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12th February 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	15660.18	-1.60%	-10.13%
S&P 500	1829.08	-1.23%	-10.51%
Nasdaq	4266.84	-0.39%	-14.79%
Nikkei	14952.61	-4.84%	-17.44%
Stoxx 600	303.575	-3.69%	-17.01%
CAC 40	3896.71	-4.05%	-15.97%
Oil /Gold			
Crude WTI	26.78	-3.43%	-28.01%
Gold (once)	1248.07	+4.73%	+17.48%
Currencies/Rates			
EUR/USD	1.13435	+1.33%	+4.42%
EUR/CHF	1.10395	+0.72%	+1.52%
German 10 years	0.176	-29.27%	-72.21%
French 10 years	0.585	-5.53%	-40.42%

Economic releases :

Date	
12th-Feb	DE - CPI Jan (+0.5% E y/y) DE - GDP 4Q (1.4% E y/y, +0.3% q/q) GB - construction output Dec. (+0.8% E y/y) US - Advance retail Sales Jan. (0.1% E) US - Business inventories Dec. (+0.2% E) US - U. of Michigan Conf. (93 E)

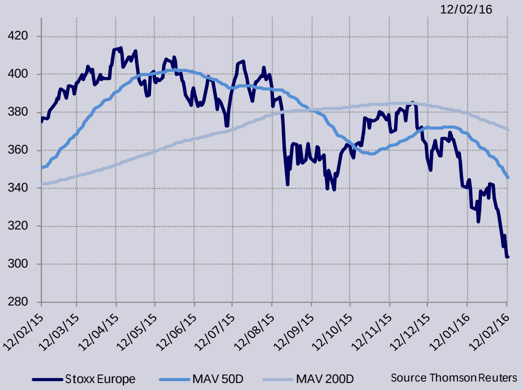
Upcoming BG events :

Date	
18th-Feb	INNATE (BG Paris roadshow with CEO)
2nd-Mar	ALBIOMA (BG Paris Lunch CEO)
10th-Mar/ 11th-Mar	BG TMT Conference
15th-Mar	ABLYNX (BG Paris roadshow with CEO)
18th-Mar	CNP (BG Paris roadshow with CEO, CFO)
23rd-Mar	EIFFAGE (BG Luxembourg with IR)

Recent reports :

Date	
11th-Feb	Pennon : At any price?
2nd-Feb	French toll roads: safe harbour in difficult times
1st-Feb	An aisle-end stock, but not a bargain
27th-Jan	Worldpay : An aisle-end stock, but not a bargain
25th-Jan	BioTechnology Last mark down on biotech!
20th-Jan	SAINT GOBAIN : France likely to be a positive catalyst in 2016

List of our Reco & Fair Value : Please click here to download



ADIDAS GROUP — BUY, Fair Value EUR104 vs. EUR102 (+17%)

FV adjusted to EUR104 vs. EUR102 following a more upbeat FY16 sales guidance

The better-than-expected top line growth in Q4 (BG: +12%e FX-n vs. CS of 9-10%e) enabled ADS to achieve 10% FX-n over 2015, beating its own target of a high single-digit increase. Like in the first 9M, the main driver was adidas brand (+14%e in Q4 and +12% in 2015) thanks to strong double-digit growths in Western Europe, Greater China, MEAA and in Latin America. Against this solid performance, ADS expects this momentum to remain in 2016, hence the increased sales guidance (double-digit growth vs. high single-digit initially) whilst earnings targets are reiterated. We revise up our top line assumption by ~2pp (+3pp FX-n) which leads to our new FV of EUR104 vs. EUR102.

PERNOD RICARD — BUY-Top Picks, Fair Value EUR117 vs. EUR122 (+26%)

This was clearly an overreaction

China disappoints. The group said that its value depletions were down 4-5% in H1, in line with last year, and continues to expect this trend over the remainder of the year. The market was clearly expecting a more positive outlook from the management following Rémy Cointreau's comments on January 21st. But elsewhere there were good news. In the United States, the underlying performance of Pernod Ricard is improving and the gap with the market is narrowing. This is driven by Absolut: its value depletions were only down 1% in H1 2015/16 (Nielsen data) vs -3.2% in 2014/15. Our Fair Value is cut to EUR117 only due to FX. Buy recommendation maintained.

TEMENOS GROUP — BUY, Fair Value CHF53 vs. CHF52 (+26%)

FY15 operating profit in line; no surprise on FY16 guidance with strong visibility

We reiterate our Buy rating and revise our DCF-derived fair value to CHF53 from CHF52, as we increase our adj. EPS ests. by 1% and adjust our WCR assumptions. Yesterday evening, Temenos reported for FY15 a non-IFRS op. profit in line with expectations with sales 2% above our ests. FY16 guidance is in line with our forecasts, driven by strong visibility. We expect the share price to react positively.

UBISOFT — BUY, Fair Value EUR34 vs. EUR37 (+63%)

FY guidance "Assassinated" = yummy food for Vivendi?

Fiscal Q3 sales came out 6% below the guidance, mainly because of the underperformance of Assassin's Creed. The group downgraded its FY15/16 guidance (from stable sales to -7% Y/Y and from non-IFRS EBIT of at least EUR200m to ~EUR150m) and its first FY16/17 target in non-IFRS EBIT is 7% below the consensus (~EUR230m vs. cons. of EUR247m, there will be no new Assassin's Creed game). We maintain our BUY rating because we believe in the speculation surrounding the stock (Vivendi now owns close to 15% of the share capital vs. 11.52% before) but we have adjusted downwards our FV from EUR37 to EUR34 (explained by the cut of 9.5% in our FY16/17 EPS). The share will certainly be under pressure at the opening and, as a result, could offer a "yummy food" for Vivendi.

LUXOTTICA — BUY, Fair Value EUR65 (+32%)

Bienvenue en France! New partnership between Sunglass Hut and Galeries Lafayette

Following the successful partnership between Macy's and Sunglass Hut in the US since 2009, Luxottica announced yesterday an exclusive agreement to open Sunglass Hut corners in 56 Galeries Lafayette department stores across France and in the BHV/Marais in Paris by the end of 2016. This announcement is consistent with the group's strategy to expand in fast-growing channels (travel retail, department stores) and marks the beginning of a retailing activity in France. Besides the (limited) financial impact, this new partnership proves that the remaining senior management team continues to follow the group's roadmap irrespective of the third management "shake-up".

L'ORÉAL — BUY, Fair Value EUR182 (+24%)

Stronger-than-expected sales growth in Q4; moderate EBIT margin improvement

L'Oréal 2015 results are slightly above market expectations, with FY 3.9% organic sales growth (consensus: +3.7%), implying +4.2% in Q4 alone after +3.7% in Q3 and with 10bp EBIT margin gain to 17.4% (consensus: 17.5%). Dividend up 14.8% to EUR3.1. Ahead of this morning's analyst meeting, we maintain our Buy recommendation with an unchanged EUR182 FV.

