

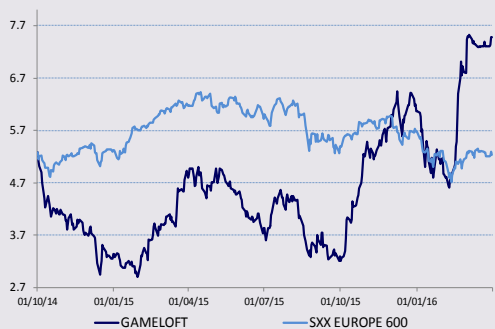
FOCUS

4th April 2016

TMT

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	7.5 / 3.2
Market capitalisation (EURm)	638
Enterprise Value (BG estimates EURm)	601
Avg. 6m daily volume ('000 shares)	376.2
Free Float	86.4%
3y EPS CAGR	
Gearing (12/14)	-39%
Dividend yield (12/15e)	NM

YE December	12/14	12/15e	12/16e	12/17e
Revenue (EURm)	227.28	256.18	268.98	290.50
EBITA EURm)	-4.2	-1.2	28.0	37.6
Op.Margin (%)	-1.8	-0.5	10.4	12.9
Diluted EPS (EUR)	-0.07	-0.22	0.22	0.30
EV/Sales	2.57x	2.35x	2.17x	1.95x
EV/EBITDA	42.6x	75.2x	12.3x	9.5x
EV/EBITA	NS	NS	20.8x	15.1x
P/E	NS	NS	34.3x	24.7x
ROCE	-3.5	-1.1	25.7	30.9



Gameloft

Nothing to gain by tendering your GFT shares now!

Fair Value EUR7.2 vs. EUR6.7 (price EUR7.43)

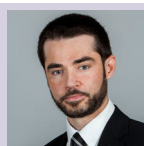
BUY

During meetings with GFT's CEO and CFO, 90% of the time was spent discussing the group's business trends (mainly advertising but also in-app purchases) and only 10% on Vivendi's hostile takeover bid. This is a good indication of investor interest in GFT's standalone future. The CEO has never been this convincing, both on the short term and for FY18 targets. Now that we have enough visibility on the two businesses, we have based our FV on the next two years (vs. only FY16e before). As a result, we have upgraded our FV from EUR6.7 to EUR7.2. We now estimate a fair offer in the range of EUR7.6-8.6 (vs. EUR7.2-8.4).

■ Last Thursday, we had the pleasure of organising a road show in Paris with GFT's CEO (Michel Guillemot has made no appearance in Paris for the past 10 years) and Senior VP & CFO (Alexandre de Rochefort). We found that management has never been this convincing, not only on the short term but also for its FY18 targets: 1/ Gameloft now has two engines (in-app purchases and advertising) that should enable it to return to its past op. margin as of FY16e (BG est.: 11.5%e); 2/ FY18e targets are achievable (revenues of over EUR350m, operating margin of 18-20% and cumulative 2016/18 FCF of more than EUR85m), notably thanks to the in-house mobile advertising business (low fixed-cost structure).

■ Its two engines are: 1/ In-app purchases, GFT is reaping the rewards of its restructuring plan (net savings of EUR25-27m) meaning that breakeven point for the success of a game is now much lower. Moreover, the group is set to release fewer games (8-12 per year) but with a focus on established franchises and mid-core FTP games, which are easier to monetise. 2/ Mobile advertising, GFT is benefiting from its in-house strategy (it has full control of inventory and data, and can therefore obtain a good margin) and is experiencing a secular switch from premium to programmatic (run rate close to EUR20m per year; an alternative to the duopoly of Facebook and Google, with more reactivity and flexibility).

■ Regarding Vivendi, GFT's CEO only sees a convergence in advertising with Havas. However, he has cautioned Mr. Bolloré by saying that gamers are the trunk of its two businesses (IAP & advertising). If the hostile takeover bid proves successful (50% + 1 share), its developers will easily find a job at its mobile games competitors. The Guillemot family is continuing to buy shares (>EUR7.2) to play GFT's mid-term plan.



