

**Ubisoft Entertainment**

Ticker Site BiG	UBI
Ticker BiGlobal Trade	UBIP
Ticker BT24	UBI
Ticker BiG Power Trade	UBI
P/E Ratio 2018E	23.11
P/BV Ratio	6.70
EV/EBITDA	11.33

Source: Bloomberg;

**Price and Performance (Values in EUR)**

Price	68.16
52 week high	107.90
52 week low	61.28
YTD	-3.3%
Average daily volume (un)	377,563
Market Capitalization (mn)	7,700
Beta	1.12
Dividend	0.00
EPS (Bloomberg Est.)	1.26

Fonte: Bloomberg;

**Analysts Consensus (last 3 months)**

Buy	9
Hold	6
Sell	1

Fonte: Bloomberg;

**Financial Data**

Sales (EUR mn)	1,732
EBITDA (EUR mn)	766
Number of Employees	13,742
ROA	10.7%
ROE	26.4%
D/E	1.46

Fonte: Bloomberg;

**Notes:**

All quotes were updated in Bloomberg at 11h45 of January 2nd, 2019.

**Relevant Information:**

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**Ubisoft (Ticker: UBI FP)**
**Description**

Ubisoft is a videogame company with headquarters in France, which was founded in 1986. Its main titles are Assassin's Creed, Far Cry, Prince of Persia and Tom Clancy's. Most of its revenues are from US (47%), followed by Europe (37%) and rest of the world (16%). 42% of its games sold are for Playstation 4, 23% for Xbox One and 18% for PC.

Ubisoft trades in the French stock exchange with a market capitalization of EUR 7.7bn and has more than 13,000 employees.

**Investment Case**

**Streaming of games:** After the growing popularity of video streaming services like Netflix, the videogame companies are now exploring the option to create a similar service for games. In this option, the player would pay a fixed amount per month and would be able to play multiple games instead of buying each game separately. To Ubisoft it would allow not only a stable income of revenues but also the growth of the number of players. Playstation has already created a subscription service with a price of EUR 7 per month (in Portugal) to allow players to play online. This service Playstation Plus has already 34 mn subscribers. Yve Guillemot, CEO of Ubisoft, predicts that the next console generation will be the last, as streaming will evolve and will allow users to play every kind of game in any device. Ubisoft has already tested in partnership with Google, the streaming of games in the browser Chrome.

**Recurring revenue:** The digitalization of games brought the opportunity for producers to update games with new content. The purpose is to increase the durability of a game launch and consequently incentivize the players to spend money in game to upgrade to new features and acquire exclusive items for their characters. Ubisoft expects recurring revenue to be close to 30% of total revenue in the 2019 fiscal year.

**Acquisition target:** This new streaming model implies an aggregation of a wide portfolio of games in order to be attractive for consumers to subscribe it. Consequently, consolidation in the sector is expected or even the chance that a bigger media player like Disney or Tencent buys into videogame companies.

**Possible growth in China:** Tencent is a media conglomerate in China which has a similar music service to Spotify (Tencent Music) and a similar video service to Netflix (Tencent Video). Due to the high population density in China, the growth of these services has been exponential. Tencent has already a 5% stake in Ubisoft and in the past bought a Finnish gaming company for USD 8.6bn (Supercell), and has currently stakes in the company Epic Games and Riot Games. Ubisoft will launch primarily mobile games in China in partnership with Tencent. this will be a strong source of growth as the presence of Ubisoft in China is still residual. It will also launch the last version of Rainbow Six in China for PC.

**eSports growth:** eSports are videogame competitions which are broadcasted worldwide as if it was an world soccer championship. There are already channels online for these broadcasts as Twitch or Pand.tv or even Youtube. Many players have also begun broadcasting their games in exchange for contributions and marketing revenue, and some are now professional. It is estimated that in 2019 more than 420 mn people will be watching eSports competitions. Ubisoft has its own Rainbow Six league which had in 2018 87.56 mn hours watched vs 40.79mn in 2017 on Twitch.

**Analyst:**

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Income Statement (EUR mn)	2018	2017
Revenues	1732	1460
Cost of goods sold	297	271
Research & Development	691	549
Sales and Marketing	339	317
General and administrative costs	145	123
<b>Operational costs</b>	<b>1471</b>	<b>1259</b>
EBIT	261	201
Interests	16	11
Other costs	36	31
EBT	209	159
Taxes	69	51
<b>Net income</b>	<b>139</b>	<b>108</b>
<b>Earnings per share</b>	<b>1.26</b>	<b>0.98</b>

Source: Bloomberg

### Income Statement

In fiscal 2018 (which ended in March 2018), Ubisoft increased its revenues by 18.6% which ended in and improved its EBITDA margin from 13.8% to 15%. Net income margin reached 8.1% to EUR 139mn. The company's highest costs are related to R&D, due to its constant investment in development of new games and technologies.