MATERIALS

Imerys 2015 operating results in line with consensus; margin resilience, but modest visibility

Imerys reported unsurprising figures last night. Sales are up 10.8% at EUR4087m, in line with consensus (IBES). Like-for-like growth continue to be modest at -4.6%, mainly penalized by a -5.9% volumes decline, with no recovery in Q4 (-5.1%) despite reasonable comp base..

VIDEO GAMES

US packaged software sales in January

The NPD Group has released data for January's packaged video games sales in the US. Hardware sales were down 15% Y/Y (the PS4 was again the top-selling console). Packaged software was down 10% (vs. BG ests: -4%e), 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. We are making no change to ratings for our sector coverage: Buy UBISOFT with a FV of EUR34 (vs. EUR 37: see our dedicated paper this morning) and GAMELOFT with a FV of EUR6.7. Our FVs reflect minimum prices for potential public offers.

Luxury & Consumer Goods

adidas Group

Price EUR89.05

FV adjusted to EUR104 vs. EUR102 following a more upbeat FY16 sales guidance

Fair Value EUR104 vs. EUR102 (+17%) **BUY**

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	95.6 / 63.6
Market Cap (EURm)	18,631
Ev (BG Estimates) (EURm)	19,550
Avg. 6m daily volume (000)	1 198
3y EPS CAGR	19.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.4%	-0.8%	24.8%	-1.0%
Consumer Gds	-5.7%	-13.9%	-12.8%	-11.8%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,534	16,864	18,226	19,470
% change		*16.0%*	*8.1%*	*6.8%*
EBITDA	1,205	1,452	1,631	1,851
Reported EBIT	961.0	1,065	1,212	1,403
% change		*10.8%*	*13.8%*	*15.7%*
Net income	490.0	644.2	809.3	942.4
% change		*31.5%*	*25.6%*	*16.4%*

	2014	2015e	2016e	2017e
Rep. EBIT margin	6.6	6.3	6.6	7.2
Net margin	3.4	3.8	4.4	4.8
ROE	8.7	12.0	15.5	16.4
ROCE	9.7	10.8	12.2	13.6
Gearing	3.3	17.1	26.3	19.5

(EUR)	2014	2015e	2016e	2017e
EPS	2.72	3.33	4.01	4.67
% change	-	*22.5%*	*20.2%*	*16.4%*
P/E	32.7x	26.7x	22.2x	19.1x
FCF yield (%)	0.6%	0.9%	2.6%	3.5%
Dividends (EUR)	1.50	1.60	1.85	2.15
Div yield (%)	1.7%	1.8%	2.1%	2.4%
EV/Sales	1.3x	1.2x	1.1x	1.0x
EV/EBITDA	15.6x	13.5x	12.3x	10.7x
EV/EBIT	19.6x	18.4x	16.5x	14.1x

The better-than-expected top line growth in Q4 (BG: +12%e FX-n vs. CS of 9-10%e) enabled ADS to achieve 10% FX-n over 2015, beating its own target of a high single-digit increase. Like in the first 9M, the main driver was adidas brand (+14%e in Q4 and +12% in 2015) thanks to strong double-digit growths in Western Europe, Greater China, MEAA and in Latin America. Against this solid performance, ADS expects this momentum to remain in 2016, hence the increased sales guidance (double-digit growth vs. high single-digit initially) whilst earnings targets are reiterated. We revise up our top line assumption by ~2pp (+3pp FX-n) which leads to our new FV of EUR104 vs. EUR102.

ANALYSIS

- **A strong end to the year at the top line level (+12%e FX-n).** By brand, **adidas** grew by 14% FX-n (in line with Q3) boosted by the "usual suspects" (i.e. Western Europe, Greater China, MEEA at Latin America). The double-digit growth achieved in **Latin America** was broad-based between Argentina, Colombia, Chile, etc. which have more than offset softer trends in Brazil. Trends have accelerated in **North America**, mainly driven by Lifestyle whilst the ramp up of U.S sport categories and Running will mostly play positively in 2016. **Reebok** registered its eleventh consecutive quarter of growth (+5%e) despite the ongoing rationalisation of the US outlet store network.

- **Golf: slight decline expected in Q4 but no worries (yet).** We anticipate 4% FX-n decrease for Q4, which might appear as a concern following the 6% increase in Q3 and in light of the 19% FX-n increase achieved by Callaway (product launches) over Q4 but we remember that at Q3 results conference call, management insisted that TaylorMade was now cautiously monitoring sell out trends to avoid any excess inventory. The golf division continues to restructure the business and we remind investors that the strategic review on the golf business should be completed by Q1 16.

- **Minor adjustments to our FY15 earnings estimates.** **Marketing efforts** appear to have accelerated further in Q4 since brand-building investments were up over 20% over 2015 (vs. +19% in the first 9M), which is justified by significant promotional campaigns in the US and to support the robust momentum in Lifestyle, particularly considering the launch of the fifth footwear franchise (NMD). This leads us to nudge down our FY15 EBIT forecast by 2%, representing a 6.5% adjusted operating margin (vs. 6.6% previously). As the group could not benefit from deferred tax assets from TMaG, it provoked this temporary higher-than-expected **tax rate** of 32.9% (CS at 32.2%), which should come back to more normative levels in 2016 (30-30.5%).

- **Implications on our FY16 assumptions.** Following the sales guidance increase yesterday (double-digit growth vs. high single-digit initially), we are now anticipating a 10% FX-n for 2016 vs. ~7% previously, partly offset by a more adverse FX headwind (~2%). We expect double-digit increases in Western Europe, Greater China and in MEAA whilst we remain more conservative with regards to North America (+8% vs. double-digit growth guided by ADS) and we anticipate 7% growth in Latin America thanks to the Summer Olympics in Rio and the other countries (Mexico, Argentina, Colombia, etc.). As for the profitability, the operating profit guidance was reiterated ("at least stable vs. 2015") since the GM headwinds (labour cost inflation, unfavourable USD hedging rates) will be compensated by a positive operating leverage.

VALUATION

- Whilst a positive momentum was partly anticipated by investors given a solid 2015 performance and ahead of two major sporting events occurring this year, they will now look closely at improvements made by adidas in North America which should be a key catalyst for the stock.

- Following a 2% adjustment to our FY16 sales assumption, we increase our FV to EUR104 vs. EUR102. Buy recommendation reiterated.

NEXT CATALYSTS

- adidas Group will release its FY15 Results on 3rd March 2016.

