Neutral Takeaways from GameStop's F4Q16 Earnings

We would like to highlight some key takeaways from GameStop's 4Q earnings on March 24, 2016 for the quarter ending January 2016 as they pertain to our Interactive Entertainment coverage universe.

1) No actionable read-through for ATVI, EA, and TTWO. As for Ubisoft, GameStop did highlight Ubisoft's *The Division* and *Far Cry Primal* as two of five key titles for FY1Q16.

2) Looking ahead to its 2016 fiscal year, GameStop expects video game HW and SW sales to decline 10% and 5%-10%, respectively - this is generally in line with our expectations. We expect a decline in HW sales given this is the third year of the current console cycle and lower price points from last year. We also expect a decline in retail SW sales primarily owing to weakening Nintendo platforms (which are not material to ATVI, EA, TTWO, or UBI) and the ongoing shift towards digital distribution.

3) Although it is still too early to tell, it appears the Amazon Prime 20% discount off new games has not had a meaningful impact on GameStop. On a constant currency basis, GameStop's new video game HW sales growth of 6% and new SW sales decline of 7% was roughly in line with the overall U.S. market according to NPD Data. That said, Amazon launched the program on January 12, 2015 and we continue to believe it has broad implications for video game retailers and the software publishers.

Company	Symbol	Price (3/24)	Rating	PT
Activision Blizzard Inc	ATVI	$32.21	Buy	$35.00
Amazon.com, Inc.	AMZN	$582.95	Buy	$685.00
Electronic Arts Inc.	EA	$64.24	Buy	$84.00
Take-Two Interactive Software, Inc.	TTWO	$35.19	Buy	$41.00
Ubisoft Entertainment SA	UBI FP	€27.21	Neutral	€28.00

Source: Bloomberg and Mizuho Securities USA

Neil A. Doshi
+1 415 268 5519
neil.doshi@us.mizuho-sc.com

San Q. Phan
+1 212 205 7858
san.phan@us.mizuho-sc.com

Price Target Calculation and Key Risks

Activision Blizzard Inc

Valuation

Our $35 PT is based on 2017 EV/EBITDA valuation framework.

1) Using EV/EBITDA valuation, we value shares of ATVI at $34 based on 13x our 2017 EBITDA estimate of $2.5 billion. This yields an implied firm value of $29.2 billion. After adjusting for year-end 2016 net debt of $2.4 billion and shares of 779 million, we arrive at a target price of $34. For context, ATVI trades around 10x 2017 EV/EBITDA. Given the strong management team, solid title slate and transition to digital, we believe that the firm warrants multiple expansion from current levels.

2) Using Non-GAAP P/E valuation, we value ATVI shares at $36. We apply a 18x multiple to our 2017 Non-GAAP EPS of $1.98 to arrive at a valuation of $36. For context, ATVI shares trade at ~15x 2016 P/E, and for the reasons mentioned above, we'd expect multiple expansion.

The average of these two valuation methodologies gets us to a target price of $35.

Risks

1) Competition - ATVI faces heavy competition from other game publishers, including EA, TTWO, and UBI. Furthermore, ATVI faces competition from first party studios, online/mobile game companies like Zynga and King, as well as from thousands of smaller developers.

2) King acquisition could come with some integration risk as well as add lower visibility into future guidance due to the fleeting nature of mobile casual gamers.

3) Destiny's success is questionable. Investors were expecting Destiny to be ATVI's next billion dollar franchise, but the game fell well below expectations. We believe that recent DLC releases have been well received, and Destiny is on its way to becoming another $B franchise for ATVI, but it will take longer than investors expected.

4) Margin cap? ATVI has the best margin structure of any of the publishers, but at 32%, we are expecting modest margin improvement of the next three years. It is possible that margins move faster and higher than we are modeling, but it will depend on the success of new FTP and digital content that ATVI releases.

Amazon.com, Inc.

Valuation

Applying a 26x multiple to our 2017 free cash flow estimate of $11.1 billion, we arrive at a target price of $585. We believe AMZN could see multiple expansion as high margin businesses like 3P/FBA and AWS become more material. Our target multiple is largely driven off growth assumptions, but we also considered other factors such as new business opportunities, comparable company multiples, historical multiple ranges, and management's ability to execute. For context, Amazon currently trades at 24x our 2017 P/FCF estimate.

