

## Gameloft

Price EUR7.31

Too early to tender your shares

Fair Value EUR6.7 (-8%)

BUY

|                            |           |
|----------------------------|-----------|
| Bloomberg                  | GFT FP    |
| Reuters                    | GLFT.PA   |
| 12-month High / Low (EUR)  | 7.5 / 3.2 |
| Market Cap (EUR)           | 628       |
| Ev (BG Estimates) (EUR)    | 591       |
| Avg. 6m daily volume (000) | 369.3     |
| 3y EPS CAGR                |           |

**FY15 underlying op. profit before SO came to EUR2.1m (vs. our breakeven est. and cons. of EUR1.6m) and the net loss to-EUR24.2m (vs. our -EUR22.7m figure and cons. of -EUR18.2m). We expect the group's op. margin to return to past levels in 2016e (BG. est. 11.5%, cons. of 8.3%). Management has just provided its strategic plan, which will be detailed this afternoon in London. Its 2018 targets are higher by 14% for sales, 50% for underlying op. profit and 10% for cumulative FCF compared with our estimates. Regarding speculation surrounding the stock, we cannot exclude a new increase in the offer price as 1/ the share is trading above Vivendi's last offer and 2/ Gameloft's 2018 targets are promising. As a reminder, we estimate a fair offer in the range EUR7.2/8.4. We maintain our Buy rating.**

|                | 1 M   | 3 M   | 6 M    | 31/12/15 |
|----------------|-------|-------|--------|----------|
| Absolute perf. | 14.2% | 18.1% | 120.2% | 20.6%    |
| Softw. & Comp. | 3.0%  | -2.1% | 12.1%  | -4.1%    |
| DJ Stoxx 600   | 4.4%  | -4.6% | -4.8%  | -6.8%    |

| 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  | 8.0   | 47.4  | 56.8  |
| EBIT             | -4.2  | -1.2  | 28.0  | 34.9  |
| % change         |       | 71.4% | NS    | 24.7% |
| Net income       | -5.9  | -19.6 | 19.2  | 24.8  |
| % change         |       | NS    | NS    | 29.4% |

|                  | 2014  | 2015e | 2016e | 2017e |
|------------------|-------|-------|-------|-------|
| Operating margin | -1.8  | -0.5  | 10.4  | 12.1  |
| Net margin       | -2.8  | -9.4  | 6.9   | 8.6   |
| ROE              | -4.6  | -21.2 | 14.0  | 15.8  |
| ROCE             | -3.5  | -1.1  | 25.7  | 28.9  |
| Gearing          | -38.6 | -32.4 | -41.2 | -45.2 |

| (EUR)           | 2014  | 2015e | 2016e | 2017e |
|-----------------|-------|-------|-------|-------|
| EPS             | -0.07 | -0.22 | 0.22  | 0.28  |
| % change        | -     | NS    | NS    | 29.4% |
| P/E             | NS    | NS    | 33.7x | 26.1x |
| FCF yield (%)   | NM    | NM    | 3.9%  | 3.8%  |
| Dividends (EUR) | 0.00  | 0.00  | 0.00  | 0.00  |
| Div yield (%)   | NM    | NM    | NM    | NM    |
| EV/Sales        | 2.5x  | 2.3x  | 2.1x  | 1.9x  |
| EV/EBITDA       | 41.9x | 74.0x | 12.1x | 9.8x  |
| EV/EBIT         | NS    | NS    | 20.5x | 16.0x |

## ANALYSIS

- FY15 performance:** revenue of EUR256.2m (+13% Y/Y, +6% at cc) had already been reported, with 16 new games. The gross margin improved to 84.9% (+250bp Y/Y), mainly thanks to a better revenue mix (own brands accounted for two-thirds of sales). Underlying operating profit before stock options (SO) came to EUR2.1m, i.e. above our breakeven est. and EUR1.6m for the consensus. After SO (-EUR3.3m vs. our -EUR3.0m) and non-recurring items (-EUR10.3m vs. our -EUR8.7m), operating loss was at -EUR11.5m vs. our -EUR11.7m. Net loss came out at -EUR24.2m, closer to our estimate (-EUR22.7m) than that of the consensus (-EUR18.2m). FCF was negative at -EUR13.5m (vs. our -EUR17.0m) and net cash at EUR36.9m (vs. our EUR29.0m estimate and consensus of EUR33m).
- Cost reductions completed:** the group closed down 10 development studios between Dec. 2014 and the end of Jan. 2016, generating annualised gross savings of more than EUR35m i.e. net savings of ~EUR25-27m. As such, Gameloft's workforce decreased by 10.7% (6,000 people at end-January), benefiting its underlying operating profit as of H2 2015. The full impact of savings should be felt in 2016 and should allow the "margin to bounce back significantly", according to management. We still believe the massive reduction in its cost base should enable the group to return to past profitability levels (10-13%) in 2016e, even with ~10 new games released (BG est.: 11.5%e, close to 2013's level when the share price was in the EUR5.3-8.2 range; cons. of 8.3%).
- The group announced its strategic plan this morning (2018 targets) and will detail it this afternoon in London:** 1/ 2018 sales target of more than EUR350m i.e. CAGR15/18 of +11%, of which ~30% from advertising (vs. BG est. EUR308m, CAGR +6,3%); 2/ underlying op. profit before SO target of more than EUR65m in 2018, i.e. margin of 18.6% (vs. BG est. EUR43.3m, i.e. margin of 14.1%); 3/ cumulative free cash flow target of more than EUR85m (vs. BG est. EUR77.1m).
- Speculative appeal:** The first bid from Vivendi was too low (EUR6), while the latest price is attractive (EUR7.2). However, as Vivendi is seeking to acquire Ubisoft, which has to be a friendly move, it must be generous with Gameloft (the Guillemot family runs both companies). As a result, we cannot exclude a fresh increase in the offer price. We believe everything remains possible as: 1/ the stock is trading above Vivendi's last offer, and 2/ Gameloft is to organise an investor day in London this afternoon probably to give its mid-term financial targets (a 3-year plan in our view).



