

Sector View

Video Games

	1 M	3 M	6 M	31/12/15
Softw.& Comp.	0.2%	0.5%	10.1%	-3.3%
DJ Stoxx 600	-0.2%	1.3%	-3.3%	-6.0%

*Stoxx Sector Indices

Companies covered

GAMELOFT	BUY	EUR7.2
Last Price	EUR7.57	Market Cap. EUR659m
UBISOFT	BUY	EUR34
Last Price	EUR27.195	Market Cap. EUR3,025m

US packaged software sales back to growth in March; Ubisoft again leading the charts!

The NPD Group has released data for the March packaged video games sales in the US. Hardware sales were down 19% Y/Y (the PS4 was again the top-selling console), due to declines in handheld and last generation consoles. As we expected, packaged software sales returned to growth in March at +8% Y/Y (vs. BG ests: +10%e), mainly thanks to Ubisoft's game *Tom Clancy's The Division*. Ubisoft led the charts for the second time in a row with two titles: *The Division* (#1) and *Far Cry Primal* (#2). It was by far the publisher of the month and also the number one software publisher for calendar Q1 2016. We maintain our ratings: Buy UBISOFT (FV of EUR34) and Buy GAMELOFT (FV of EUR7.2).

ANALYSIS

- On Thursday night, the NPD Group released its monthly sales report for March packaged video games in the US** (five-week period ending 2nd April). Bear in mind that these numbers only represent a fraction of the industry (i.e. around 50% of spending). NPD only tracks new games sold at US retailers. This does not include second-hand software, mobile, and digital. As such, it simply gives an insightful glimpse of a much more dynamic industry. **Revenue in the sector was roughly flat over one year (-0.4%) at USD964.1m: 1/ Hardware -18.6% Y/Y at USD253.2m** (higher sales of 8th-gen home consoles offset by lower ASPs, and sharp declines both in handheld hardware and in 7th-gen home consoles sales). **The PS4 was again the best-selling platform** (the current USD349 bundle is at a very attractive price with a copy of *Call of Duty: Black Ops III*), despite the Xbox One temporary price cut to USD299 as of 21st March). **2/ Software +7.7% Y/Y at USD425.8m** (-2.8% YTD), i.e. slightly below our +10%e (no consensus). **Ubisoft's led the US charts thanks to *The Division* (#1 as we expected; the game was launched on 8th March) and *Far Cry Primal* ranked even better than what we hoped (#2 while we expected in the low end of the March's Top 10; the game was #1 in February and was launched on 23rd February).** **3/ Accessories +8.9% Y/Y at USD285.1m** (it was the highest-selling March on record for video game accessory sales), mainly thanks to gamepads, cards and headphones sales.
- Worth noting on the software side: 1/** the successful launch of Ubisoft's *The Division* on PS4 and Xbox One (the best launch month for any *Tom Clancy* title to-date, having sold 40% more than the next best-selling *Tom Clancy* title, March 2008's *Tom Clancy's Rainbow Six: Vegas 2* when adjusted for number of days sold within the month); **2/** sales of new launch titles grew by 26% ; **3/** a fairly unfavourable base effect (-3% in March 2015 when EA launched *Battlefield: Hardline* and Sony released *Bloodborne* for PS4) but a positive Easter calendar effect (27th March in 2016 vs. 5th April in 2015); **4/** a sharp decline of 55% in software sales for 7th generation consoles despite +36% in 8th generation software sales, and finally handheld software sales dropped 16% compared to last March; **and 5/** the growing transition towards digital (gamers are increasingly comfortable with downloading games, all the more so with the highly connected home consoles).
- Bear in mind that the NPD Group does not track: 1/** digital game sales; **and 2/** games packed-in with consoles.

VALUATION

- UBISOFT:** We maintain our **Buy rating** and **FV of EUR34**. The stock boasts positive momentum for the coming weeks and months.
- GAMELOFT:** We maintain our **Buy rating** and **FV of EUR7.2**. Regarding the speculation surrounding the stock, we view a **fair offer in the range of EUR7.6-8.6** to really seduce shareholders.

NEXT CATALYSTS

- UBISOFT: FY15/16 earnings** on 12th May (after trading), with more details on the FY17e guidance.
- GAMELOFT: The Paris Court of Appeal's decision** on 4th May (following Gameloft's complaint regarding the hostile takeover bid from Vivendi), and **Q1 sales** on 28th April (after trading).