### Free Cash Flow

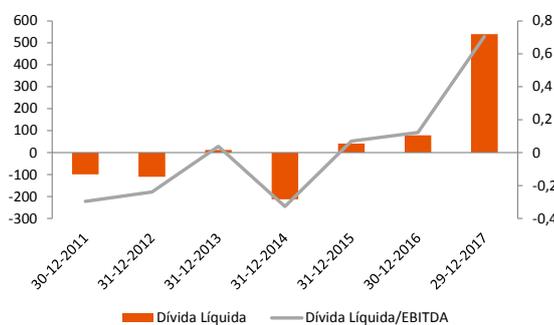
The operational cash flow increased 7% to EUR 691mn. The investment in financial assets led to negative investment cash flows of EUR 760mn. The company increased its debt and made a share buyback of around EUR 363mn.

### Balance Sheet

In 2018 fiscal year, the balance sheet increased due to an increase in receivables, intangibles and goodwill. The ratio between receivables and revenues was around 9%. Ubisoft increased its net debt by around EUR 550mn and through share buybacks reduced the equity in the balance sheet.

Free Cash Flow	2018	2017
Operational	691	646
Net Income	139	108
Depreciation and Amortization	544	475
Provisions	4	-3
Change in Working Capital	-81	24
Taxes	36	15
Others	49	27
<b>Investments</b>	<b>-760</b>	<b>-666</b>
Capex	-570	-549
Asset sales	0	1
Financial assets	-102	-1
Others	-89	-116
<b>Financial</b>	<b>48</b>	<b>397</b>
Debt change	406	455
Share buyback	-363	-58
Dividends	0	0
Others	4	1
<b>Free Cash flow change</b>	<b>-21</b>	<b>377</b>
Foreign currency effects	-28	0
<b>Final Cash and Equivalents</b>	<b>583</b>	<b>632</b>

Source: Bloomberg



Source: Bloomberg

Balance Sheet (EUR mn)	2018	2017
<b>Assets</b>	<b>2805</b>	<b>2582</b>
Cash & Equivalents	747	853
Receivables	644	552
Property Plant & Equipment	114	106
Inventories	20	25
Intangible Assets & Goodwill	1042	917
Other Assets	238	128
<b>Liabilities</b>	<b>1916</b>	<b>1448</b>
Short term Debt	362	293
Long term Debt	934	641
Payables & accrued expense	177	178
Other liabilities	444	336
<b>Total Equity</b>	<b>889</b>	<b>1134</b>
<b>Total Equity and Liabilities</b>	<b>2805</b>	<b>2582</b>

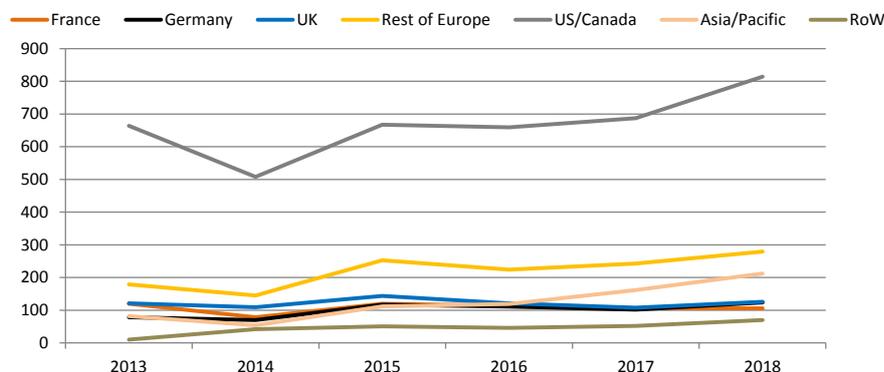
Source: Bloomberg

### Latest earnings

Ubisoft reached in the 1H19 (fiscal half year that ended in September), sales of EUR 767mn vs est. EUR 740mn and operating profit of EUR 110.2mn vs est. EUR 107mn. Sales of the quarter ended in 2018 should reach EUR 580mn, lower yoy due to early sale of Assassin's Creed Odyssey and the release of other games in the same quarter last year which were not launched in this quarter.

For the full fiscal year (which should end in June), Ubisoft anticipates sales of EUR 2,000mn and operating income of EUR 440mn. FCF should be around EUR 300mn.