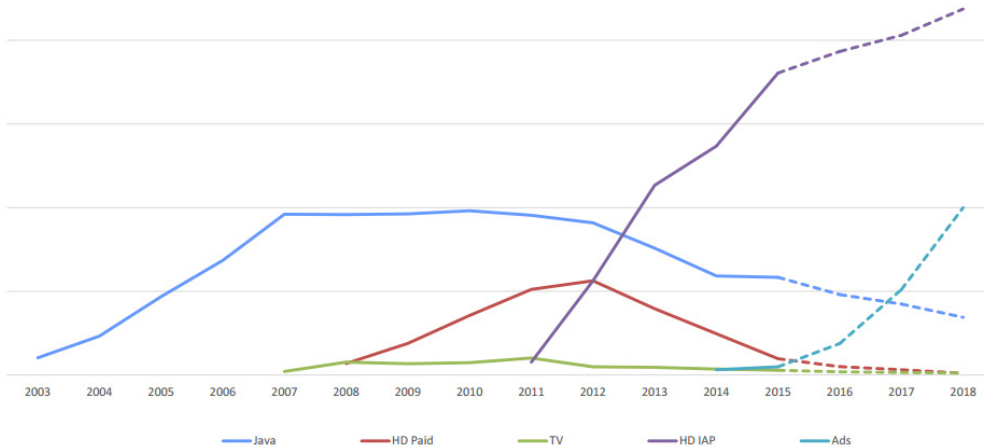
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Gameloft: Key Focuses from our Road Show with the management

1. One Chart

Gameloft: Five start-ups... so far (revenues per activity 2003-2018e)



Source: Gameloft

has gone through many transitions and major technological breakthroughs, but **it has always succeeded in adapting relatively easily to new environments** (even if the latest evolution towards free-to-play games was by far the most complex and strongly impacted its profitability). **Now, it is entirely prepared to benefit from its latest two adaptations: in-app purchases** (lower breakeven point via the restructuring plan) **and advertising** (made in-house, low fixed cost structure, the group is the 3rd player in programmatic advertising after Facebook and Google).

■ The history of Gameloft has been littered with technological breakthroughs, new devices, or new spending habits (every 3 to 4 years). Each of these was generally followed by a strong and rapid adoption. Over the last 13 years, we can cite 1/ Java video games, 2/ HD paid mobile video games, 3/ TV video games, 4/ HD in-app purchases, and 5/ mobile advertising.

■ Gameloft is ultimately a succession of five start-ups. It

2. One Sentence

"Gamers are the trunk of our business, and branches are IAP and advertising".

- Gameloft's CEO said that its two businesses (mobile gaming in-app purchases and mobile advertising) are strongly linked to the audience, namely the gamers (166m MAU and 21m DAU; annual market value of EUR150m). Regarding Vivendi, Michel Guillemot only sees a **convergence in the advertising space with Havas**. For this latter, Gameloft has a massive advertising inventory (in volume terms, it represents about 40% of that of TF1) that is nearly pristine. **However, Gameloft's management has cautioned Mr. Bolloré by saying that gamers are the trunk of its two businesses and they are interlinked**. If the hostile takeover bid proves successful (50% + 1 share), its developers should easily find a job among its mobile games competitors (they just have to cross the road, the move would be virtually immediate) impacting the quality of its games and therefore its gamers audience. As for Michel Guillemot, he would set up a new start-up (see image above, this has been Gameloft's history every three to four years).
- Note that Gameloft has filed a complaint with the Court of Appeal of Paris against the clearance decision relating to the takeover bid filed by Vivendi. It has also filed a request with the First President of the Court of Appeal of Paris for a stay of execution of this clearance decision until the Court has rendered its judgment on the merits. **We should know on 14th April whether Gameloft's complaint will have a suspensive effect on the takeover bid** (1st hearing of the Court of Appeal of Paris): 1/ if it does not have a suspensive effect, we should have the results of the offer in **late May/early June**; or 2/ if it has a suspensive effect, the offer won't be suspended but the results of the offer should be postponed to **September/October**.
- What is clear is that the longer the offer takes, the higher the share price will be. Indeed, the current take-off in programmatic advertising revenue (a very profitable business enjoying exponential expansion at the moment) should be increasingly reflected in Gameloft's fundamentals and therefore in the share price month after month (the market usually pays close attention to GFT's profitability). Please see the next section for more details on programmatic advertising (ongoing on PCs and landing on mobiles).

3. One Figure

80%

■ **The main source of leverage for Gameloft to reach its FY18 financial targets is its advertising revenue** (made in-house, monetising its massive mobile audience), **and in particular the programmatic part**. Programmatic describes online display advertising that is aggregated, booked, analysed, optimised and auction traded via demand side software interfaces

and algorithms. Gameloft is benefiting from its in-house strategy (it has full control of the inventory and the data and therefore can obtain a good margin) and is experiencing a secular switch from traditional premium advertising to programmatic advertising. After just six weeks, more than 20% of Gameloft’s advertising revenue was generated through programmatic (run rate close to EUR20m per year, whereas Q1 is clearly not a peak in seasonality). **Gameloft intends to increase the share of programmatic advertising from over 20% at present to 80% in FY18, such that it is only targeting a 1% market share which is very reasonable**. For the CEO of Gameloft “programmatic is spreading in the advertising space, like Uber in car transportation”. **Gameloft is already an alternative to the duopoly of Facebook and Google** (combined market shares of 80-90% via their SDKs), **with more reactivity and flexibility**. Advertisers do not want to put everything in the hands of such big players in order not to be too dependent on them.