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Food & Beverages

Pernod Ricard

Price EUR92.89

Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	117.3 / 88.3
Market Cap (EUR)	24,655
Ev (BG Estimates) (EUR)	33,365
Avg. 6m daily volume (000)	588.1
3y EPS CAGR	5.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.4%	-13.8%	-12.9%	-11.7%
Food & Bev.	-4.3%	-11.0%	-5.6%	-8.9%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	8,794	8,894	9,309
% change		*2.8%*	*1.1%*	*4.7%*
EBITDA	2,456	2,658	2,678	2,806
EBIT	2,238	2,306	2,340	2,471
% change		*3.0%*	*1.4%*	*5.6%*
Net income	1,329	1,400	1,451	1,566
% change		*5.3%*	*3.7%*	*7.9%*

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	26.2	26.3	26.5
Net margin	10.1	15.2	15.6	16.1
ROE	6.6	9.6	9.8	10.0
ROCE	8.8	11.1	11.1	11.5
Gearing	67.9	61.7	58.2	52.5

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.26	5.45	5.88
% change	-	*5.4%*	*3.7%*	*7.9%*
P/E	18.6x	17.7x	17.0x	15.8x
FCF yield (%)	4.7%	4.3%	4.6%	5.0%
Dividends (EUR)	1.80	1.91	1.98	2.14
Div yield (%)	1.9%	2.1%	2.1%	2.3%
EV/Sales	3.9x	3.8x	3.7x	3.5x
EV/EBITDA	13.7x	12.6x	12.3x	11.6x
EV/EBIT	15.0x	14.5x	14.1x	13.2x

This was clearly an overreaction

Fair Value EUR117 vs. EUR122 (+26%) **BUY-Top Picks**

China disappoints. The group said that its value depletions were down 4-5% in H1, in line with last year, and continues to expect this trend over the remainder of the year. The market was clearly expecting a more positive outlook from the management following Rémy Cointreau's comments on January 21st. But elsewhere there were good news. In the United States, the underlying performance of Pernod Ricard is improving and the gap with the market is narrowing. This is driven by Absolut: its value depletions were only down 1% in H1 2015/16 (Nielsen data) vs -3.2% in 2014/15. Our Fair Value is cut to EUR117 only due to FX. Buy recommendation maintained.

ANALYSIS

- **China disappoints.** The group posted 2% organic sales decline in the country in H1, a strong improvement vs Q1 (-9%) and implying a return to positive territory in Q2. This drove 8.8% organic sales growth in Asia/ROW over the quarter, well ahead of the market expectations (+3.1%). **The group said that its value depletions were down 4-5% in H1, in line with last year, and expects this trend to continue over the remainder of the year (no change from what the group said at the release of its full-year results). The market was clearly expecting a more positive outlook from the management following Rémy Cointreau's comments on January 21st.** As a reminder, this group reported high-single-digit/low-double-digit growth in value depletions over the past quarter and mentioned an overall improvement of the consumption environment. **One possible explanation of Pernod Ricard's difficulties in China is the tougher comparison base it is facing vs its competitors.** The group posted a much better performance than its peers last year. **We maintain our estimate of 4% organic sales decline in China in 2015/16, in line with the current depletions trend.**

- **The US was the bright spot in this release.** Sales growth moderated in Q2 after a positive shipment phasing effect in Q1. But the spirits market is well oriented, with its value growth estimated at +5%. **The underlying performance of Pernod Ricard is improving and the gap with the market is narrowing. This is driven by Absolut: its value depletions were only down 1% in H1 2015/16 (Nielsen data) vs -3.2% in 2014/15**. **The core brand (75% of the brand's sales in the US) even stabilized.** This is the result of all the initiatives taken by the group: increase in the dedicated salesforce (x3), new packaging, adjustment in pricing, increase in A&P expenditures. The group is well on track in its plan to stabilize the brand medium term. **The two key whiskies in the US market continued to perform strongly in H1: Jameson +24% and the Glenlivet: +9% (Nielsen data).**

- **Better in Europe. The region came back into negative territory due to technical effec**ts. Sales in Russia dropped 6% in H1 on tough comps (overshipments in Q2 2014/15).The merger of the back offices between Pernod and Ricard at the end of 2014/15 negatively impacted France in H1. These two markets should stabilize over the remainder of the year. **The underlying trend is improving in the West. The UK and Germany are showing good momentum. Spain accelerated vs 2014/15 (+2%). Restated for the merger of the back offices, France would have dropped only 1**%. This appears to be a good performance given that the market saw a 30% decline in the on-trade channel due to the terror attacks in November.

- **Cut in estimates due to FX**. Our organic forecasts are broadly unchanged. In organic terms, we expect 2.7% organic sales growth in 2015/16 and a stable EBIT margin. **We decrease our EBIT estimates by 2% in 2015/16 and 4.5% in 2016/17 due to FX. Our Fair Value is revised downwards from EUR122 to EUR117.**

VALUATION

- At yesterday's share price, the stock is trading at 14.5x EV/EBIT 2015/16 and 14.1x EV/EBIT 2016/17, 12% and 9% below the peers' average.

NEXT CATALYSTS

- EMEA conference call on March 14th / Q3 2015/16 on April 21st

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TMT

Temenos Group

Price CHF42.10

FY15 operating profit in line; no surprise on FY16 guidance with strong visibility

Fair Value CHF53 vs. CHF52 (+26%) **BUY**

Bloomberg	TEMN SW
Reuters	TEMN.SW
12-month High / Low (CHF)	52.0 / 29.3
Market Cap (CHF)	2,805
Ev (BG Estimates) (CHF)	2,939
Avg. 6m daily volume (000)	216.4
3y EPS CAGR	23.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.0%	-11.0%	18.6%	-19.0%
Softw.& Comp.	-9.6%	-12.2%	-6.5%	-13.5%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (US$m)	2015	2016e	2017e	2018e
Sales	542.5	608.8	672.5	741.9
% change		*12.2%*	*10.5%*	*10.3%*
EBITDA	202	247	277	309
EBIT	156.6	197.5	225.6	255.8
% change		*26.2%*	*14.2%*	*13.4%*
Net income	115.7	154.0	179.4	206.8
% change		*33.1%*	*16.5%*	*15.3%*

	2015	2016e	2017e	2018e
Operating margin	28.9	32.4	33.5	34.5
Net margin	12.2	18.1	20.1	21.9
ROE	17.7	24.2	24.2	22.6
ROCE	22.3	29.0	36.1	45.6
Gearing	71.2	30.2	-3.0	-33.0

(US$)	2015	2016e	2017e	2018e
EPS	1.58	2.20	2.57	2.96
% change	-	*39.3%*	*16.5%*	*15.3%*
P/E	27.4x	19.6x	16.9x	14.6x
FCF yield (%)	5.1%	5.6%	6.5%	7.6%
Dividends (US$)	0.45	0.50	0.55	0.60
Div yield (%)	1.0%	1.2%	1.3%	1.4%
EV/Sales	5.8x	5.0x	4.3x	3.6x
EV/EBITDA	15.6x	12.2x	10.4x	8.6x
EV/EBIT	20.1x	15.3x	12.7x	10.3x

We reiterate our Buy rating and revise our DCF-derived fair value to CHF53 from CHF52, as we increase our adj. EPS ests. by 1% and adjust our WCR assumptions. Yesterday evening, Temenos reported for FY15 a non-IFRS op. profit in line with expectations with sales 2% above our ests. FY16 guidance is in line with our forecasts, driven by strong visibility. We expect the share price to react positively.