Using a P/S valuation, we apply a 2.5x multiple to our 2017 sales estimate of $153.9 billion, while adjusting for 2016 year end shares to arrive at a target price of $784. We acknowledge that this is a high multiple, but AMZN currently trades at 2.0x 2016 sales, and given the multiple levers of growth, we believe that such a high multiple is warranted.

The average of the P/S and FCF valuation methodologies results in a blended target price of $685.

Risks

Risks to our target price include:

1) Competition - Amazon is no longer just a retailer. While it faces stiff competition on the retailing side from traditional and online retailers, it is also facing competition from eBay, Google, Apple, Alibaba, FlipKart, and others.

2) Potential for increased investments - While we do believe that Amazon is coming out of a multi-year investment phase, there are plenty of pans in the investment fire - Grocery, same day delivery, investments in China and India, and more. We believe that these investments could each cost several billion dollars if Amazon wants to be a leading player, and the ROI is hard to calculate. This would put pressure on CSOI and could result in the stock to fall.

3) European Corporate Taxes - Amazon may have to start paying taxes in Europe on a country-by-country basis, as the EU is cracking down on U.S. companies that have created tax-favorable reporting structures.

Electronic Arts Inc.

Valuation:

Our price target of $84 is based on a combination of valuation methodologies, including F2017 EV/EBTIDA and F2017 Non-GAAP P/E.

Using EV/EBTIDA, we apply a target multiple of 15x to our F2017 EBITDA estimate of $1.6 billion to reach an enterprise value of $23.9 billion. Adjusting for F2016 end of year net cash of $3.2 billion (we are not assuming further share repurchases, and we are treating the convert as debt), we arrive at a market cap of $27.1 billion, or $83 per share.

Using P/E, we apply a target multiple of 24x our F2017 Non-GAAP EPS of $3.50 to reach a price target of $84. Adjusting for F2016 end of year net cash of $3.2 billion, results in a more reasonable P/E target multiple of approximately 21x excluding net cash of approximately $10 per share. Using the average of the three methodologies, we arrive at a target price of $84.

Risks:

1) Competition - EA competes heavily with other publishers like ATVI, TTWO, Nintendo, and first party platform studios from Sony and Microsoft. New game development can be very costly, and stakes are high if a game fails.

2) Online Woes - EA has had issues in the past regarding large scale multi-player, and this has resulted in weak sales of particular games, loud complaints from players, and selling pressure on the stock.

3) Possible margin expansion ceiling. Given EA's reliance on licensed IP vs. its own IP, EA has a structural disadvantage on margin expansion potential as it must pay 20-30% of its revenue to the IP owners.

Take-Two Interactive Software, Inc.

Valuation:

Our price target of $41 is based on a combination of valuation methodologies – a four-year average of F2014-F2017E EV/EBTIDA and F2014-F2017E Non-GAAP P/E. We believe a 4-year average is sensible given the variance in revenues and earnings between years with GTA releases.

Using EV/EBTIDA, we apply a target multiple of 9x to our average F2014-F2017E EBITDA estimate of $372 million to reach an enterprise value of $3.4 billion. Adjusting for F2016 end of year net cash of $1.3 billion (we are assuming the company's convertible debt will be satisfied by equity), we arrive at an equity value of $4.6 billion, or $40 per share.

Using P/E, we apply a target multiple of 16x our average F2014-F2017E Non-GAAP EPS of $2.54 to reach a price target of $41.

Using the average of the two methodologies, we arrive at a target price of $41.

Risks:

1) Competition - Take-Two faces heavy competition from other publishers like Activision Blizzard, EA, Ubisoft, Nintendo, and first party platform studios from Sony and Microsoft.

2) Game delays - Making blockbuster AAA titles can be a herculean effort subject to numerous delays. Game delays are generally common in the industry, but Take-Two has had more than its share of delays in the past. Game delays result in higher development costs and defer earnings streams expected by investors.

3) We believe the company's success is highly dependent on its Rockstar Games subsidiary, particularly creative leads Sam and Dan Houser. Rockstar generally tends to spend more time, and correspondingly, more development dollars relative to peers in creating games.

Ubisoft Entertainment SA

Valuation:

Our price target of €28 is based on a combination of valuation methodologies - F2017E EV/EBTIDA and Non-IFRS P/E.

Using EV/EBTIDA, we apply a target multiple of 12x our F2017E EBITDA estimate of €256 million to reach an enterprise value of €3.1 billion. Adjusting for F2016 end of year net cash of €200 million, we arrive at a market cap of €3.3 billion, or €29 per share.

