

**9.9.2024**

**To: The Board of Directors and Members of Committees, Ubisoft Entertainment S.A.,  
Cc: Mr. Yves Guillemot, CEO, and Chairman, Ubisoft Entertainment S.A.  
Cc: Tencent Holdings Ltd.,**

**Cc: Guillemot Family Holding  
Cc: Ubisoft Shareholders**

**Cc: KKR, Vivendi, Blackstone**

**Subject: Urgent Call for Strategic and Structural Changes at Ubisoft Entertainment**

Dear Members of the Board, Dear fellow shareholders,

As a significant minority shareholder in Ubisoft Entertainment via AJ Investments and our partners, we are writing to express our deep dissatisfaction with the current performance and strategic direction of the company. The recent quarterly results, which included the postponement of key games like Rainbow Six Siege and The Division into the 2025 lineup and a lowered revenue outlook for the Q2 2024, have heightened our concerns about the management's ability to deliver value to shareholders over the long term. Share price of Ubisoft have decreased by more than 40% over the last year, compared to rise of its competitors and indexes.

This letter consists of following points:

**TAKE UBISOFT PRIVATE OR ALLOW IT TO SELL IT TO STRATEGIC INVESTOR**

1. **UBISOFT VALUATION**, why we believe UBISOFT is great, undervalued company and **should be worth between 40-45 EUR per share.**
2. **OUR CONCERNS** about the future of this company with current management and directory
3. **OUR PROPOSALS** to increase value of UBISOFT for all stakeholders
  1. **Allow TAKE PRIVATE PROCESS by PE firms or Guillemot family + Tencent at fair price**
  2. **Allow SALE PROCESS as we are in discussion with investors to fight against Guillemot family with so called proxy fight at extraordinary shareholder meeting**
  3. **Change of the current management. Start hiring process of NEW CEO who will optimise the cost and studio structure for more agile and competitive company as Ubisoft should be**
  4. **We will use the French minority law to collect enough shareholders to start proxy fight and initiate SALE PROCESS of Ubisoft to increase shareholder value for all shareholders**

## Ubisoft Valuation:

We believe that Ubisoft is a great company developing, distributing and selling video games. **Ubisoft has longstanding history with providing great experience for players all around the world. Their IP such as Assassin's Creed, Far Cry, Tommy Clancy's, Just Dance, Crew, Rayman and others are extraordinary and can attract millions of players overtime.**

However, we believe that Ubisoft at current valuation is deeply undervalued and **should be worth between 40-45 EUR per share.**

The main reason why the valuation is so low compared to the peers is that **Ubisoft at current state is mismanaged and shareholders are hostages of Guillemot family members and Tencent who take advantage of them. Management is focused on pleasing investors with beating quarterly results and not focusing on long-term strategy to provide exceptional experience for the gamers. Our company has extensive knowledge about the gaming industry and we were long-term shareholder in Activision Blizzard and we started our Ubisoft position couple weeks ago and still adding to it.** We cannot understand the decision-making process of current management that is focused on releasing multiple average games per year that are harming Ubisoft's reputation among gamers community instead of focusing to provide hit games within its exceptional franchise portfolio. Division Heartland which was very much expected game from the gamers was cancelled. Skull and Bones release was not a success, Prince of Persia Lost Crown was okay but not very impressive as nobody talks about the game anymore. Rainbow Siege is doing great, nevertheless franchises such Rayman, Splinter Cell, For Honor, Watch Dogs are sleeping for years despite these games are loved by millions of players all around the world. Latest release of Star Wars Outlaws is expected to bring good numbers, but recent reviews shows that game was not 100% ready to release, despite the fact that whole world was waiting for open-world game under the Star Wars franchise. The Metacritic rating was 76% and IGN has 7/10 rating, which is quite good rating in our view.

**To support our thesis see recent Deutsche Bank analysis (19/7/2024) that suggests Ubisoft has 67% discount to the peers, which is concerning.** (Source: DB research, 7/2024)

### Remaining constructive on the medium-term outlook

Despite obvious execution risks and near-term volatility, we remain convinced that Ubisoft's current valuation (4.0x EV/EBITDA, 67% discount to peers) fails to account for its strong turnaround potential ahead. In our view, investors should begin to reward efforts to (1) re-focus development efforts towards core IPs and (2) address glaring cost inefficiencies in FY-25 (to Mar). Whilst investors may question our faith given past mishaps, we argue that a strategy to refocus on core IPs and cut costs is in stark contrast to a strategy of portfolio expansion in 2019 (a root cause of recent failures). We view the former as low-risk, whilst providing a path to lower R&D spend and improve predictability. Here, we note that the company reiterated its 'more selective' approach to game development during Q1 earnings, which in our view, paves way to stabilize (or at best, decrease) cash R&D beyond FY-25. You can find more analysis of our Buy case in our recent report; [Low hanging fruit](#).

