

Ubisoft

Price EUR26.70

We reflect *The Division* and *Far Cry Primal* successes in our model

Fair Value EUR34 (+27%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	28.2 / 14.9
Market Cap (EUR)	2,970
Ev (BG Estimates) (EUR)	3,012
Avg. 6m daily volume (000)	382.4
3y EPS CAGR	26.5%

As at end-March *Tom Clancy's The Division* continues to experience strong sales and *Far Cry Primal* is well received by gamers, we reflect in our model what we wrote in our previous notes. We have increased our FY16/19e EPS sequence by +5.4% on average. Both games should be well ranked in the next NPD release (US Top 10 sellers in March). We maintain our Buy rating and FV of EUR34 (our FV is a minimum price for a potential public offer). The group boasts positive momentum.

ANALYSIS

- Last facts:** After having sold through more copies in its first 24 hours than any previous title in UBI's history and having registered the biggest first 5 days ever for a new video game franchise (USD330m vs. *Destiny* by Activision Blizzard grossed USD325m in Sept. 2014 on Xbox One, PS4, Xbox 360 and PS3), *The Division* continues to experience strong sales and *Far Cry Primal* is well received by gamers (both are only available on the current-gen, namely PS4, Xbox One and PC).
- Simulation:** In Q4, we see a minimum of 13m cumulated sell-in units for *The Division* and *Far Cry Primal* (9m and 4m units respectively) and a maximum of 16m (11m and 5m respectively). As a result, **Ubisoft should exceed its fiscal Q4 and FY16 guidance**, and could even reach its pre-warning sales guidance (~EUR1,465m) and approach that of non-IFRS EBIT (>=EUR200m).

Simulation for *Far Cry Primal* and *The Division* on Q4 and FY15/16e (vs. current guidance)

FY16e	Q4	Q4	Q4	FY	FY	FY
m units	Mini.	Maxi.	BG central scenario	Mini.	Maxi.	BG central scenario
Cumulated sell-in units for <i>The Division</i> (8th March) and <i>Far Cry Primal</i> (23rd Feb.)	13.0	16.0	14.4	13.0	16.0	14.4
Revenue outperf. vs. current guidance	0.0%	+18.5%	+9.3%	0.0%	+8.0%	+4.0%
Non-IFRS EBIT outperf. vs. current guidance	-	-	-	0.0%	+39.9%	+20.0%

Source: Bryan, Garnier & Co ests.

- Change in our estimates:** Now that the month of March has ended with a still good dynamic for Ubisoft's two main games, we can reflect our words of the last few weeks in our model (based on our BG central scenario). **We have revised upward our FY16e sales from EUR1,365.0m to EUR1,414.7m** (vs. current guidance of ~EUR1,360m; cons. of EUR1,382m) and **non-IFRS EBIT from EUR150.0m to EUR179.9m** (vs. current guidance of ~EUR150m; cons. of EUR156m). **We have increased our FY16/19e EPS sequence by 5.4% on average (+23.3% in FY16e and nearly unchanged from FY17e to FY19e).**
- Our anticipation:** We expect *Tom Clancy's The Division* and *Far Cry Primal* to be well placed among the US Top 10 sellers in March 2016 (#1 and in the low end respectively), which will be published by NPD Group during the night of Thursday to Friday. Finally, we confirm our view that *The Division* could be the first Ubisoft game in history to reach the 15m unit threshold on a 12-month basis (including 9.9m sell-in units in its first month vs. over 8m for *Watch_Dogs*).
- UBI made a lot of progress in online games:** The group is now able to operate big online games, i.e. to attract a large community of players with high-quality games (re. the good ratings given to *The Division* a few weeks ago by key media outlets), accompanied with one of the best live operations currently on the market (in terms of servers and the technology behind these services: e.g. *The Division* surpassed 1.2m peak concurrent users over its first weekend). **In our view, this is a major point in making the group's FY19 financial targets credible.**

VALUATION

- Bear in mind that our FV is derived from UBI's 12m fwd average multiples over the past 2 console cycles applied to our FY17e estimates** (given the unreliability of a longer horizon guidance in this industry), to which we added a 15% premium (digital sales and other entertainment revenues).
- Ubisoft boasts positive momentum for coming months:** the next set of figures should beat the current guidance while speculation is increased (Vivendi's interest in GFT and UBI).

NEXT CATALYSTS

- FY15/16 earnings:** 12th May (after trading), with more details on the FY17e guidance.

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.3%	9.1%	27.1%	0.1%
Softw. & Comp.	0.6%	-0.9%	9.3%	-5.6%
DJ Stoxx 600	-1.7%	-2.8%	-8.2%	-9.3%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	1,464	1,415	1,706	1,945
% change		-3.4%	20.6%	14.0%
EBITDA	650	630	729	901
EBIT	161.1	166.9	217.0	317.0
% change		3.6%	30.0%	46.1%
Net income	103.1	102.5	140.0	208.7
% change		-0.6%	36.6%	49.1%

	03/15	03/16e	03/17e	03/18e
Operating margin	11.0	11.8	12.7	16.3
Net margin	5.9	7.1	8.2	10.7
ROE	8.9	9.3	11.5	14.6
ROCE	12.7	9.6	13.7	20.2
Gearing	-20.2	3.9	-15.0	-27.5

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	0.91	0.90	1.24	1.84
% change		-0.6%	36.6%	49.1%
P/E	29.3x	29.5x	21.6x	14.5x
FCF yield (%)	6.6%	NM	7.4%	7.0%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.9x	2.1x	1.6x	1.3x
EV/EBITDA	4.3x	4.8x	3.8x	2.9x
EV/EBIT	17.2x	18.0x	12.8x	8.1x



Main financial items for 2014/15 to 2018/19e

EURm	14/15 reported	BG 15/16e (old)	BG 15/16e (new)	BG 16/17e	BG 17/18e	BG 18/19e
Sales	1,463.8	1,365.0	1,414.7	1,706.3	1,945.1	2,200.0
<i>Y/Y change (%)</i>	45.3%	-6.7%	-3.4%	20.6%	14.0%	13.1%
Non-IFRS EBIT	170.7	150.0	179.9	230.0	330.0	440.0
<i>As % of sales</i>	11.7%	11.0%	12.7%	13.5%	17.0%	20.0%
IFRS EBIT after SO	139.4	138.0	163.4	217.0	317.0	427.0
<i>As % of sales</i>	9.5%	10.1%	11.6%	12.7%	16.3%	19.4%
Attributable net profit after SO	87.0	80.8	100.2	140.0	208.7	284.2
<i>As % of sales</i>	5.9%	5.9%	7.1%	8.2%	10.7%	12.9%
Adjusted net profit after SO	103.1	83.1	102.5	140.0	208.7	284.2
<i>As % of sales</i>	7.0%	6.1%	7.2%	8.2%	10.7%	12.9%
FCF	198.9	-232.4	-219.9	225.0	210.2	284.9
Net debt	-197.7	54.7	42.1	-182.9	-393.1	-678.0
<i>Gearing</i>	-20.2%	3.9%	3.9%	-15.0%	-27.5%	-39.6%

Sources: Bryan, Garnier & Co ests.

- **During its fiscal Q3 sales release, UBI slashed its FY16 guidance:** 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).
- **It also gave its first FY17 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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Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

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London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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