, and digital. As such, it simply gives an insightful glimpse of a much more dynamic industry. **Revenue in the sector was down 1% over one year at USD3.22bn** (stable in CY15): **1/ Hardware -6% Y/Y at USD1.24bn** (-4% in CY15: with -32% in handheld hardware, -71% in 7th-gen and +4% in 8th-gen home console hardware sales). **The PS4 was the best-selling platform in the US for the 10th time YTD** (thanks to PS4 *Star Wars Battlefront/UC* bundles with USD50 price cut to USD300 over 6-19 Dec., and despite a USD50 price cut for the Xbox One making an entry price at USD300 over 9-26 Dec.) and totalled 35.9m units sold to consumers worldwide since its launch (of which 5.7m during the holiday season). Note that Dec. 2015 was the best month ever for Xbox One, PS4 and Wii U total hardware unit sales; and 2015 the best year for PS4 and Xbox One. **2/ Software -3% Y/Y at USD1.21bn** (-2% in CY15: with -34% in handheld software, -53% in 7th-gen and +52% in 8th-gen home console software sales), i.e. below our +5%e (stable sales est. for CY15; no consensus). Activision Blizzard's *Call of Duty: Black Ops III* was the top-selling game (a yearly well-established game franchise) significantly outselling EA's *Star Wars: Battlefront*. **3/ Accessories +10% Y/Y at USD761.7m** (+12% in CY15), mainly thanks to peripherals, interactive toys, points, subscription cards sales.
- Worth noting on the software side in December:** **1/** a fairly unfavourable base effect (-2% in Dec. 2014); **2/** *Call of Duty: Black Ops III* (Activision Blizzard) was the top-selling game of the month for the second time in a row; **3/** home console game sales were down 1%, and handheld game sales dropped 40%; **4/** 8th-gen console game sales increased 48% while the 7th-gen fell 54%; **5/** Dec. 2015 was the best month on record for PS4 and Xbox One, and the second-best for the Wii U in terms of new physical software unit sales; **6/** Dec. 2015 was the best month of total 8th-gen physical software sales; **7/** the growing transition towards digital (gamers are more and more comfortable with downloading games, all the more so with the highly connected home consoles).
- Bear in mind that the NPD Group doesn't track:** **1/** digital game sales; and **2/** games packed-in with consoles (there were compelling bundles in December).

VALUATION

- UBISOFT: We are maintaining our Buy recommendation and FV of EUR37** (we value the entire cycle). This is derived from 12m fwd average multiples for Ubisoft's past two console cycles applied to our FY16-17 estimates to which we have added a 15% premium (justified by: **1/** contrary to the past, the current cycle includes ~40% of digital revenues which are more recurring and 25% more profitable, and **2/** Ubisoft is now benefiting from other entertainment revenues linked to the strength of its IPs).
- GAMELOFT: We are maintaining our Buy recommendation and FV of EUR6.7** (we value the entire cycle). We have applied an EV/sales of 2x to our FY16 estimate for Gameloft (i.e. a 20% discount to the recent acquisition multiple of King digital by Activision Blizzard).

NEXT CATALYSTS

- UBISOFT: Q3 sales** on 11th February, 2016 (after trading).
- GAMELOFT: FY sales** on 28th January, 2016 (after trading).



Top ten selling games in December 2015 by platform in the US

Rank	Games	Consoles	Publisher
1	Call of Duty: Black Ops III	Xbox One, PS4, Xbox 360, PS3, PC	Activision Blizzard
2	Star Wars: Battlefront	Xbox One, PS4, PC	Electronic Arts
3	Fallout 4	PS4, Xbox One, PC	Bethesda Softworks
4	Madden NFL 16	PS4, Xbox One, Xbox 360, PS3	Electronic Arts
5	NBA 2K 16	PS4, Xbox One, Xbox 360, PS3	Take-Two Interactive
6	Grand Theft Auto V	PS4, Xbox One, Xbox 360, PS3, PC	Take-Two Interactive
7	Tom Clancy's Rainbow Six: Siege	Xbox One, PS4, PC	Ubisoft
8	Minecraft	Xbox 360, Xbox One, PS4, PS3	Microsoft
9	Minecraft: Story Mode – A Telltale Game Series	Xbox 360, Xbox One, PS4, PS3	Telltale Games
10	FIFA 16	PS4, Xbox One, Xbox 360, PS3	Electronic Arts

N.B.: games bundled with hardware are not tracked by the NPD Group

Sources: NPD Group; Bryan, Garnier & Co.