Using P/E, we apply a target multiple of 20x our F2017E Non-IFRS EPS of €1.33 to reach a price target of €27.

Using the average of these methodologies, we arrive at a price target of €28.

Risks:

1) Competition - Ubisoft faces heavy competition from other publishers like Activision Blizzard, EA, Take-Two, Nintendo, and first party platform studios from Sony and Microsoft.

2) Game delays - Making blockbuster AAA titles can be a herculean effort subject to numerous delays. Game delays result in higher development costs and defer earnings streams expected by investors.

3) Ubisoft is unique in the industry for operating an integrated mini-studio. We are skeptical when video game companies try to move beyond their core competencies and start investing in movies, television, etc.

4) Vivendi has taken a 15% stake in Ubisoft which management is vocally unhappy about. This could disrupt the board and decision making process at Ubisoft.

IMPORTANT DISCLOSURES

The disclosures for the subject companies of this report as well as the disclosures for Mizuho Securities USA Inc. entire coverage universe can be found at https://msusa.bluematrix.com/sellside/Disclosures.action or obtained by contacting EQSupervisoryAnalystUS@us.mizuho-sc.com or via postal mail at Equity Research Editorial Department, Mizuho Securities USA Inc., 320 Park Avenue, 12th Floor, New York NY, 10022.

Ownership Disclosures and Material Conflicts of Interest or Position as Officer or Director

None

Receipt of Compensation

Mizuho Securities USA Inc. and or its affiliates makes a market in the following securities: Activision Blizzard Inc, Amazon.com, Inc., Electronic Arts Inc. and Take-Two Interactive Software, Inc.

Mizuho Securities USA Inc. has provided non-securities-related services for Amazon.com, Inc. who is or was a client in the past 12 months.
The compensation of the research analyst writing this report, in whole or part, is based on MSUSA's annual revenue and earnings and is not directly related to any specific investment banking compensation. MSUSA's internal policies and procedures prohibit research analysts from receiving compensation from companies covered in the research reports.

Regulation Analyst Certification (AC)

I, Neil A. Doshi, hereby certify that the views expressed in this research report accurately reflect my personal views about any and all the subject companies. No part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, San Q. Phan, hereby certify that the views expressed in this research report accurately reflect my personal views about any and all the subject companies. No part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Rating Definitions

Mizuho Securities USA investment ratings are based on the following definitions. Anticipated share price change is based on a 6- to 12-month time frame. Return expectation excludes dividends.

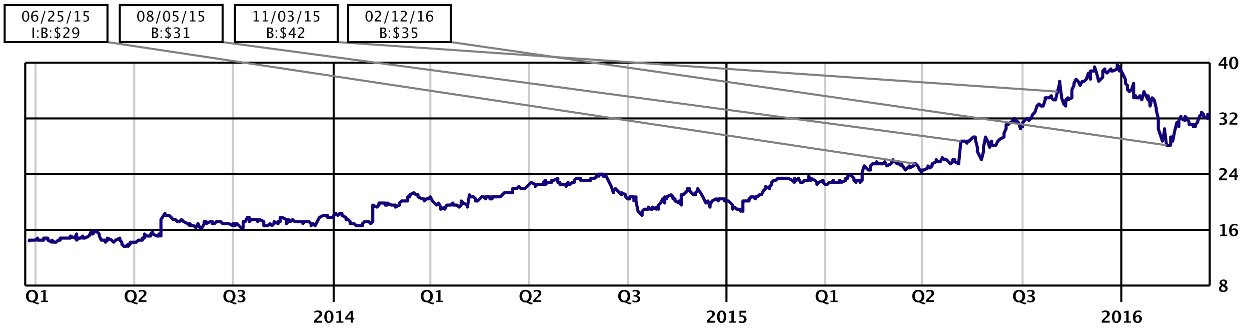
Buy:	Stocks for which the anticipated share price appreciation exceeds 10%.
Neutral:	Stocks for which the anticipated share price appreciation is within 10% of the share price.
Underperform:	Stocks for which the anticipated share price falls by 10% or more.
RS:	Rating Suspended - rating and price objective temporarily suspended.
NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 3/24)	**% of coverage**	**IB service past 12 mo**
Buy (Buy)	51.93%	36.17%
Hold (Neutral)	46.41%	25.00%
Sell (Underperform)	1.66%	33.33%