ANALYSIS

- **FY15 results: profit in line, sales ahead of expectations**. On a non-IFRS basis, FY15 sees sales up 19.3% (est. +12% lfl) to USD559m, with total software licensing (licence/SaaS/subscription) up 45% (+20% lfl) to USD214m (with +31% lfl in Q4), Maintenance up 7% lfl and Services up 6% lfl. Non-IFRS operating profit was up 22.8% to USD157m or 28.1% of sales (+0.8ppt), and non-IFRS EPS was up 20.1% to USD1.73. Revenues were 2% ahead of our USD548.5m est. and consensus (USD547m) and 1% above the top-end of company guidance (USD536-553m, o/w USD202-206m on total software licensing), driven by stronger-than-expected licence sales. Non-IFRS operating profit was in line with our forecast (USD157m or 28.6% of sales) and consensus (USD156.6m or 28.6% of sales) and at the top-end of company guidance (USD153-158m or 28.5% of sales) with some investment to prepare 2016. Operating cash conversion remained strong, at 133% of EBITDA (target >100%), with DSOs down 27 days (target: 10-15 days) to 154 days - down 30 days excl. acquisitions.
- **Other Q4 15 details**. 1). Performance in Q4 15 denoted strong momentum - new wins stood at 30, vs. 12 in Q4 14 - with Private Banking and Channels particularly strong, high levels of activity in Europe with large banks, Asia back to growth thanks to Wealth Management deals in mature countries, a solid build-up of key customer references in the US, and reduced dependence to emerging markets (22% of total software licensing vs. 46% in 2014); 2). Temenos believes it is gaining market share with strong win rates against all competition; 3). The Services gross margin was up 3.6ppt to 8.5% with a 24% contribution of Premium services to Service revenues, and partners are now involved in almost all implementations; 3). Multifonds, which was acquired in March 2015, exceeded financial targets for 2015 and has strong pipeline growth; 4). In the US, the company built a qualified pipeline of USD20m+ in H2 15.
- **FY16 guidance in line with market expectations**. For FY16, on a non-IFRS basis, Temenos forecasts revenues up 7.5-11% at cc to USD594-614m, total software licensing up 10-15% at cc to USD234-245m, and an operating margin up c.2ppt to c.30% (USD180-185m based on opex up 7% lfl to USD422m).We expected, on a non-IFRS basis, revenues of USD609.5m (consensus: USD604.1m) and an operating profit of USD183.7m or 30.1% of sales (consensus: USD182.5m or 30.2% of sales). Management considers it has its highest revenue visibility ever (80%) and is not concerned by Cognizant's bearish comments on Banking: 1). The renovation of core banking systems remains a strategic imperative for banks, and is not discretionary spend; 2). Compared to 2008, banks are well capitalised.
- **Revisiting medium-term targets**. Temenos now targets non-IFRS revenues up 10% per year (vs. +5%/+10% previously), total licensing up 15% per year (vs. up 15%+) and EPS up 15% per year. The non-IFRS operating margin is still expected to increase by 1-1.5ppt on average per year. Cash conversion is still expected to be above 100%, and DSOs to reduce by 10-15 days per year.

VALUATION

- Temenos' shares are trading at est. 15.3x 2016 and 12.7x 2017 EV/EBIT multiples.
- Net debt on 31st December 2015 was USD267.2m (net gearing: 71%).

NEXT CATALYSTS

Capital Markets Day today from 10am BST / 9am CET / 3am EDT in London.

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TMT

Ubisoft

Price EUR20.90

FY guidance "*Assassinated*" = yummy food for Vivendi?

Fair Value EUR34 vs. EUR37 (+63%) BUY

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YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	1,464	1,365	1,706	1,877
% change		*-6.7%*	*25.0%*	*10.0%*
EBITDA	650	585	730	853
EBIT	161.1	138.0	218.0	289.9
% change		*-14.4%*	*58.0%*	*32.9%*
Net income	103.1	83.1	141.0	190.5
% change		*-19.4%*	*69.7%*	*35.1%*

	03/15	03/16e	03/17e	03/18e
Operating margin	11.0	10.1	12.8	15.4
Net margin	5.9	5.9	8.3	10.2
ROE	8.9	7.6	11.7	13.7
ROCE	12.7	8.0	13.8	18.5
Gearing	-20.2	5.2	-13.5	-25.6

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	0.91	0.73	1.25	1.68
% change	-	*-19.4%*	*69.7%*	*35.1%*
P/E	23.0x	28.5x	16.8x	12.4x
FCF yield (%)	8.4%	NM	9.2%	8.2%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.5x	1.7x	1.3x	1.0x
EV/EBITDA	3.3x	4.1x	3.0x	2.3x
EV/EBIT	13.2x	17.2x	9.9x	6.8x

Fiscal Q3 sales came out 6% below the guidance, mainly because of the underperformance of *Assassin's Creed*. The group downgraded its FY15/16 guidance (from stable sales to -7% Y/Y and from non-IFRS EBIT of at least EUR200m to ~EUR150m) and its first FY16/17 target in non-IFRS EBIT is 7% below the consensus (~EUR230m vs. cons. of EUR247m, there will be no new *Assassin's Creed* game). We maintain our BUY rating because we believe in the speculation surrounding the stock (Vivendi now owns close to 15% of the share capital vs. 11.52% before) but we have adjusted downwards our FV from EUR37 to EUR34 (explained by the cut of 9.5% in our FY16/17 EPS). The share will certainly be under pressure at the opening and, as a result, could offer a "yummy food" for Vivendi.

ANALYSIS

- **Ubisoft's Q3 sales came out at EUR561.8m (-31% Y/Y, -36% at cc),** i.e. 6% below the guidance of EUR600m (consensus was probably close to this guidance) and slightly below our EUR565m (we highlighted many times the slow start of *Assassin's Creed: Syndicate* in the US). They reflect **laboured sales for *Assassin's Creed*** (because of the numerous bugs in the previous opus) and the underperformance of minor games (*Anno*, *Heroes*…), despite a record player engagement levels for *Raibow Six Siege* (probably in line with our est. but with deferred revenues), decent sales for *Just Dance 2016* (probably in line with our est.), the increasing part of digital revenues (27% of its 9-m sales vs. 21.2% in FY14-15) and a strong growth in the back-catalog (9m sales at +42.6% Y/Y).

