COMMENTARY

April 1, 2016

Dear clients and colleagues,

In November 2014 we profiled Ubisoft, a company we own in our portfolios. The company develops, publishes and distributes video games for home consoles, personal computers and portable devices in physical and online formats worldwide.

At that time we believed that the company was in a very good position to take advantage of the growing gaming software industry. We thought that the next-generation console cycle, which started in November 2013, would provide plenty of opportunities for software developers such as Ubisoft.

Our thesis on the industry was right: Demand for gaming content continues to be strong and new products and innovations such as virtual reality will continue to support this industry. According to EA Sports and NPD, the number of next-gen consoles sold is 45% higher than in the previous console cycle.

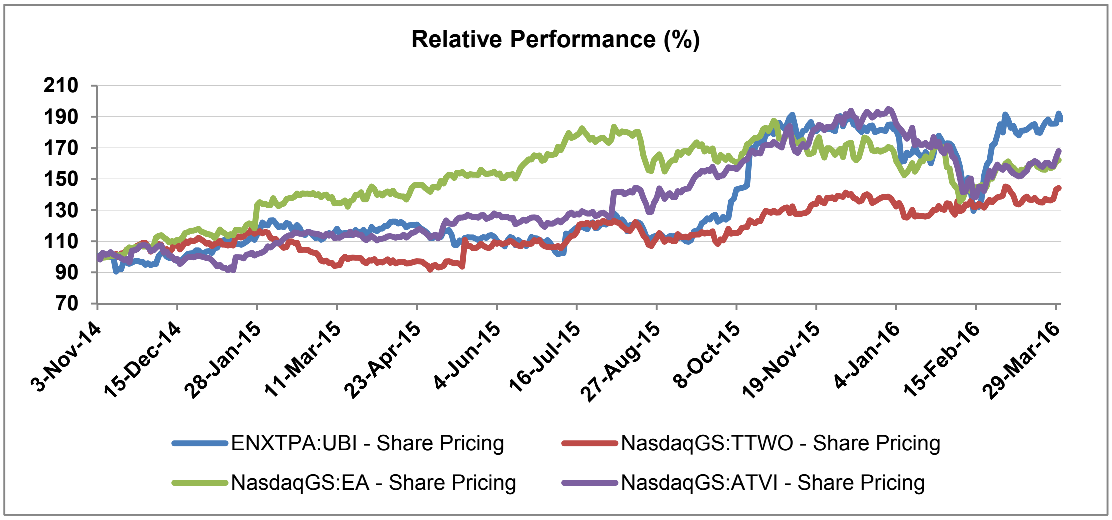
One key characteristic of Ubisoft that has been overlooked by many investors is its capacity to launch brand new video game franchises. Three of the four most successful title launches in the gaming industry belong to Ubisoft. A recent example is their latest launch “The Division” which sold more copies in 24 hours than any other game. In its first five days, The Division sold $330M worth of copies. Not bad for a company that generates close to $1.5B in revenue. The Division isn’t only Ubisoft’s fastest-selling game, it also holds the industry record for the biggest first week for a completely new franchise.

We believe that content creation is a very attractive space in which to invest. In this era of media convergence, content owners and producers seem to have an edge over distribution platforms. Recently, the gaming industry has received more interest from media companies. Vivendi, the French media conglomerate, is the latest example.

On February 18, Vivendi announced a takeover bid on Gameloft, another French-listed video game producer. The Guillemot brothers, who control the board of directors of both Gameloft and Ubisoft, rejected the €6 per share bid. While building up its stake in Gameloft to 30%, Vivendi also accumulated shares of Ubisoft. Vivendi now owns approximately 16% of the equity of Ubisoft while the Guillemot family owns 9%.

At this point, it is clear that the Guillemot family's intention is to keep Ubisoft independent. In order to convince the investor community that the company should remain independent, Ubisoft presented very ambitious mid-term objectives last February. The company intends to increase its revenue by 60% within the next 4 years while generating solid margin levels and free cash flows.

As demonstrated on the following chart, Ubisoft, which underperformed its peers prior to 2015, really took off last summer. The company's strong operating results and the revival of the consolidation cycle have contributed to its outperformance. We remain confident in Ubisoft's ability to achieve its mid-term financials target.



Source: Capital IQ

Have a good weekend.

The Global Alpha Team