

**Gameloft**

Price EUR6.79

**Vivendi raises the price of its hostile takeover bid for Gameloft by 20% to EUR7.2**

Fair Value EUR6.7 (-1%)

BUY

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	7.0 / 3.2
Market Cap (EURm)	580
Ev (BG Estimates) (EURm)	551
Avg. 6m daily volume (000)	363.9
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	34.2%	17.5%	95.1%	12.0%
Softw. & Comp.	-3.2%	-6.7%	9.7%	-5.5%
DJ Stoxx 600	-2.4%	-13.4%	-8.0%	-8.7%

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	31.3x	24.2x
FCF yield (%)	NM	NM	3.1%	4.1%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.3x	2.2x	2.0x	1.8x
EV/EBITDA	38.4x	70.7x	11.6x	9.2x
EV/EBIT	NS	NS	19.3x	15.0x

As we expected, Vivendi has raised the price of its public tender offer for Gameloft to above our FV of EUR6.7, which we considered as a minimum price. We think the new offer is now attractive enough to convince shareholders to tender their securities (Vivendi should reach the 50% voting rights needed). We continue to believe in the speculation surrounding both video game companies run by the Guillemot brothers. Vivendi really wants to add a fifth pillar to its French media group. The hostile takeover bid for Gameloft is a first phase to force a discussion with the Guillemot family and finally operate a friendly takeover on Ubisoft (Buy, FV of EUR34, also a minimum price). Vivendi's net cash position of EUR6bn should help reach an agreement.

**ANALYSIS**

- Yesterday after trading, **Vivendi raised the price of its public tender offer for Gameloft by 20%, to EUR7.2 per share** (vs. EUR6.0 on 18th February). This hostile takeover bid for 100% of GFT's capital represents a **premium of 6% to yesterday's closing price, 20% to the previous offer and 80.5% to the share price prior to Vivendi being a shareholder**. We estimate the offer values Gameloft at an **EV/sales multiple of 2.1x over 12m rolling** (vs. 1.7x for the previous offer). Note that we played the speculation and were betting on an increase in the offer price. Indeed, our EUR6.7 FV was more a target price than a fair value and was calculated as a minimum for a successful takeover bid (hostile or friendly). Even if Gameloft's Board of Directors rejects this new offer, **the price is now attractive enough to convince shareholders to tender their shares**. Vivendi owns 30.01% of the capital and 26.72% of the voting rights vs. the Guillemot family 20.47% and 28.57% respectively. To be successful, Vivendi's offer needs at least 50% of the voting rights.
- We maintain our view:** our scenario was that Vivendi could try to takeover Gameloft and Ubisoft starting with **Gameloft in the short term** (in mobile gaming a hostile takeover is possible since success is not linked to a few key developers), in order to force Ubisoft to enter into discussions and convince the Guillemot family that there are synergies and that they can be partners. **And finally Ubisoft**, but via a friendly bid (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), meaning that Vivendi would have to make a generous offer (we see our FV of EUR34 as a minimum). **For Ubisoft, it will probably take some time but, in the end, we believe Vivendi's EUR6bn net cash position should help reach a friendly agreement**. Vivendi yesterday announced it has increased its stake in Ubisoft to 15.66% and 13.9% of voting rights (14.9% before and 13.2% before) vs. the Guillemot family's 9.4% and 10.15% respectively.
- We believe Vivendi really wants to add a fifth 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 in which Vivendi was not already positioned). The recent moves by Vivendi (in UBI and GFT) and Activision Blizzard (in mobile gaming via King Digital and 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.

**VALUATION**

- The new offer from Vivendi is above our FV of EUR6.7** (that we considered as a minimum price for a successful takeover bid), **so it should be attractive enough to convince current shareholders**.
- Our FV of EUR6.7 was derived from an EV/sales of 2x** (a 20% discount to the recent acquisition multiple of King Digital by Activision Blizzard) **that we applied to Gameloft in 2016e**. Vivendi's new offer of EUR7.2 shows a discount of only 16% to this latest transaction multiple in the mobile gaming segment (King is 3x more profitable than our expectation for Gameloft in 2016e).

**NEXT CATALYSTS**

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

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## Distribution of stock ratings

BUY ratings 62.2%

NEUTRAL ratings 28.9%

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