If we compare Ubisoft's valuation with its peers such as **Electronic Arts, Take-Two Interactive, Roblox, Embracer or Playtika**. **Ubisoft is significantly undervalued based on EV/Sales, EV/EBITDA as well as Book Value per share. This is attractive entry-point for investors, but Guillemot's and Tencent are blocking any potential move. If we look closely on the table below, EV/EBITDA for Ubisoft for next year is 2,9X, meanwhile TTWO and EA has 15X and 13X respectively.** Please see table below: (source: Bloomberg).

Ticker	Last Price	Mkt Cap	Revenue	Rev - 1 Yr Gr	EBITDA	PM	EBITDA to Net Sa	P/E	Bk Val Per Sh	EV/EBITDA Nxt Yr	Net Debt	EV/Sales T12M	CPS
UBI FP	117.145	2184.71	2300.90	26.82	1089.60	6.86	47.36	13.69	14.73	2.919	1304.10	1.65	4.32
EMBRACB SS	121.79	29374.80	42206.00	12.06	1203.00	-43.07	2.85		36.49	3.961	17840.00	1.21	6.63
TTWO US	144.91c	25400.23	5349.60	-.01	-1663.00	-69.99	-31.09		34.20	15.791	2758.00	5.60	-.09
EA US	146.46c	38694.72	7562.00	1.83	2002.00	16.83	26.47	31.05	27.92	13.222	-1066.00	4.98	8.57
PLTK US	6.68c	2484.81	2567.00	-1.85	689.90	9.15	26.88	9.50	-.30	5.534	1494.40	1.86	1.41
RBLX US	39.09c	25299.05	2799.27	25.81	-911.44	-41.15	-32.56		.19	28.703	-430.47	7.39	.74

The ongoing underperformance of Ubisoft is a cause for concern, especially considering the potential Ubisoft has with its strong portfolio of intellectual properties (IPs) such as Assassin's Creed, Rainbow Six Siege, Far Cry, Tommy Clancy's, Star Wars, Avatar and others. It is clear that the current management, led by the Guillemot family and supported by Tencent, has not been able to unlock this potential or provide satisfactory returns to minority shareholders, retail investors, and pension funds that are invested in Ubisoft.

## Our Concerns:

- Strategic Direction:** The current strategic direction under the Guillemot family's leadership has led to repeated delays and missed opportunities, which have resulted in significant financial underperformance. Share price of Ubisoft have decreased by more than 40% over the last year. We suggest that Ubisoft allow shareholders to vote for new CEO and allow sale of the business to PE group or let the Guillemot-led consortium to buy-out minorities for fair price.
- Management and Governance:** The control exercised in September 2022 by Tencent and the Guillemot family has effectively blocked potential acquisitions and partnerships that could have been beneficial for the company and its shareholders. More recently, in 2022, private equity firms such as KKR and Blackstone expressed interest in acquiring Ubisoft, but were unable to proceed due to existing agreements that prevent any single entity from gaining control without Guillemot and Tencent's consent. (<https://www.bloomberg.com/news/articles/2022-04-22/assassin-s-creed-publisher-ubisoft-said-to-draw-buyout-interest?embedded-checkout=true>) **This pattern of blocking potential acquisitions has prevented much-needed restructuring and revitalization that will benefit all the stakeholders of Ubisoft.**
- Guillemont's stock operations:** Same thing happened when Guillemot holding company took money from Tencent in September 2022 at 80 EUR per share valuation and few months later acquired more than 3% stake for less than 19 EUR per share. The deal with Tencent was made in order to prevent any future acquisition or takeovers that would make Ubisoft