### Revenues by region (EUR mn)



Source: Company's Data

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Source: Company's Data

▲ **Management**

**Yves Guillemot (Chairman, CEO and co-founder):** In 1986, Yves founded Ubisoft along with his 4 brothers, to distribute in Europe, games from international producers such as Electronic Arts, Sierra On-line and MicroPose. In the end of the decade the company expanded to US, United Kingdom and Germany. At the start of the 90s, Ubisoft initiated the development of its own games and did its IPO in 1996. When Vivendi tried to acquire Ubisoft, Yves was firmly against it, stating that it was important to keep the company's independence in order to keep its creative strength.

▲ **Main games**

**Assassin's Creed:** This third person game has as scenario ancient periods of history. The game allows the player to use several weapons and items and the player movements are based on *parkour*, similar to a previous franchise, the Prince of Persia. The last edition, Assassin's Creed Odyssey was launched in October 2018 with a MetaCritic rating of 85.

**Far Cry:** Thanks to the technology CryEngine, this game is played in an huge environment. It is a first person game and the objective is to dominate territories with the use of weapons. This technology was created in 1999 and in 2004 with the first launch of Far Cry, more than 730 thousand copies were sold in the first 4 months. The 2018 edition, Far Cry 5, reached USD 310 mi in sales in the first week and had more than 117 mn views on youtube of players playing the game. It has a MetaCritic rating of 80.

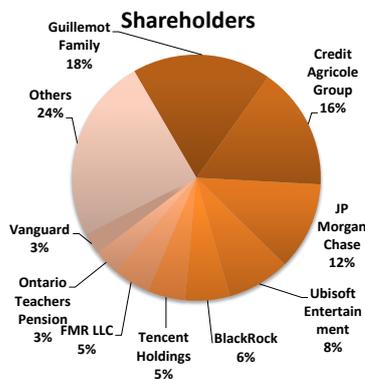
**Tom Clancy's:** This is a first person shooter game, with several successful editions already launched. In March 19 the new edition Tom Clancy's: The Division 2 will be launched. The first edition of The Division had record sales in 2016 with USD 330mn sold in the first week. This game will have a premium option in which players will pay an annual fee to have access to better weapons and items. The metacritic rating of Rainbow Six Siege, which has currently a league in eSports was 75.

**The Crew:** This is a racing game in an open environment. The Crew 2 scenario is US and the players may use planes, formula 1 and other vehicles to race in cities and throughout the country. Its ratings in MetaCritic was 66.

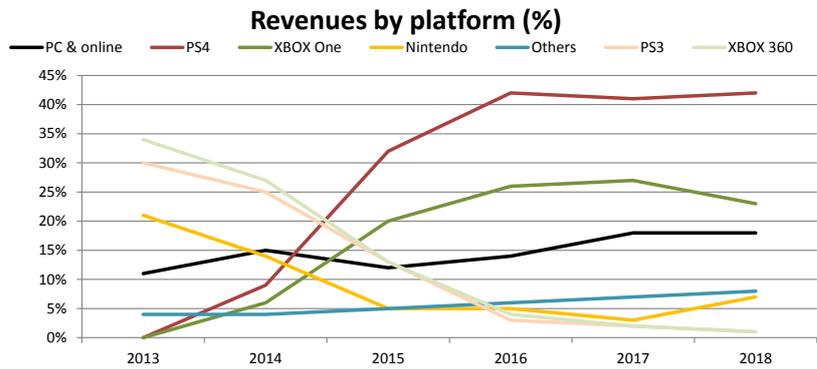
**Skull & Bones:** This is a new franchise to be launched either in 2019 or 2020. It is a pirate's history in the sea developed by the same studio which created Assassin's Creed Black Flag, which had a similar scenario.