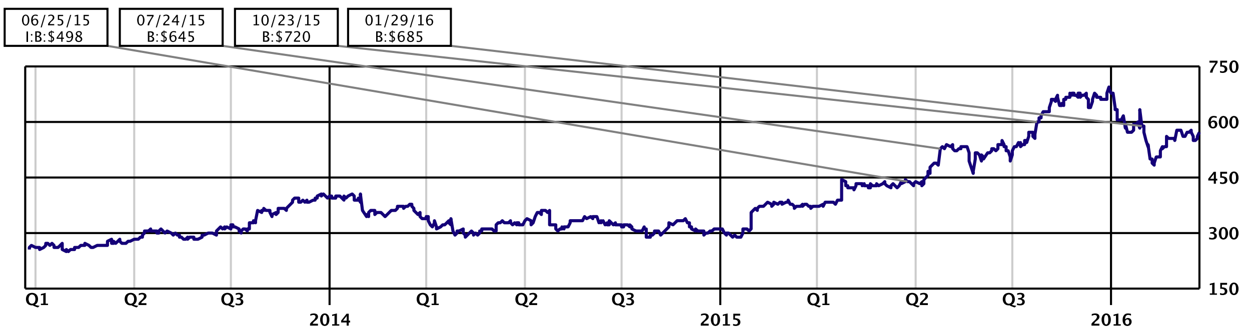
For disclosure purposes only (NYSE and FINRA ratings distribution requirements), our Buy, Neutral and Underperform ratings are displayed as Buy, Hold and Sell, respectively.

Rating and Price Target History for: Activision Blizzard Inc (ATVI) as of 03-23-2016