- **The group slashed its FY15/16 guidance:** from stable sales to -7% Y/Y (i.e. ~EUR1,360m vs. cons. of EUR1,486.6m and our EUR1,486m) and non-IFRS EBIT from at least EUR200m to ~EUR150m (vs cons. EUR211.9m and our EUR214.9m), and still a negative FCF (but slightly negative or breakeven before WCR vs. positive initially). Fiscal Q4 should represent 43% of its FY revenue after 41% in Q3. **The main surprise for us comes from the downgrade in the non-IFRS EBIT guidance despite 1/ the positive currency effect (EUR/USD), and 2/ the launches of *Far Cry Primal*** (23rd Feb.) **and *The Division*** (8th March) **in fiscal Q4**. Indeed, we expected a high level of sell-in sales (i.e. sales to retailers) for this latter title (it has extremely good preorders) to meet the FY guidance.

- **First FY16/17 guidance:** Ubisoft expects ~EUR1,700m in sales i.e. +25% Y/Y (vs. cons. of 1,613.5m and our EUR1,634.6m), non-IFRS EBIT of ~EUR230m (vs. cons. of EUR246.7m and our EUR251.9m) and strong FCF generation (vs. our EUR160.7m). This should be achieved thanks to 5 AAA: *Watchdogs 2*, *Ghost Recon WildLands, For Honor*, *South Park the Fractured but Whole*, and a new "high-potential AAA brand with strong digital live services" (vs. we expected the following 5 names: *Watchdogs 2*, a new *Assassin's Creed*, *Far Cry 5*, *Ghost Recon Wildlands* and *For Honor*). Growth will also be driven by further increases in revenues for the digital segment (30% of FY sales) and of course the back catalog (*The Division* and *Far Cry Primal*). **We are not really surprised by the fact that *Assassin's Creed* will take a breather** (this rumour was launched early January by Kotaku, which is a reliable source: it had already revealed true details on the last 3 *Assassin's Creed* games). **However, we are disappointed that the *Assassin's Creed* movie** (in theatre on 21st Dec.) **is not accompanied by the release of a game** (even if good for the franchise in the long run).

VALUATION

- **We maintain our Buy rating and lower our FV from EUR37 to EUR34** (we value the entire 2013-19e cycle). **We have cut our FY16/17 EPS by 9.5%.** Note that our FV 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 digital revenues + other entertainment revenues).

- **We believe in the speculation surrounding the stock.** Vivendi's entry in the Guillemot's galaxy will certainly continue. It now owns close to 15% of Ubisoft's share capital (vs. 11.52% before) and 28.2% of Gameloft. **Without any speculation aspect, it would be hard for Ubisoft to really reassure at its investor day next week** (except in the case of very ambitious digital sales targets and perhaps the introduction of a future dividend distribution).

NEXT CATALYSTS

- **Investor day on 18th February (in London):** mid-term guidance (probably a 3-year horizon).
- **FY15/16 earnings results in May:** more details on the FY16/17 guidance.

Main financial items for 2014/15 to 2016/17e

EURm	14/15 reported	Cons. 2015/16	BG 15/16e (old)	BG 15/16e (new)	Cons. 2016/17	BG 16/17e (old)	BG 16/17e (new)
Sales	**1,463.8**	**1,486.6**	**1,486.0**	**1,365.0**	**1,613.5**	**1,634.6**	**1,706.3**
Y/Y change (%)	*45.3%*	*1.5%*	*1.5%*	*-6.7%*	*8.4%*	*10.0%*	*25.0%*
Non-IFRS EBIT	**170.7**	**211.9**	**214.9**	**150.0**	**246.7**	**251.9**	**230.0**
As % of sales	*11.7%*	*14.2%*	*14.5%*	*11.0%*	*15.3%*	*15.4%*	*13.5%*
IFRS EBIT after SO	**139.4**		**204.9**	**138.0**		**241.9**	**218.0**
As % of sales	*9.5%*		*13.8%*	*10.1%*		*14.8%*	*12.8%*
Attributable net profit	**87.0**	**129.7**	**125.0**	**80.8**	**154.8**	**155.9**	**141.0**
As % of sales	*5.9%*	*8.7%*	*8.4%*		*9.6%*	*9.5%*	*8.3%*
Adjusted net profit after SO	**103.1**		**127.3**	**83.1**		**155.9**	**141.0**
As % of sales	*7.0%*		*8.6%*	*6.1%*		*9.5%*	*8.3%*
Net cash	**197.7**		**127.7**	**-54.7**		**238.5**	**162.6**

Sources: Bryan, Garnier & Co ests.; last consensus from the company (02/12/15).

- **2015/16 guidance slashed:** from ~EUR1,465m (stable sales) to ~EUR1,360m (-7% Y/Y) and non-IFRS EBIT from at least EUR200m to ~EUR150m (margin of 11%), and still a negative FCF (but slightly negative or breakeven before WCR vs. positive initially).
- **First 2016/17 guidance:** ~EUR1,700m in sales (+25% Y/Y), non-IFRS operating income of ~EUR230m (margin of 13.5%) and strong FCF generation.

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Luxury & Consumer Goods

Luxottica

Price EUR49.40

Bienvenue en France! New partnership between Sunglass Hut and Galeries Lafayette

Fair Value EUR65 (+32%) **BUY**

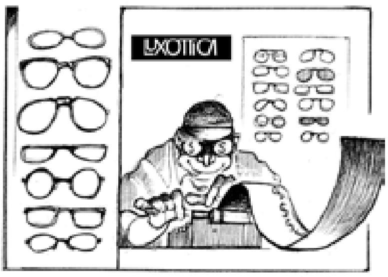
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.1
Market Cap (EURm)	23,893
Ev (BG Estimates) (EURm)	24,915
Avg. 6m daily volume (000)	814.0
3y EPS CAGR	15.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.3%	-23.2%	-24.7%	-18.2%
Consumer Gds	-5.7%	-13.9%	-12.8%	-11.8%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,837	9,550	10,209
% change		*15.5%*	*8.1%*	*6.9%*
EBITDA	1,542	1,891	2,113	2,303
Reported EBIT	1,158	1,421	1,580	1,734
% change		*22.7%*	*11.2%*	*9.7%*
Net income	642.6	843.7	967.9	1,078
% change		*31.3%*	*14.7%*	*11.4%*

	2014	2015e	2016e	2017e
Rep. EBIT margin	15.1	16.1	16.5	17.0
Net margin	8.4	9.5	10.1	10.6
ROE	13.1	16.7	17.6	18.0
ROCE	10.4	13.1	14.7	16.1
Gearing	20.6	20.2	10.4	1.6

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.76	2.02	2.25
% change	-	*21.7%*	*14.7%*	*11.4%*
P/E	34.2x	28.1x	24.5x	22.0x
FCF yield (%)	3.0%	3.4%	4.3%	4.8%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.5%	1.9%	2.1%	2.4%
EV/Sales	3.3x	2.8x	2.6x	2.3x
EV/EBITDA	16.2x	13.2x	11.6x	10.4x
EV/EBIT	21.5x	17.5x	15.5x	13.8x



Following the successful partnership between Macy's and Sunglass Hut in the US since 2009, Luxottica announced yesterday an exclusive agreement to open Sunglass Hut corners in 56 Galeries Lafayette department stores across France and in the BHV/Marais in Paris by the end of 2016. This announcement is consistent with the group's strategy to expand in fast-growing channels (travel retail, department stores) and marks the beginning of a retailing activity in France. Besides the (limited) financial impact, this new partnership proves that the remaining senior management team continues to follow the group's roadmap irrespective of the third management "shake-up".

