

November 7, 2014

**Dear clients and colleagues,**

The last quarter of the year is the most important for the gaming software industry. As we begin the holiday shopping season, we wanted to give you our thoughts on this industry and on one particular company that we own in our portfolios.

Ubisoft Entertainment (UBI) develops, publishes and distributes video games for home consoles, personal computers and portable devices in physical and online formats worldwide. This French-based company was founded in 1986 by the Guillemot brothers. Today, Yves Guillemot serves as the Chairman and CEO and controls about 10% of the company.

Through multiple gaming cycles, UBI has managed to remain amongst the top developers within the gaming industry. Based on the latest consumer market research data, UBI is the 3rd most important independent publisher in the US with 10% market share an increase of 4.6% from last year. In Europe, its market share stands at 12.3%, which is 5.1% higher than 2013.

We believe that Ubisoft's future success will be driven by 2 major factors.

First, the company has impressively expanded its product mix over time to include more blockbuster games. For the 3<sup>rd</sup> quarter that started in October, UBI will be able to rely on at least three core game releases (Assassin's Creed Unity, The Crew and Far Cry 4). In addition to those games, UBI should benefit from the release of two other core titles expected during Q4 (The Division and Rainbow Six). In total for its current fiscal year, three titles are brand new franchises.

Traditionally, we observed that gamers are more willing to purchase new franchises in between two hardware cycles. The fact that UBI sold a record 4 million units of Watch Dogs during its first week demonstrates that a new franchise can be extremely successful. In addition to developing high quality games, which certainly helps boost customer loyalty, Ubisoft's new product mix should increase its earnings going forward.

Secondly, the next-generation console cycle is already off to a good start. Some experts estimate that up to 25 million next-gen consoles will be sold by year end. This could potentially represent an increase of 4 million units compare to the previous generation.

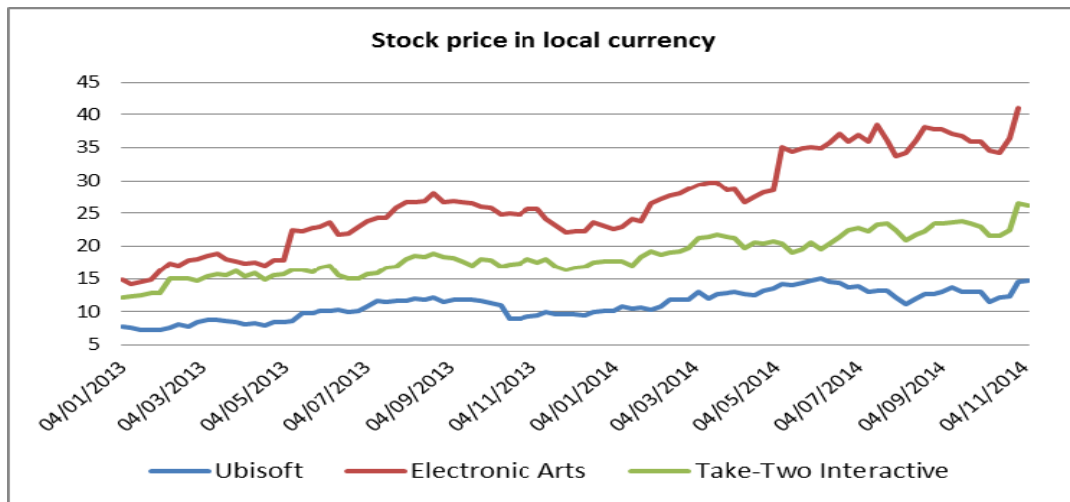
Thanks to new graphic features and improved functionality, the next-gen consoles offer substantial potential for game developers. In that context, high-end developers along with a talented workforce such as Ubisoft should outperform the industry as a whole.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

In a nutshell, Ubisoft’s product pipeline looks extremely promising and we believe that the company is in a very good position to take advantage of the gaming software industry.

As demonstrated on the following chart, UBI has underperformed its peers since 2013. The stock is currently trading at 11x forward earnings and less than 3x EV to Ebitda. We think that UBI represents a very good investment opportunity at these multiples.



Sources: Bloomberg, GACM

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient’s individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.