## VALUATION

- Beyond current speculation,** as the stock market usually pays very close attention to GFT's profitability, **we are playing the margin recovery story as of 2016e.**
- We are maintaining our Buy rating and FV of EUR6.7 on Gameloft.** Note that if Vivendi pays 2.5x sales for Gameloft (i.e. same multiple Activision paid for King), this would result in an offer price of EUR8.4. We see this latter as an absolute maximum level that Gameloft does not really deserve (King is 3x more profitable). As such, **a fair offer is probably somewhere in the middle, i.e. EUR7.2-8.4.**

## NEXT CATALYSTS

- **Investor day:** this afternoon in London (at 2:30 p.m. GMT).
- **Q1 sales:** 28th April (after trading).

## Main financial factors for 2013-2017e

| EURm                          | 2013         | 2014         | 2015         | vs. BG est.<br>2015 | vs. Cons.<br>2015 | BG est.<br>2016 | Cons.<br>2016 | BG est.<br>2017 | Cons.<br>2017 |
|-------------------------------|--------------|--------------|--------------|---------------------|-------------------|-----------------|---------------|-----------------|---------------|
| <b>Sales</b>                  | <b>233.3</b> | <b>227.3</b> | <b>256.2</b> | <b>256.2</b>        | <b>256</b>        | <b>269.0</b>    | <b>271</b>    | <b>287.8</b>    | <b>290</b>    |
| <i>Y/Y growth</i>             | 12.0%        | -2.6%        | 12.7%        | 12.7%               | 13%               | 5.0%            | 6%            | 7.0%            | 7%            |
| <i>Y/Y organic growth</i>     | 16.3%        | 1.1%         | 5.7%         | 5.7%                | -                 | 5.0%            | -             | 7.0%            | -             |
| <b>Current EBIT before SO</b> | <b>28.4</b>  | <b>-1.1</b>  | <b>2.1</b>   | <b>0.0</b>          | <b>1.6</b>        | <b>31.0</b>     | <b>22.6</b>   | <b>37.9</b>     | <b>27.2</b>   |
| <i>Margin</i>                 | 12.2%        | -0.5%        | 0.8%         | 0.0%                | 0.6%              | 11.5%           | 8.3%          | 13.2%           | 9.4%          |
| <b>Current EBIT after SO</b>  | <b>24.9</b>  | <b>-4.2</b>  | <b>-1.2</b>  | <b>-3.0</b>         | <b>-</b>          | <b>28.0</b>     | <b>-</b>      | <b>34.9</b>     | <b>-</b>      |
| <i>margin</i>                 | 10.7%        | -1.8%        | -0.5%        | -1.2%               | -                 | 10.4%           | -             | 12.1%           | -             |
| <b>EBIT</b>                   | <b>23.6</b>  | <b>-4.9</b>  | <b>-11.5</b> | <b>-11.7</b>        | <b>-</b>          | <b>26.0</b>     | <b>-</b>      | <b>34.9</b>     | <b>-</b>      |
| <i>Margin</i>                 | 10.1%        | -2.1%        | -4.5%        | -4.6%               | -                 | 9.7%            | -             | 12.1%           | -             |
| <b>Net income</b>             | <b>7.5</b>   | <b>-6.4</b>  | <b>-24.2</b> | <b>-22.7</b>        | <b>-18.2</b>      | <b>18.5</b>     | <b>12.3</b>   | <b>24.8</b>     | <b>16.1</b>   |
| <i>Margin</i>                 | 3.2%         | -2.8%        | -9.4%        | -8.9%               | -7.1%             | 6.9%            | 4.5%          | 8.6%            | 5.5%          |
| <b>Restated net income</b>    | <b>8.4</b>   | <b>-5.9</b>  | <b>-19.6</b> | <b>-16.8</b>        | <b>-</b>          | <b>19.2</b>     | <b>-</b>      | <b>24.8</b>     | <b>-</b>      |
| <i>Margin</i>                 | 3.6%         | -2.6%        | 7.7%         | -6.6%               | -                 | 7.1%            | -             | 8.6%            | -             |
| <b>Net cash</b>               | <b>60.3</b>  | <b>52.7</b>  | <b>36.9</b>  | <b>29.0</b>         | <b>33</b>         | <b>54.6</b>     | <b>44</b>     | <b>71.1</b>     | <b>57</b>     |

Sources: Consensus from the company (09/02/16); Bryan Garnier & Co. ests.

## Annual game releases from 2012 to 2016e

| Number of games | Q1 | Q2 | Q3 | Q4 | Full year |
|-----------------|----|----|----|----|-----------|
| 2012            | -  | 9  | 7  | 9  | 25        |
| 2013            | 2  | 7  | 4  | 3  | 16        |
| 2014            | 1  | 3  | 4  | 4  | 12        |
| 2015            | 5  | 4  | 2  | 5  | 16        |
| 2016e           | 1  | 3  | 3  | 3  | 10        |

Source: Bryan, Garnier & Co ests.

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|         |   |
|---------|---|
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