ANALYSIS

- **Galeries Lafayette is France's leading department store chain.** In 2014, Galeries Lafayette generated retail sales of EUR3.6bn, split 50-50 between the Haussmann store in Paris and the other 55 stores across France. Interestingly, tourists account for half of Galeries Lafayette's sales in Paris, while Chinese customers represent 15% of this. As in the US or in other countries, department stores have become a key channel for premium and high-end brands, and fit perfectly with Sunglass Hut's positioning as the premium and luxury brand portfolio accounts for ~95% of its offering.

- **Sunglass Hut is entering the French market.** This exclusive agreement plans for the roll-out of SGH corners in the 56 Galeries Lafayette stores across the country, but also in the lifestyle concept department store BHV/Marais in Paris (total: 57 stores). As such, SGH will be the exclusive operator of sunglass corners since these will be managed and staffed by SGH to ensure a higher sales/sqm given its retail expertise. Thanks to this exclusive agreement, **Luxottica will start its first retailing activity in France which is already a key wholesale market for the Italian group (~3-4% of total sales).** SGH already has over 330 stores across Europe, mainly in Spain/Portugal, the UK/Ireland and Turkey.

- **Replicating the successful partnership with Macy's.** A partnership between Luxottica and Macy's has been in place since 2009 regarding Sunglass Hut. The speciality sun retailer has over 670 SGH locations within Macy's stores and **this successful collaboration has enabled the department store chain to triple the size of its sunglass business over the past six years.** Furthermore, this second collaboration might foreshadow future partnerships between Luxottica and other department store chains which hold a significant market share in the distribution of premium/luxury goods (e.g.: Japan, Mexico, South Africa, etc.) and are willing to diversify into eyewear (fast-growing category, high sales density and strong profitability, etc.).

- **Implications for our FY16-17 assumptions.** Admittedly this announcement has not prompted us us to change our forecasts at this stage. However, besides the numbers, the new deal reinforces our view that the remaining senior managers continue to follow the clear MT/LT roadmap and take advantage of any growth opportunities despite the departure of LUX's third CEO in 18 months. Hence **we believe this "governance crisis" should not affect the group's operating performance.** Moreover, the news also confirms that 2016 will be a busy year for the retail division in light of initiatives at LensCrafters (new store concept, partnership with Macy's) and a possible relaunch plan at OPSM in Australia.

VALUATION

- The share price was washed out by the significant market correction, aggravated by the unexpected resignation of Mr Khan. However we understand that most investors are less worried by possible impacts on operating performance than by question marks on governance and the future succession plan mentioned by Mr Del Vecchio in recent interviews. We hope that explanations and first answers to these issues will be provided at the Investor Day (2nd March). Buy recommendation and FV of EUR65 reiterated.

NEXT CATALYSTS

- FY 2015 results on 1st March / Investor Day in Turin on 2nd March.

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Luxury & Consumer Goods

L'Oréal

Price EUR146.70

Stronger-than-expected sales growth in Q4; moderate EBIT margin improvement

Fair Value EUR182 (+24%) **BUY**

Bloomberg	OR FP
Reuters	OREP.PA
12-month High / Low (EUR)	179.3 / 143.9
Market Cap (EUR)	82,152
Ev (BG Estimates) (EUR)	81,614
Avg. 6m daily volume (000)	773.3
3y EPS CAGR	7.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.2%	-13.6%	-15.5%	-5.5%
Pers & H/H Gds	-3.7%	-13.7%	-13.4%	-9.5%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	22,532	25,257	26,030	27,332
% change		*12.1%*	*3.1%*	*5.0%*
EBITDA	4,730	5,248	5,475	5,757
EBIT	3,890	4,388	4,595	4,857
% change		*12.8%*	*4.7%*	*5.7%*
Net income	3,128	3,491	3,645	3,864
% change		*11.6%*	*4.4%*	*6.0%*

	2014	2015e	2016e	2017e
Operating margin	17.3	17.4	17.7	17.8
Net margin	13.9	13.8	14.0	14.1
ROE	15.4	13.7	14.2	0.0
ROCE	20.7	22.4	22.5	22.8
Gearing	3.3	-2.3	-6.7	-10.4

(EUR)	2014	2015e	2016e	2017e
EPS	5.59	6.18	6.45	6.84
% change	-	*10.6%*	*4.4%*	*6.0%*
P/E	26.3x	23.7x	22.7x	21.4x
FCF yield (%)	3.3%	3.6%	3.7%	3.9%
Dividends (EUR)	2.70	3.10	3.35	3.65
Div yield (%)	1.8%	2.1%	2.3%	2.5%
EV/Sales	3.7x	3.2x	3.1x	2.9x
EV/EBITDA	17.5x	15.6x	14.7x	13.8x
EV/EBIT	21.3x	18.6x	17.5x	16.4x

L'Oréal 2015 results are slightly above market expectations, with FY 3.9% organic sales growth (consensus: +3.7%), implying +4.2% in Q4 alone after +3.7% in Q3 and with 10bp EBIT margin gain to 17.4% (consensus: 17.5%). Dividend up 14.8% to EUR3.1. Ahead of this morning's analyst meeting, we maintain our Buy recommendation with an unchanged EUR182 FV.

ANALYSIS

- **FY 2015 L'Oréal sales reached EUR25.26bn (consensus: 25.1bn), up 12.1% and 3.9% organically (consensus:+3.7%).** FX had a 7.2% positive impact on 2015 sales. **Cosmetics branch** sales grew 4.1% organically last year (consensus:+3.7%) of which +4.8% in Q4 alone (cs:+3.9%) following +3.8% in Q3 and 9M. By geographic area, it is worth noting the 3.5% increase in **North America** (27% of sales) of which +5% in Q4 following +3% on 9m and +3.8% in Q3, a clear acceleration in Q4. Even **Western Europe** (33% of sales) achieved a healthy performance (+2.3% on FY including +2.7% in Q4 after +2.5% in Q3) despite a more demanding comparison basis in Q4. In **New Markets** (40% of sales), revenues increased 6% on FY, implying +6.5% in Q4 after +4.8% in Q3 and +5.8% on 9M. Within New Markets area, we want to highlight the momentum recovery in Asia-Pacific (22% of sales) in Q4 (+5.5% after +3.3% in Q3) and in Eastern Europe (+10.8% following +9.4% in Q3) while momentum in LATAM remained under pressure (+2.2% versus +5.9% in Q3).