Top ten selling games in March 2016 by platform in the US

Rank	Games	Consoles	Publisher
1	<i>Tom Clancy's The Division</i>	PS4, Xbox One, PC	Ubisoft
2	<i>Far Cry: Primal</i>	PS4, Xbox One, PC	Ubisoft
3	<i>The Legend of Zelda: Twilight Princess HD</i>	Wii U	Nintendo
4	<i>Grand Theft Auto V</i>	PS4, Xbox One, Xbox 360, PS3, PC	Take-Two Interactive
5	<i>UFC 2</i>	Xbox One, PS4	Electronic Arts
6	<i>MLB 16: The Show</i>	PS4, PS3	Sony Computer Entertainment
7	<i>Pokken Tournament</i>	Wii U	Nintendo
8	<i>NBA 2K 16</i>	PS4, Xbox One, 360, PS3	Take-Two Interactive
9	<i>Call of Duty: Black Ops III</i>	Xbox One, PS4, Xbox 360, PS3, PC	Activision Blizzard
10	<i>Minecraft</i>	Xbox 360, PS4, Xbox One, PS3	Microsoft

N.B.: games bundled with hardware are not tracked by the NPD Group

Sources: NPD Group; Bryan, Garnier & Co.

- **Tom Clancy's The Division (Ubisoft)** was the top-selling game in March. **The Division is the best-selling title during a March since 2008** (*Super Smash Bro's Brawl* for Wii).
- **Ubisoft** was the publisher of the month, with *The Division* and *Far Cry: Primal* in the TOP 10 (#1 and 2). **And it is also the number one software publisher for Q1 16** (unit sales increase of close to 130%, and dollar sales increase of over 200%).

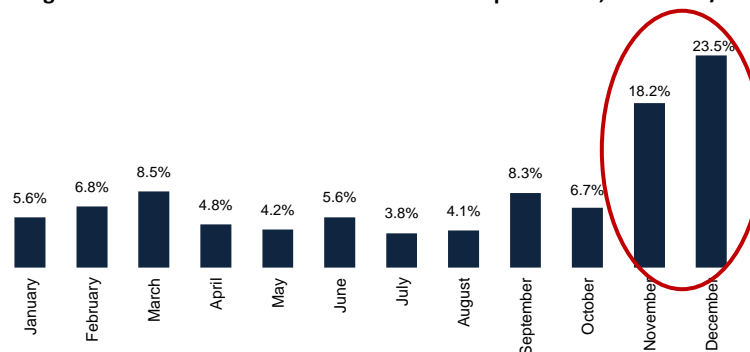
Y/Y % change in retail software sales in the US from 2000 to 2016 (in value)

%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	2	16	4	0	18	0	-5	53	12	10	-12	-5	-38	1	-25	6	-10
February	5	-11	45	-5	5	13	-12	32	48	9	-15	-5	-23	-36	-9	7	-10
March	20	-15	33	8	-6	31	-8	16	64	-17	10	-16	-25	-1	-27	-3	8
April	27	-13	11	39	-3	9	16	-1	69	-22	-22	26	-42	-17	-10	13	
May	4	10	31	20	-17	30	-10	33	42	-17	4	-19	-32	-31	57	-25	
June	4	23	27	-9	12	2	15	22	61	-29	-15	-12	-29	-10	-3	21	
July	-1	26	11	4	27	-10	19	11	41	-26	-8	-17	-23	-19	-15	0	
August	-12	18	43	4	1	0	18	23	13	-15	-14	-34	-9	23	-21	-10	
September	-26	-8	50	-10	44	-24	29	47	-6	5	-6	3	-18	52	-36	-3	
October	13	-20	74	-15	35	-24	1	40	36	-18	6	3	-25	12	-27	-3	
November	1	28	7	7	11	-17	14	63	11	-3	3	11	-11	-24	-1	-7	
December	-9	24	7	13	-1	-3	6	37	15	-7	-8	-14	-26	-17	-2	-3	
Total	-1	10	21	5	8	-3	7	34	27	-10	-6	-6	-23	-9	-12	-2	

Sources: NPD Group; Bryan, Garnier & Co.

- **Packaged software sales were up 8% in March** (vs. BG est.: +10%e).
- **Physical sales account for 50%e of the US consumer spend on the industry** (35-40%e in Europe).

Average US retail software contribution in FY sales per month, over 2009/15



Sources: NPD Group; Bryan, Garnier & Co.

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