■ **Note that we see no risk of Gameloft losing players because of in-game advertising as:** 1/ its paying gamers would not see any advertising (on average, 3% of mobile gamers spend inside the game); 2/ its massive audience of non-paying gamers will be monetised via in-game advertising. In view of this massive audience, there is no need for aggressive marketing, on the contrary the advertising is well thought-out (as white label mini-games inside its GFT’s games or sponsorship); **and 3/ Gameloft does not show advertising from its competitors.**

■ **As a reminder, Gameloft’s mid-term guidance is:**

- **Revenues of over EUR350m in FY18, i.e. a 2015/18 CAGR of over 11%.** This target is based on ~70% in in-app purchases (8-12 new games per year and the resilience of current games: a decrease in feature phone games offset by in-app purchases at +5%/year) and ~30% from in-house advertising i.e. EUR100m (only 2/3 fill rate and 80% stemming from programmatic), bearing in mind that the run rate already stands at EUR20m/year (vs. EUR5m in FY15). In its “five start-up” lives, the group has already experience such growth levels.
- **Operating margin before stock options of 18-20% in FY18, i.e. over EUR65m in underlying op. profit before stock options.** This implies a multiplication of 2.5x between 2013 (its historical peak) and 2018. The target is based on the benefits of the 2014-15 streamlining plan (850 job cuts i.e. 12.5% of global staff, EUR27m in data centre investments completed), the impact of programmatic advertising (high operating leverage: 175 people breaking down into 100 technicians and 75 sales representatives, representing annual fixed costs of only EUR15m), and other elements (increase in gross margin via a better revenue mix towards its IPs, and a decrease in COGS related to lower feature phone revenues).
- **Cumulative 206-18 FCF of more than EUR85m.**

4. How does the Road Show impact our Investment Case

■ **We found that management has never been this convincing, not only for the short term but also for FY18 targets:** 1/ we believe **Gameloft now has two engines** (in-app purchases and mobile advertising) **that should enable it to return to its past operating margin as of 2016** (BG est.: 11.5%e); 2/ **its FY18 targets are achievable** (revenues over EUR350m, op. margin of 18-20% and a cumulative 2016-18 FCF of more than EUR85m), **notably thanks to its in-house mobile advertising business** (low fixed-cost structure).

■ **The Guillemot family owns 21.71% of the share capital and 29.32% of the voting rights** (last acquisition on 29th March at EUR7.33) **vs. Vivendi 29.86% and 26.63% respectively**. With these current shareholdings, for the hostile takeover bid to be successful (i.e. 50% + 1 share), Vivendi needs to obtain 41.6% of the free float. **We believe the Guillemot family will continue its purchases without reaching the 30% threshold of the capital or the voting rights** (they do not have the financial means to launch a mandatory bid on the whole company). Indeed, **the Guillemot concert can buy GFT shares on**

the market while abandoning the double voting rights on some shares it already holds, in order to continue to increase its stake but remaining below the 30% threshold. If the family increases its stake in the capital to just under the 30% threshold, Vivendi would have to obtain half of the free float for the takeover offer to succeed (which is more complicated than the current 41.6%).

- Vivendi's first bid was too low (EUR6), while the latest price is reasonable (EUR7.2). However, Gameloft's mid-term outlook deserves more than EUR7.2 per share, and 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.

The Guillemot family and Vivendi stakes in Ubisoft and Gameloft

In %	UBISOFT		GAMELOFT	
	Capital	Voting rights	Capital	Voting rights
Main shareholders				
Guillemot Family	9.40	16.20	21.71	29.32
Vivendi	15.66	13.90 ¹	29.86	26.63

Sources: AMF; Bryan Garnier & Co. ests¹.

- Now that we have enough visibility on Gameloft's two businesses, we can base our valuation over the next two years (vs. only FY16e before). We have therefore upgraded our FV from EUR6.7 to EUR7.2. We estimate a fair offer in the range of EUR7.6-8.6 to really convince shareholders to tender their shares (vs. our previous range of EUR7.2-8.4).