- **Within the cosmetics branch, by division,** the best performer in 2015 has been the **Active Cosmetics (7.5% of sales)** activity with a 7.8% revenues growth (+9.9% in Q4). This division outperformed its market and did particularly well in New Markets (Asia and LATAM). On the other hand, **Consumer Products** (48% of sales) sales grew no more than 2.5% last year (despite some recovery in H2) which is disapointting as the market increased almost by 4%, this implies that this division is the only one within the group to loose market shares and for the second consecutive year. **Professional Products** and **Luxury products** grew respectively 3.4% and 6.1% in 2015, which implies for both division market share gains. LPD sales momentum even accelerated in Q4 (+6.8%) vs Q3 (+4.2%), despite tougher environment (negative impact of Paris tragic events in November).

Quarterly Cosmetic sales organic sales growth by division and geographical area

Chge in %	H1 15	Q3 15	9M 15	Q4 15	2015
Western Europe	1.9	2.5	2.1	2.7	2.3
North America	2.7	3.8	3.0	5.0	3.5
New markets	6.3	4.8	5.8	6.5	6.0
Professionnal Products	3.5	2.5	3.2	4.0	3.4
Consumer Products	1.9	3.3	2.3	3.1	2.5
Luxury Products	6.7	4.2	5.8	6.8	6.1
Active Cosmetics	7.1	8.0	7..3	9.9	7.8
Cosmetics branch	**3.8**	**3.8**	**3.8**	**4.8**	**4.1**

Source : Company Data; Bryan Garnier & Co. ests.

- **L'Oréal 2015 EBIT reached EUR4.39bn (consensus: EUR4.39bn) and grew 12.8%**, implying a "moderate" 10bp profitability gain, in line with initial management guidance! In H2 alone, EBIT margin gained 20bp after after having declined 10bp in H1. Gross margin gained 10p to 71.2%, despite negative FX moves (lower weight of EUR). On the other hand, A&P costs remained under control (stable at % of sales) thanks to higher weight of digital investments. (see table below). Lastly SG&A costs increased 10bp to 21.5%, consequence of some recent acquisitions as Carita and Decléor.

- **The EBIT margin improvement came from luxury Products division** (+20bp to 20.7%) thanks to dynamic sales momentum and from Active Cosmetics (+20bp). Professional Products lower profitability (-10bp) is explained by Decléor and Carita first consolidation. CPD profitability declined 20bp to 20.1%. By geographical area,, it is worthnoting the profitability improvement in NA (+20bp to 18.9%) and in NM (+10bp to 19.7%), while it is stable in WE (22.7%).

VALUATION

- The stock is trading 17.5x 2016 EV/EBIT.

NEXT CATALYSTS

- Analyst meeting today at 9am.

P&L summary

EURm	2014	2015	chge %
Sales	**22,532**	**25,257**	**12.1**
Gross Profit	16,031	17,981	12.2
as % of sales	*71.1*	*71.2*	*10*
Research & Development	-761	-794	4.4
as % of sales	*3.4*	*3.1*	*-30*
Advertising & Promotion	-6,559	-7,359	12.1
as % of sales	*29.1*	*29.1*	*=*
SG&A	-4,821	-5,439	12.9
as % of sales	*21.4*	*21.5*	*10*
EBIT	**3,890**	**4,388**	**12.8**
as % of sales	*17.3*	*17.4*	*10*

Source : Company Data; Bryan Garnier & Co. ests.

Cosmetic branch EBIT margin by division

in %	2014	2015	chge bp
Professional Products Division	20.1	20.0	-10
Consumer Products Division	20.3	20.1	-20
Luxury Products Division	20.5	20.7	20
Active Cosmetics Division	22.7	22.8	10
Cosmetic branch	**20.5**	**20.5**	**=**

Source : Company Data; Bryan Garnier & Co. ests.

Cosmetic branch EBIT margin by geographical

in %	2014	2015	chge bp
Western Europe	22.7	22.7	=
North America	18.7	18.9	20
New markets	19.6	19.7	10
Cosmetic branch	**20.5**	**20.5**	**=**

Source : Company Data; Bryan Garnier & Co. ests.

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Sector View

Materials

Imerys 2015 operating results in line with consensus; margin resilience, but modest visibility

	1 M	3 M	6 M	31/12/15
Cons & Mat	-9.4%	-16.1%	-18.7%	-15.2%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

*Stoxx Sector Indices

Companies covered

CRH		**BUY**	**EUR30**
Last Price	EUR21.15	*Market Cap.*	EUR17,409m
HEIDELBERGCEMENT		**BUY**	**EUR86**
Last Price	EUR60.62	*Market Cap.*	*EUR11,391m*
LAFARGEHOLCIM		**SELL**	**CHF60**
Last Price	CHF34.06	*Market Cap.*	*CHF20,671m*
SAINT GOBAIN		**BUY**	**EUR42**
Last Price	EUR32.07	*Market Cap.*	*EUR17,989m*
VICAT		**NEUTRAL**	**EUR56**
Last Price	EUR48.045	*Market Cap.*	*EUR2,157m*

Imerys reported unsurprising figures last night. Sales are up 10.8% at EUR4087m, in line with consensus (IBES). Like-for-like growth continue to be modest at -4.6%, mostly penalized by a -5.9% volumes decline, with no recovery in Q4 (-5.1%) despite reasonable comp base. Current EBIT increase by 8.8% at EUR538m, and margin is rather resilient at 13.2%, down 20bps only. Visibility remains modest for 2016, however. EUR1.75 dividend proposed. Analyst meeting at 11.00 today.

Revenues increased by +10.8% (-4.6% like-for-like) at EUR4087m. Q4 revenues are down -5.1%, despite relatively easy comparison basis (0.1% organic growth in Q4 2014). Current operating margin remains under some pressure, at 13.2% for the FY (-20bps), with Q4 profitability at 12.9% (-30bps). Current net profit increased by 8% at EUR342m, 3% above IBES consensus.

Imerys has been penalized by a very difficult environment in 2015. Oil&Gas, steel, construction (in France) or paper markets have been difficult, but automotive or consumer goods have been well oriented or resilient, for instance. These two market segments explain the good performance of the Performance Additives and Filtration division, which is the only division with positive organic growth in Q4 (+2.7%).

A EUR209m impairment charge has been recorded on Oilsfield Solution division (part of Energy Solutions & Specialties) due to the difficulties related to the ceramic proppants. This amount can be compared with the approx. USD500m (~EUR450m) assets in the balance sheet related to proppants at end September.