Main Games	Launch Date
Prince of Persia	1989
Prince of Persia The Shadow and the Flame	1993
Tom Clancy's Rainbow Six	1998
Tom Clancy's Rainbow Six: Eagle Watch	1999
Prince of Persia 3D	
Tom Clancy's Rainbow Six: Urban Operations	2000
Tom Clancy's Ghost Recon	2001
Tom Clancy's Splinter Cell	2002
Beyond Good and Evil	2003
Prince of Persia The Sands of Time	
Far Cry	
Prince of Persia Warrior Within	2004
Tom Clancy's Splinter Cell: Pandora of tomorrow	
Tom Clancy's Ghost Recon 2	
Far Cry Instincts	
Battles of Prince of Persia	2005
Tom Clancy's Splinter Cell: Chaos Theory	
Far Cry Vengeance	
Tom Clancy's Splinter Cell: Essentials	2006
Tom Clancy's Ghost Recon Advance Warfighter	
Far Cry: Paradise Lost	2007
Assassin's Creed	
Assassin's Creed: Altair's Chronicles	
Prince of Persia: The Fallen King	2008
Far Cry 2	
Assassin's Creed: Bloodlines	2009
Assassin's Creed II	
Tom Clancy's Ghost Recon Predator	
Tom Clancy's Splinter Cell: Conviction	
Prince of Persia: The Forgotten Sands	2010
Assassin's Creed: Brotherhood	
Assassin's Creed: Revelations	2011
Tom Clancy's Ghost Recon Shadow Wars	
Far Cry 3	
Tom Clancy's Ghost Recon Future Soldier	2012
Assassin's Creed III	
Assassin's Creed IV: Black Flag	
Tom Clancy's Splinter Cell: Blacklist	2013
Prince of Persia The Shadow and the Flame (remake)	
Assassin's Creed Rogue	
The Crew	
Watchdogs	2014
Far Cry 4	
Assassin's Creed Syndicate	2015
Far Cry Primal	
WatchDogs 2	2016
Tom Clancy's: The Division	
Assassin's Creed Origins	2017
Tom Clancy's Ghost Recon Wildlands	
Far Cry 5	
The Crew 2	2018
Assassin's Creed Odyssey	
Tom Clancy's: The Division 2	15-03-2019
Skull & Bones	2019
Beyond Good and Evil 2	2019-2020

Source: Company's Data; BiG Research



Source: Bloomberg



Source: Company's Data

▲ **Calendar**

- January 8-9 of 2019: CES 2019
- May 16th of 2019: FY19 Earnings
- June 11-13 of 2019: E3 conference 2019
- August 21-24 of 2019: Gamescom 2019

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## ▲ M&A

**Vivendi hostile takeover to Ubisoft:** Vivendi, a media company, tried to aggregate in Europe both Gameloft ( a mobile games company) and Ubisoft. It only succeeded to acquire Gameloft. After failing to acquire Ubisoft, it sold its stake to Guillemot family, to Tencent (5%) and to the Canada’s Ontario Teachers Pension Fund.

**Purchase of Ketchapp:** Ketchapp is a mobile games producer which uses its extensive portfolio of apps to cross sell its new games. This acquisition will allow Ubisoft to attract more players for its mobile games without spending as much in advertising.

## ▲ Comparative Analysis

Despite a higher P/E than the main competitors, Ubisoft has a higher EBITDA margin. Its net debt is positive vs the other companies but still at low levels vs EBITDA.

Name	Country	Market Cap (mn)	Currency	P/E 2019E	NetDebt/ EBITDA	Margin EBITDA
ACTIVISION BLIZZARD INC	UNITED STATES	35,131	USD	16.7	-0.3	34.0%
TAKE-TWO INTERACTIVE SOFTWARE	UNITED STATES	11,427	USD	19.5	-3.2	17.6%
ELECTRONIC ARTS INC	UNITED STATES	25,110	USD	16.2	-2.5	27.8%
UBISOFT ENTERTAINMENT	FRANCE	7,700	EUR	19.5	0.3	46.8%
Average exc. Ubisoft				17.5	-2.0	26.5%

Source: Bloomberg; BiG Research

## ▲ Risks

**Constant development:** Gaming companies have to continuously develop and improve its games, gameplay and scenarios in order to keep demand high and so guarantee a stable level of income which will compensate the high R&D costs.

**Industry constant changes:** The increase in popularity of gaming in social networks and online media channels as youtube and Twitch led to an increase in the velocity of trends following. If a game goes viral as happened with Fortnite, the number of players of that game increases exponentially. This phenomenon may lead to a decrease in sales of games less popular and for that reason, companies have to constantly adapt and evolve their games in order to fulfill customer needs.

## ▲ Graph



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

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  - Buy, expected absolute return above 15%;
  - Accumulate, expected absolute return between +5% and +15%;
  - Keep/Neutral, expected absolute return between -5% and +5%;
  - Reduce, expected absolute return between -5% and -15%;
  - Sell, expected absolute return below -15%;
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PSI20 Notes in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Accumulate/Buy	2	66.7%
Keep/Neutral	1	33.3%
Reduce/Sell	0	0.0%
<b>Total</b>	<b>3</b>	<b>100.0%</b>

Trading Ideas in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Profit Taking	9	56.3%
Stop Loss	7	43.8%
In Place	0	0.0%
<b>Total</b>	<b>16</b>	<b>100.0%</b>

Pair Trades in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
<b>Total</b>	<b>0</b>	<b>0%</b>

Source: BiG Research

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