Main financial factors for 2013-2018e

EURm	2013	2014	2015	BG 2016	Cons. 2016	BG 2017	Cons. 2017	BG 2018
Sales	233.3	227.3	256.2	269.0	272	290.5	292	322.5
Y/Y growth	12.0%	-2.6%	12.7%	5.0%	6.2%	8.0%	7.4%	11.0%
Y/Y organic growth	16.3%	1.1%	5.7%	5.0%	-	8.0%	-	11.0%
Current EBIT before SO	28.4	-1.1	2.1	31.0	23.3	40.6	30.1	57.8
Margin	12.2%	-0.5%	0.8%	11.5%	8.6%	14.0%	10.3%	17.9%
Current EBIT after SO	24.9	-4.2	-1.2	28.0	-	37.6	-	54.8
margin	10.7%	-1.8%	-0.5%	10.4%	-	12.9%	-	17.0%
EBIT	23.6	-4.9	-11.5	26.0	-	37.6	-	54.8
Margin	10.1%	-2.1%	-4.5%	9.7%	-	12.9%	-	17.0%
Net income	7.5	-6.4	-24.2	18.5	12.3	26.6	17.7	38.1
Margin	3.2%	-2.8%	-9.4%	6.9%	4.5%	9.2%	6.1%	11.8%
Restated net income	8.4	-5.9	-19.6	19.2	-	26.6	-	38.1
Margin	3.6%	-2.6%	7.7%	7.1%	-	9.2%	-	11.8%
Net cash	60.3	52.7	36.9	54.6	44	72.2	58	98.0

Sources: Consensus from the company (01/04/16); Bryan Garnier & Co. ests.

Annual game releases from 2013 to 2016e

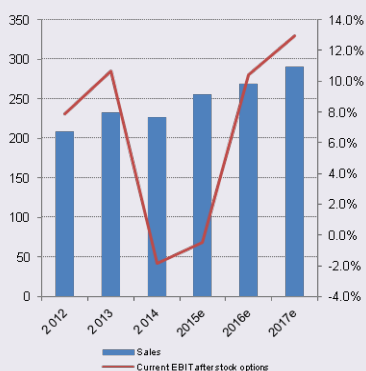
Number of games	Q1	Q2	Q3	Q4	Full year
2013	2	7	4	3	16
2014	1	3	4	4	12
2015	5	4	2	5	16
2016e	1	3	2	3	9

Source: Bryan, Garnier & Co ests.

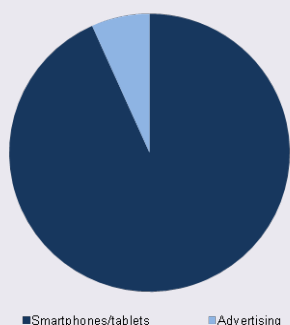
Next Catalysts

- **First hearing of the Paris Court of Appeal** (following Gameloft's complaint regarding the hostile takeover bid): 14th April.
- **Q1 sales**: 28th April (after trading)

Gameloft



FY 2016e sales



Company description

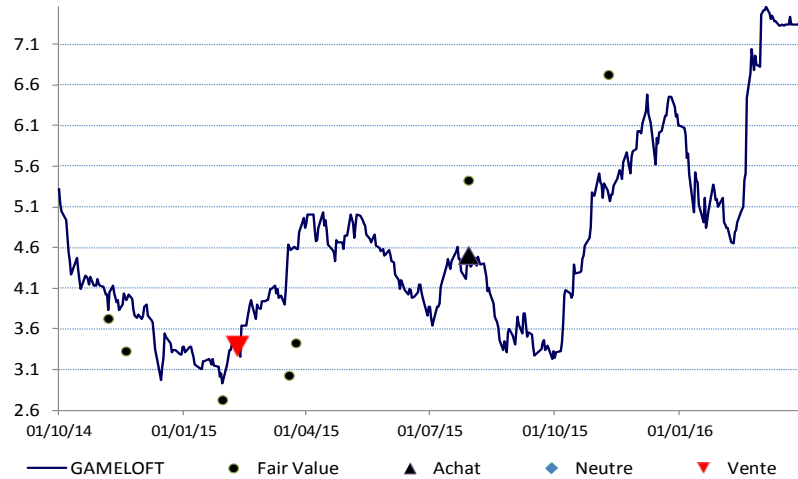
Publisher, developer and distributor of video games on mobiles, tablets and downloading platforms