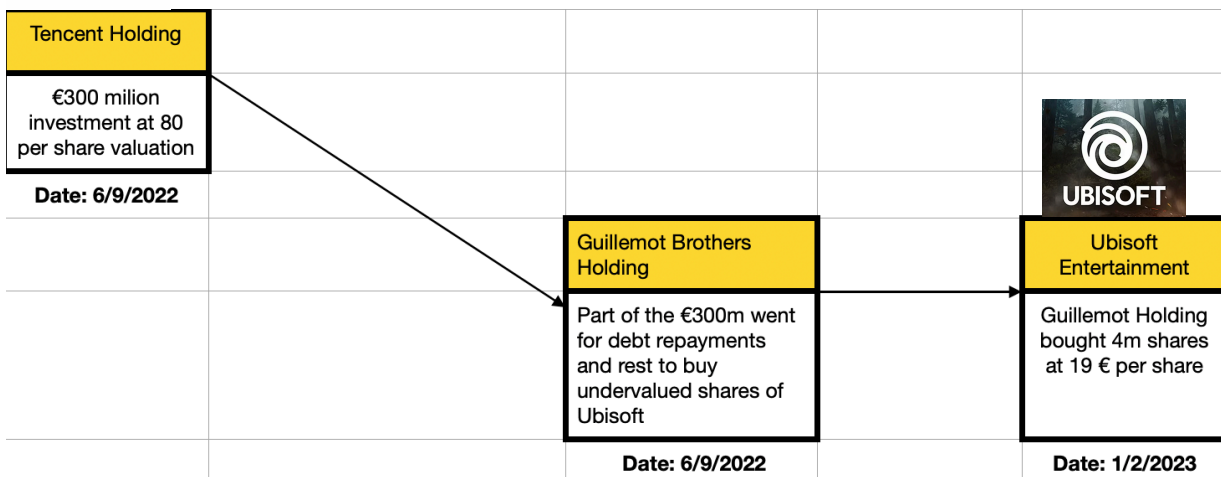
operations more effective and agile against its competitors. To illustrate this fact, Tencent acquired the stakes in Ubisoft as follows:

- **March 20, 2018:** Tencent initially acquired a 5% stake in Ubisoft as part of a strategic partnership.
- **September 6, 2022:** Tencent invested €300 million in Guillemot Brothers Limited, acquiring a 49.9% economic stake and 5% voting rights in the holding company. This investment was made at a valuation of €80 per share for Ubisoft, increasing Tencent's direct stake in Ubisoft to 9.99%. This transaction valued Guillemot Brothers LTD at 640m EUR. ([Nasdaq](#)) ([Game World Observer](#)) ([GlobeNewswire](#)) ([Davis Polk](#)). *Table below shows pre-money and post-money shares and voting rights held by Guillemot and Tencent 2/1/2023*  
*source: Ubisoft IR*

	Number of Shares		Number of Voting Rights		% of Shares Outstanding		% of Voting Rights	
	Pre-money	Post-money	Pre-money	Post-money	Pre-money	Post-money	Pre-money	Post-money
Guillemot Family (including Guillemot Corporation SA)	3,272,391	2,222,224	6,480,512	4,380,178	2.6%	1.8%	4.7%	3.2%
Guillemot Brothers Ltd	16,036,032	17,086,199	22,985,864	24,036,032	12.8%	13.6%	16.7%	17.6%
<i>Of which Ubisoft shares held by Guillemot Brothers Ltd via derivative contracts</i>	<i>9,086,199</i>	<i>9,086,199</i>	<i>9,086,199</i>	<i>9,086,199</i>	<i>7.2%</i>	<i>7.2%</i>	<i>6.6%</i>	<i>6.6%</i>
Tencent	5,591,469	5,591,469	5,591,469	5,591,469	4.5%	4.5%	4.1%	4.1%
<b>Concert</b>	<b>19,308,423</b>	<b>24,899,892</b>	<b>29,466,377</b>	<b>34,007,679</b>	<b>15.4%</b>	<b>19.8%</b>	<b>21.4%</b>	<b>24.9%</b>

- **February 1, 2023:** Guillemot Brothers Limited entered into a repurchase agreement to acquire up to 4,000,008 shares, representing 3.5% of Ubisoft's total share capital. These shares were bought at roughly 19 EUR per share. Guillemot family took money from Tencent at high valuation and then bought when the share price hit low that year. ([Yahoo Finance](#)) ([Yahoo Finance](#)).

Tencent 腾讯



Scheme above shows the Tencent investment in Ubisoft in September 2022



Above table depicts Ubisoft share price graph that shows these purchases in the timeline.

**We believe that Guillemot family and Tencent are discounting potential value of Ubisoft in order to buy more shares at lower valuation and eventually take full control of the company at heavily discounted valuation. We value the great work that has been done by the Guillemots over the decades in the Ubisoft but now is time to move on and restart the business with new shareholder approach and new management/CEO.**

This is what happened on February 1, 2023 when Guillemot entities acquired more than 4m shares of Ubisoft with the money from Tencent. In our view, recent delays of certain **titles there are creating uncertainty amongst investors is beneficial for Guillemot and Tencent in order to acquire more shares at even discounted valuation as Ubisoft is currently trading close to 15 EUR per share lowest point since 2015, giving Ubisoft valuation less than 2 billion EUR.** Guillemot brothers who are respected entrepreneurs in France best know the value of Ubisoft and its distribution agreements they have with Tencent and Activision Blizzard, so we assume they may use this as tactic to get minority shareholders under the stress.