Key figures in 2015 by division

EURm	Revenues	organic growth	Current EBIT	Margin %	Change bps
Energy Solutions &	1253	-6.6	120	9.6	-210
Filtrations & Performance	1082	2.2	178	16.5	-70
Ceramic Materials	1172	-4.2	210	17.9	-30
High Resistance Minerals	629	-8.0	82	13.0	170
Total	**4087**	**-4.6**	**538**	**13.2**	**-20**

Source : Company Data; Bryan Garnier & Co. ests.

ANALYSIS

- Decent performance for Imerys in 2015, despite numerous headwinds. In particular, the group current operating margin decline is limited, despite significant volumes decline.
- 2016 will benefit from easy comparison basis (proppants business in particular), the ramp-up of S&B, acquired end February 2015 (as well as other acquisitions concluded in Q4 last year for approx. EUR140m of additional sales impact) and presumably better construction trends in France. Unfortunately, global macro environment is likely to remain difficult, in particular in Emerging markets (27% of revenues in 2015).

Performance in 2015 by quarter

%	Q115	Q215	Q315	Q415	FY15
l-f-l sales growth	-4.5	-3.3	-5.6	-5.1	-4.6
o/w volumes	-5.9	-4.8	-6.5	-6.2	-5.9
o/w prices	1.3	1.5	0.9	1.1	1.3
EBIT margin	12.7	13.9	13.1	12.9	13.2
change in bps	-30	-10	-40	-30	-20

Source : Company Data; Bryan Garnier & Co. ests.

VALUATION

- Current traded at 7.2x EV/EBITDA 2016e and 6.5x 2017e, according to IBES.

NEXT CATALYSTS

- Q1 2015 results on 29th April

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Sector View

Video Games

US packaged software sales in January

	1 M	3 M	6 M	31/12/15
Softw.& Comp. SVS	-9.6%	-12.2%	-6.5%	-13.5%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

*Stoxx Sector Indices

Companies covered

GAMELOFT		**BUY**	**EUR6.7**
Last Price	EUR4.78	*Market Cap.*	EUR409m
UBISOFT		**BUY**	**EUR34 vs.37**
Last Price	EUR20.895	*Market Cap.*	*EUR2,324m*

The NPD Group has released data for January's packaged video games sales in the US. Hardware sales were down 15% Y/Y (the PS4 was again the top-selling console). Packaged software was down 10% (vs. BG ests: -4%e), 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. We are making no change to ratings for our sector coverage: Buy UBISOFT with a FV of EUR34 (vs. EUR 37: see our dedicated paper this morning) and GAMELOFT with a FV of EUR6.7. Our FVs reflect minimum prices for potential public offers.

ANALYSIS

- **On Thursday night, the NPD Group released its monthly sales report for January's packaged video games in the US** (4-week period ending on 30th 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 4% over one year at USD605.2m: 1/ Hardware -15% Y/Y at USD157.0m**. The PS4 was again this month the best-selling platform in the US. **2/ Software -9.7% Y/Y at USD212.7m**, i.e. below our -3.8%e (no consensus). Activision Blizzard's *Call of Duty: Black Ops III* was the top-selling game. **3/ Accessories +15% Y/Y at USD235.5m**, mainly thanks to peripherals, interactive toys, points, subscription cards sales.
- **Worth noting on the software side: 1/** a fairly unfavourable base effect (+6% in Jan. 2015); **2/** the continuing sales of strong November's game release slate (Activision Blizzard's *Call of Duty: Black Ops III* was the top-selling game of the month for the third time in a row); **3/** part of the 10% decline stemmed from a dearth of new launches this month compared to last year; **4/** the softness from the performance of Q4 launches in January, which were down 19% from last year's Q4 launches; **5/** 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.

VALUATION

- **UBISOFT: We maintain our Buy rating and cut our FV from EUR37 to EUR34** (we value the entire cycle). See our dedicated paper on Ubisoft.
- **GAMELOFT: We maintain our Buy rating and FV of EUR6.7** (we value the entire cycle).
- Our FVs reflect **minimum prices for potential public offers**.

NEXT CATALYSTS

- **UBISOFT: Investor day:** 18th February (in London).
- **GAMELOFT: FY15 earnings results**: 21st March, 2016 (after trading).

Top ten selling games in January 2016 by platform in the US

Rank	Games	Consoles	Publisher
1	*Call of Duty: Black Ops III*	*Xbox One, PS4, 360, PS3, PC*	Activision Blizzard
2	*Grand Theft Auto V*	*PS4, Xbox One, 360, PS3, PC*	Take-Two Interactive
3	*NBA 2K16*	*PS4, Xbox One, 360, PS3*	Take-Two Interactive
4	*Star Wars: Battlefront*	*Xbox One, PS4, PC*	Electronic Arts
5	*Fallout 4*	*PS4, Xbox One, PC*	Bethesda Softworks
6	*Minecraft*	*360, Xbox One, PS4, PS3*	Microsoft
7	*Tom Clancy's Rainbow Six: Siege*	*Xbox One, PS4, PC*	Ubisoft
8	*Madden NFL 16*	*PS4, Xbox One, 360, PS3*	Electronic Arts
9	*Lego: Marvel Avengers*	*PS4, Xbox One, 360, Wii U, PS3, 3DS, Vita*	Warner Bros. Interactive
10	*FIFA 16*	*PS4, Xbox One, 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.
- Electronic Arts was the publisher of the month, with 3 titles in the TOP 10 (#4, 8 and 10).
- Ubisoft ranked 1 game in January (*Rainbow Six: Siege* #7).

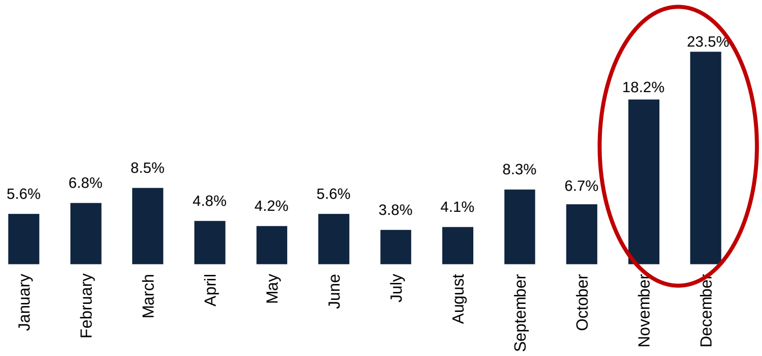
Y/Y % change in retail software sales in the US from 2000 to 2016 (in value, at constant scope)

%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	2	16	4	0	18	0	-5	53	12	10	-12	-5	-38	1	-25	6	-10
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	
Septembe	-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 10% in January (vs. BG est.: -3.8%e).
- Physical sales account for 50%e of the US consumer spend on the industry (35-40%e in Europe).

Average US retail software contribution in FY sales per month, over 2009/15



Sources: NPD Group; Bryan, Garnier & Co.

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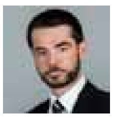

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 61.9% NEUTRAL ratings 28.4% SELL ratings 9.7%

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