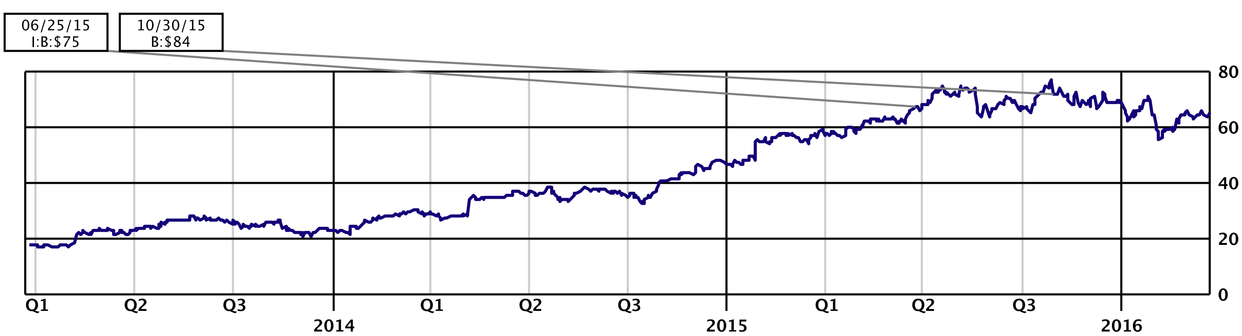
Created by BlueMatrix

Rating and Price Target History for: Amazon.com, Inc. (AMZN) as of 03-23-2016

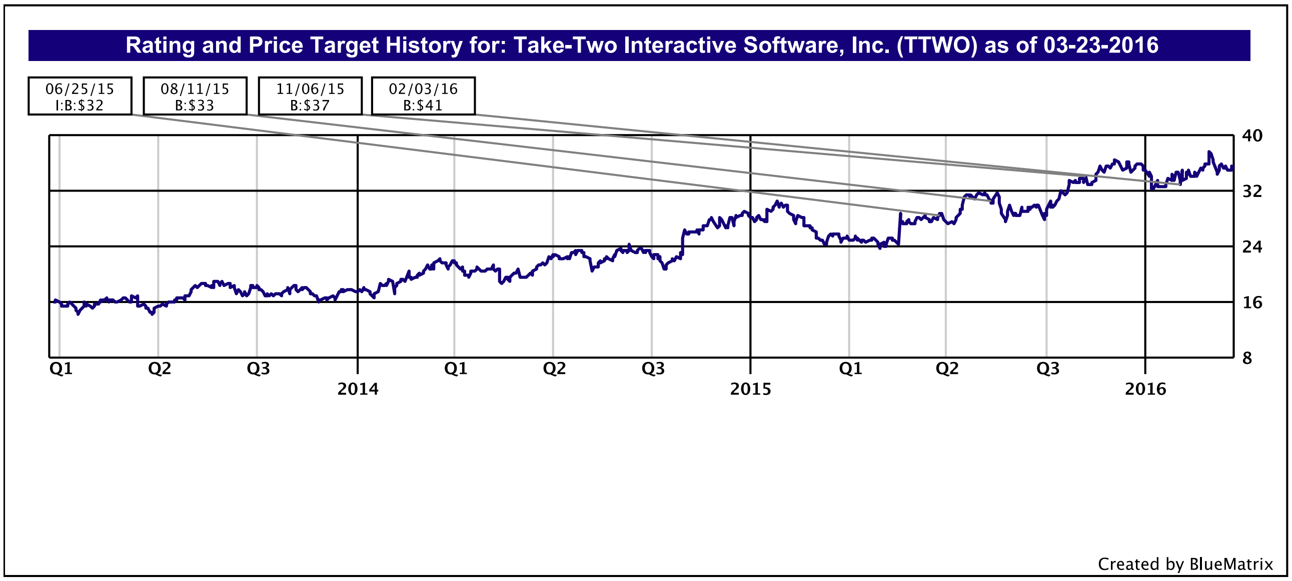


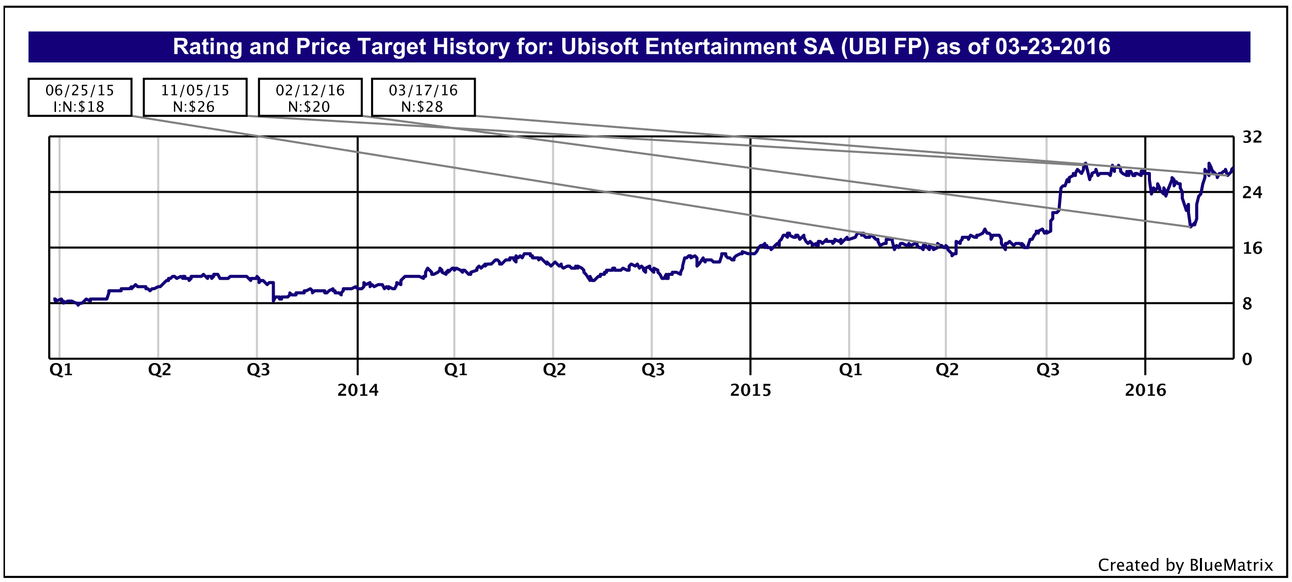
Created by BlueMatrix

Rating and Price Target History for: Electronic Arts Inc. (EA) as of 03-23-2016



Created by BlueMatrix





For additional information: Please log on to http://www.mizuhosecurities.com/us or write to Mizuho Securities USA, 320 Park Ave, 12th FL, New York, NY 10020.

Disclaimers

This report has been prepared by Mizuho Securities USA Inc. ("MSUSA"), a subsidiary of Mizuho Securities Co., Ltd. ("MHSC"), solely for the purpose of supplying information to the clients of MSUSA and/or its affiliates to whom it is distributed. This report is not, and should not be construed as, a solicitation or offer to buy or sell any securities or related financial products.

