

Gameloft

Price EUR5.48

Vivendi launches a hostile takeover bid on Gameloft at EUR6 per share

Fair Value EUR6.7 (+22%)

BUY

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	6.4 / 3.2
Market Cap (EUR)	468
Ev (BG Estimates) (EUR)	439
Avg. 6m daily volume (000)	323.6
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.3%	-0.2%	47.7%	-9.6%
Softw. & Comp.	-0.4%	-6.2%	1.9%	-7.0%
DJ Stoxx 600	0.1%	-13.3%	-15.3%	-10.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	227.3	256.2	269.0	287.8
% change		12.7%	5.0%	7.0%
EBITDA	13.7	7.8	46.4	56.8
EBIT	-4.2	-3.0	28.0	34.9
% change		29.1%	NS	24.7%
Net income	-5.9	-16.8	19.2	24.8
% change		NS	NS	29.4%

	2014	2015e	2016e	2017e
Operating margin	-1.8	-1.2	10.4	12.1
Net margin	-2.8	-8.9	6.6	8.6
ROE	-4.6	-19.7	13.4	15.7
ROCE	-3.5	-2.5	21.6	24.6
Gearing	-38.6	-25.1	-30.3	-36.0

(EUR)	2014	2015e	2016e	2017e
EPS	-0.07	-0.19	0.22	0.28
% change	-	NS	NS	29.4%
P/E	NS	NS	25.3x	19.5x
FCF yield (%)	NM	NM	3.9%	5.0%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.8x	1.7x	1.6x	1.4x
EV/EBITDA	30.2x	56.4x	9.2x	7.2x
EV/EBIT	NS	NS	15.3x	11.8x

As we expected, Vivendi has taken the wise decision of launching a takeover bid on Gameloft rather than a creeping control. However, the EUR6 per share offer is below our EUR6.7 that we consider as a minimum price to convince shareholders to tender their securities. We continue to believe in the speculation surrounding both video game companies run by the Guillemot brothers. The hostile takeover bid on Gameloft (buy, FV of EUR6.7) is a first phase to force a discussion with the Guillemot family and finally come to a friendly takeover on Ubisoft (Buy, FV of EUR34). But to succeed, we believe Vivendi has to be more generous if it really wants to add a 5th pillar to its French media group.

ANALYSIS

- **Yesterday after trading, Vivendi declared that it has crossed the 30% mandatory bid threshold** fixed by the regulator (30,01% of the capital and 26.72% of the voting rights compared to 18.99% of and 27.26% for the Guillemot family). As a result, the media company launches a **hostile takeover bid on 100% of GFT's capital at EUR6.0/share** (+50.4% vs. the share price prior to Vivendi being a shareholder, and +22.9% over the weighted average share price over the past 6 months), i.e. an EV/sales of 1,7x on average over the next 2 years. Following this unsolicited public offer, Gameloft stated that a meeting of its Board of Directors has been convened for next week. As a reminder, **we play the speculation and see our FV of EUR6.7 as a minimum to really convince investors to tender their shares.**
- **We maintain our view:** our scenario was that Vivendi could try for takeover bids on Gameloft and Ubisoft. **On Gameloft in the short term** (in mobile gaming a hostile takeover is possible as the success is not linked to a few key developers) to force Ubisoft to enter into discussions and convince the Guillemot family that there are synergies and that they can be partners. **And finally on Ubisoft**, but for this latter it has to be friendly (in the console gaming industry, some developers are stars and they generally prefer to build up their own studios than be bought by a raider), so Vivendi has to be generous in terms of price (we see our FV of EUR34 as a minimum).
- **We believe Vivendi really wants to add a 5th main pillar to its French media group: 1/ Canal+ (TV), 2/ Studiocanal (movie), 3/ Universal Music Group (music), 4/ Dailymotion (Internet), and 5/ Ubisoft/Gameloft** (video games is the only production field where Vivendi was not already positioned). The recent moves from Vivendi (in UBI and GFT) and Activision Blizzard (in mobile gaming via King Digital + in film and TV via its own production studio) highlight the **themes of dematerialisation and convergence between platforms in the whole entertainment industry.** They offer visibility in a sector with a traditionally very short-term vision.
- **As a reminder, our scenario was that Vivendi would make a public tender offer both names: first on Gameloft in the short term** (hostile or friendly, it will succeed: in mobile gaming a hostile takeover is possible as the success is not linked to a few key developers) to force Ubisoft to enter into discussions and convince the Guillemot family that there are synergies, **and then on Ubisoft** (for this latter a public offer needs to be friendly, so Vivendi has to be generous in terms of price).

VALUATION

- **We maintain our Buy rating and FV of EUR6.7** (we value the entire cycle), i.e. the minimum price for a successful takeover bid.
- As a reminder, **our FV of EUR6.7 is derived from an EV/sales of 2x that we applied to Gameloft's 12 rolling months** (a 20% discount to the recent acquisition multiple of King by Activision Blizzard).

NEXT CATALYSTS

- **FY15 earnings results:** 21st March, 2016 (after trading).

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BUY ratings 63.4%

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