- Call of Duty: Black Ops III (Activision Blizzard) was the top-selling game in Dec. and CY15.
- Electronic Arts was the publisher of the month and CY15, with three titles in the TOP 10.
- Ubisoft ranked only 1 game in Dec. (Rainbow Six: Siege) and none in CY15.

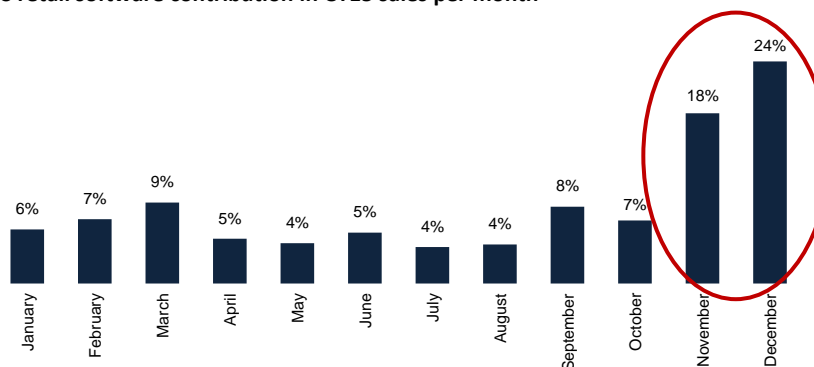
Y/Y % change in retail software sales in the US from 2000 to 2015 (in value, at constant scope)

%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	2	16	4	0	18	0	-5	53	12	10	-12	-5	-38	1	-25	6
February	5	-11	45	-5	5	13	-12	32	48	9	-15	-5	-23	-36	-9	7
March	20	-15	33	8	-6	31	-8	16	64	-17	10	-16	-25	-1	-27	-3
April	27	-13	11	39	-3	9	16	-1	69	-22	-22	26	-42	-17	-10	13
May	4	10	31	20	-17	30	-10	33	42	-17	4	-19	-32	-31	57	-25
June	4	23	27	-9	12	2	15	22	61	-29	-15	-12	-29	-10	-3	21
July	-1	26	11	4	27	-10	19	11	41	-26	-8	-17	-23	-19	-15	0
August	-12	18	43	4	1	0	18	23	13	-15	-14	-34	-9	23	-21	-10
September	-26	-8	50	-10	44	-24	29	47	-6	5	-6	3	-18	52	-36	-3
October	13	-20	74	-15	35	-24	1	40	36	-18	6	3	-25	12	-27	-3
November	1	28	7	7	11	-17	14	63	11	-3	3	11	-11	-24	-1	-7
December	-9	24	7	13	-1	-3	6	37	15	-7	-8	-14	-26	-17	-2	-3
Total	-1	10	21	5	8	-3	7	34	27	-10	-6	-6	-23	-9	-12	-2

Sources: NPD Group; Bryan, Garnier & Co.

- Packaged software sales were down 3% in December (vs. BG: +5%e)
- Packaged software sales were down 2% in CY15 (vs. BG: stable), after -12% in CY14.
- Physical sales account for 50%e of the US consumer spend on the industry (35/40%e in Europe).
- Combined PS4/Xbox One sales are 47% higher than Xbox 360/PS3 over the past 26 months.

US retail software contribution in CY15 sales per month



Sources: NPD Group; Bryan, Garnier & Co.

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