**Guillemot family and Tencent owns more than 25% shares and 29,63% of voting rights of Ubisoft as the table shows below. So minority shareholders own roughly 70% of the company. Based on our talks with other shareholders we believe that we have enough voting power to challenge Guillemot's.**





## Our Proposals:

To address these concerns and ensure the future success of Ubisoft, we propose the following actions:

- 1. Take the Company Private for fair price: We urge the Board to consider taking Ubisoft private, with Tencent as a significant partner and shareholder.** Ubisoft as a public company is under ongoing scrutiny to report better and better quarterly results to please investors which may harm strategy going forward and is harming Ubisoft at this time, when they need to think long-term to get new air into their exceptional franchises. This would allow the company to address its issues away from the public market pressures and make necessary changes without harming minority shareholders, retail investors, and pension funds that are victims of these efficiency problems and mismanagement by current leadership. If Guillemot and Tencent are not interested in Ubisoft value, **we urge the current management not to block any takeover as there are several PE groups that would be interested, based on our research. In the event of offer from a PE group or strategic investor, we urge Guillemot family to accept this bid, when this bid will be for fair price, if this offer won't be accepted we will sue for a reimbursement of damages.**
- 2. Cost Reduction and Staff Optimization:** Implement a comprehensive cost reduction program and optimize staffing levels to be more comparable with industry leaders. This will involve difficult decisions but is necessary to ensure long-term viability and competitiveness. We are aware of the layoffs that Ubisoft has made in the recent years which accounted to approximately of 10% cut of workforce but that is simply not enough. We are aware that Ubisoft announced strategy to cut fixed costs by 150m EUR by 2024 and 200m EUR by 2025, but we still think this is not aggressive enough to stay competitive in the global landscape where Ubisoft operates. As part of this effort, Ubisoft should consider selling its studios that possess talent but are focused on non-core games, thereby allowing Ubisoft to streamline operations and focus on its main IPs. This move will raise cash at Ubisoft and lower its debt and become more effective and efficient on day to day basis.
- 3. Focus on Core IPs:** Concentrate resources and execution on the development of core IPs that have proven to generate the majority of Ubisoft's revenue. Titles like Rainbow Six Siege, Assassin's Creed, Far Cry, Watch Dogs, and Tom Clancy's titles such Sprintel Cell should be prioritized and cherished, ensuring they maintain their market-leading positions.
- 4. Management Changes:** Re-evaluate the current management team and governance structure. It is crucial to have a leadership team that is capable of driving the company forward and delivering shareholder value. Consider hiring new CEO who would run Ubisoft more efficiently who has proven record of running companies such Ubisoft. Obviously, advisory by Guillemot Brothers will be needed.

The current trajectory of Ubisoft under the existing management and governance is unsustainable. Immediate and decisive action is required to turn the company around and protect the interests of all shareholders. **We urge the Board to consider our proposals seriously within next 60 days and act in the best interest of the company and its shareholders. If we do not receive any reply, we will get together with other minority shareholders who share our views and make bigger push against Ubisoft management according to the French minority shareholder law. We are in**

**contact with institutional and retail investors of Ubisoft to act together the increase value for all shareholders. Our shareholder group has requested meeting with the current management.**

**French and EU law provides comprehensive legal framework for the protection of minority shareholders and the resolution of situation of abuse of dominant position by controlling shareholders. As a minority shareholder together with others, we will use all legal possibilities to achieve our goal.**

**We believe that these steps will allow us to make significant pressure on current management to make requested changes such:**

1. **Allow TAKE PRIVATE PROCESS by PE firms or Guillemot family + Tencent at fair price**
2. **Allow SALE PROCESS as we are in discussion with investors to fight against Guillemot family with so called proxy fight at extraordinary shareholder meeting**
3. **Change of the current management. Start hiring process of NEW CEO who will optimise the cost and studio structure for more agile and competitive company as Ubisoft should be**
4. **We will use the French minority law to collect enough shareholders to start proxy fight and initiate SALE PROCESS of Ubisoft to increase shareholder value for all shareholders**

**TAKE UBISOFT PRIVATE OR ALLOW IT TO SELL IT TO STRATEGIC INVESTOR**

We encourage all the minority shareholders to contact us and support our initiative at:

**[info@aj-invest.com](mailto:info@aj-invest.com)**

Sincerely,

Juraj Krupa

AJ Investments and Partners



*AJ Investments is private company/hedge fund focused on investments in public companies based in Bratislava, Slovak Republic. We focus on finding valuable insights, event - driven investments and under valued companies. Previously, we were involved in activist campaign with Carl Icahn in Amtrust Financials. AJ Investments was investor in Activision Blizzard, before Microsoft took it private.*