Simplified Profit & Loss Account (EURm)	2012	2013	2014	2015e	2016e	2017e
Revenues	208	233	227	256	269	291
Change (%)	26.7%	12.0%	-2.6%	12.7%	5.0%	8.0%
lfl change (%)	24.7%	16.3%	1.1%	5.7%	5.0%	8.0%
EBITDA	31.2	37.2	13.7	8.0	47.4	59.6
EBIT	14.9	23.6	(4.9)	(11.5)	27.0	37.6
Adjusted EBIT	16.5	24.9	(4.2)	(1.2)	28.0	37.6
Change (%)	-17.0%	51.2%	-117%	-71.4%	-2,437%	34.2%
Financial results	(0.53)	(7.5)	6.7	(4.1)	0.0	1.5
Pre-Tax profits	14.3	16.1	1.8	(15.6)	27.0	39.1
Tax	(5.0)	(8.5)	(8.1)	(8.6)	(9.5)	(13.5)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	9.3	7.5	(6.4)	(24.2)	18.5	26.6
Restated net profit	10.5	8.4	(5.9)	(19.6)	19.2	26.6
Change (%)	-42.4%	-20.3%	-171%	231%	-198%	38.7%
Cash Flow Statement (EURm)						
Operating cash flows	28.3	25.9	8.7	1.5	42.4	52.2
Change in working capital	(7.3)	1.7	(2.5)	(3.4)	3.0	(4.5)
Capex, net	(8.7)	(17.9)	(17.4)	(19.5)	(20.4)	(22.1)
Financial investments, net	(6.4)	(7.3)	(6.3)	(6.4)	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.42)	(1.5)	8.0	12.5	(7.3)	(8.1)
Net debt	(55.6)	(60.3)	(53.5)	(36.9)	(54.6)	(72.2)
Free Cash flow	12.3	9.7	(11.2)	(21.4)	25.0	25.6
Balance Sheet (EURm)						
Net fixed assets	19.6	24.6	31.3	26.7	30.5	35.0
Investments	2.4	2.6	2.6	2.6	2.6	2.6
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	55.7	61.8	56.3	40.0	54.8	72.4
current assets	59.7	62.8	63.9	67.4	67.2	72.6
Other assets	37.7	35.9	47.0	41.8	41.4	44.7
Total assets	175	188	201	178	197	227
L & ST Debt	0.05	1.5	3.6	3.1	0.21	0.21
Provisions	0.57	0.73	0.73	0.73	0.73	0.73
Deferred tax liabilities	3.8	3.6	3.6	10.3	10.3	10.3
Others liabilities	42.5	45.7	55.4	50.2	52.7	56.9
Shareholders' equity	128	136	138	114	133	159
Total Liabilities	175	188	201	178	197	227
Capital employed	72.4	75.9	85.1	77.2	77.9	87.0
Ratios						
Operating margin	7.90	10.67	(1.85)	(0.47)	10.41	12.93
Tax rate	35.18	53.16	457	(54.95)	33.89	33.62
Net margin	4.46	3.23	(2.80)	(9.44)	6.88	9.16
ROE (after tax)	7.25	5.52	(4.61)	(21.19)	13.96	16.71
ROCE (after tax)	16.34	23.52	(3.53)	(1.11)	25.75	30.89
Gearing	(43.45)	(44.28)	(38.60)	(32.36)	(41.21)	(45.36)
Pay out ratio	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares, diluted	86,044	85,726	88,164	89,671	88,422	88,422
Data per Share (EUR)						
EPS	0.12	0.09	(0.07)	(0.28)	0.22	0.31
Restated EPS	0.12	0.10	(0.07)	(0.22)	0.22	0.30
% change	-42.4%	-20.0%	-169%	226%	-199%	38.7%
BVPS	1.49	1.59	1.57	1.27	1.50	1.80
Operating cash flows	0.33	0.30	0.10	0.02	0.48	0.59
FCF	0.14	0.11	(0.13)	(0.24)	0.28	0.29
Net dividend	0.0	0.0	0.0	0.0	0.0	0.0

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

Price Chart and Rating History

Gameloft



Ratings

Date	Ratings	Price
29/07/15	BUY	EUR4.4
09/02/15	SELL	EUR3.46
09/09/14	NEUTRAL	EUR5.09

Target Price

Date	Target price
09/11/15	EUR6.7
29/07/15	EUR5.4
24/03/15	EUR3.4
19/03/15	EUR3
29/01/15	EUR2.7
19/11/14	EUR3.3
06/11/14	EUR3.7
09/09/14	EUR4.5

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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 64%

NEUTRAL ratings 29.4%

SELL ratings 6.6%

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