This report has been prepared by MSUSA solely from publicly available information. The information contained herein is believed to be reliable but has not been independently verified. MSUSA makes no guarantee, representation or warranty, and MSUSA, MHSC and/or their affiliates, directors, employees or agents accept no responsibility or liability whatsoever as to the accuracy, completeness or appropriateness of such information or for any loss or damage arising from the use or further communication of this report or any part of it. Information contained herein may not be current due to, among other things, changes in the financial markets or economic environment. Opinions reflected in this report are subject to change without notice.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. The report has been prepared without regard to the individual financial circumstances, needs or objectives of persons who receive it. The securities and investments related to the securities discussed in this report may not be suitable for all investors, and the report is intended for distribution to Institutional Investors. Readers should independently evaluate particular investments and strategies, and seek the advice of a financial adviser before making any investment or entering into any transaction in relation to the securities mentioned in this report.

MSUSA has no legal responsibility to any investor who directly or indirectly receives this material. Investment decisions are to be made by and remain as the sole responsibility of the investor. Investment involves risks. The price of securities may go down as well as up, and under certain circumstances investors may sustain total loss of investment. Past performance should not be taken as an indication or guarantee of future performance. Unless otherwise attributed, forecasts of future performance represent analysts' estimates based on factors they consider relevant. Actual performance may vary. Consequently, no express or implied warranty can be made regarding future performance.

Any references in this report to Mizuho Financial Group, Inc. ("MHFG"), MHSC and/or its affiliates are based only on publicly available information. The authors of this report are prohibited from using or even obtaining any insider information. As a direct subsidiary of MHSC and indirect subsidiary of MHFG, MSUSA does not, as a matter of corporate policy, cover MHFG or MHSC for investment recommendation purposes.

MSUSA or other companies affiliated with MHFG or MHSC, together with their respective directors and officers, may have or take positions in the securities mentioned in this report, or derivatives of such securities or other securities issued by companies mentioned in this report, for their own account or the accounts of others, or enter into transactions contrary to any recommendations contained herein, and also may perform or seek to perform broking and other investment or securities related services for the companies mentioned in this report as well as other parties generally.

Restrictions on Distribution

This report is not directed to, or intended for distribution to or use by, any person who is a citizen or resident of, or entity located in, any locality, territory, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to or restricted by law or regulation. Persons or entities into whose possession this report comes should inform themselves about and observe such restrictions.

United States: Mizuho Securities USA Inc., a member of the MHSC Group, 320 Park Avenue, 12th Floor, New York, NY 10022, USA, contact number +1-212-209-9300, distributes or approves the distribution of this report in the United States and takes responsibility for it. Any transaction by a US investor resulting from the information contained in this report may be effected only through MSUSA. Interested US investors should contact their MSUSA sales representative.

United Kingdom/European Economic Area: This report is distributed or has been approved for issue and distribution in the UK by Mizuho International plc ("MHI"), Bracken House, One Friday Street, London EC4M 9JA, a member of the MHSC Group. MHI is authorized and regulated by the Financial Services Authority and is a member of the London Stock Exchange. For the avoidance of doubt this report is not intended for retail clients. This report may be distributed in other member states of the European Union.

Japan: This report is distributed in Japan by Mizuho Securities Co., Ltd. ("MHSC"), Otemachi First Square Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004, Japan. Registered Financial Instruments Firm, No. 94 (Kinsho), issued by the Director, Kanto Local Finance Bureau. MHSC is a member of the Japan Securities Dealers Association, the Japan Securities Investment Advisers Association and the Financial Futures Association of Japan, and the Type II Financial Instruments Firms Association.

Singapore: This report is distributed or has been approved for distribution in Singapore by Mizuho Securities (Singapore) Pte. Ltd. ("MHSS"), a member of the MHSC Group, which is regulated by the Monetary Authority of Singapore. Any research report produced by a foreign Mizuho entity, analyst or affiliate is distributed in Singapore only to "Institutional Investors," "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, Chap. 289 of Singapore. Any matters arising from, or in connection with this material, should be brought to the attention of MHSS.

Hong Kong: This report is being distributed in Hong Kong by Mizuho Securities Asia Limited ("MHSA"), a member of the MHSC Group, which is licensed and regulated by the Hong Kong Securities and Futures Commission.

Australia: This report is being distributed in Australia by MHSA, which is exempted from the requirement to hold an Australian financial services license under the Corporation Act 2001 ("CA") in respect of the financial services provided to the recipients. MHSA is regulated by the Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for recipients who are "wholesale clients" within the meaning of the CA.

If you do not wish to receive our reports in the future, please contact your sales person and request to be removed from receiving this distribution.