

FROGSTER INTERACTIVE PICTURES AG

GERMANY / ENTERTAINMENT SOFTWARE

Primary exchange: Frankfurt Stock Exchange
 Bloomberg symbol: FRG GR
 ISIN: DE000A0F47J1

UPDATE

RATING:	Buy
PRICE TARGET:	€30.40
RETURN POTENTIAL:	60.3%
RISK RATING:	High

11 MONTH SALES EQUAL OUR OLD FULL-YEAR 2009 FORECAST

Frogster released 9 and 11 month sales figures on 3 December. Due to the success of "Runes of Magic" (RoM), sales in the first 9M were approx. four times total FY 2008 sales. As Frogster has already generated our old revenue estimate for FY 2009 (€12m), we increase our sales forecast for the current year to €13.5m, in line with the company's guidance. We leave our EPS forecast unchanged at €0.71 (also in line with company guidance of €0.70). In our view the main stock price triggers over the next 12 months will be the ongoing expansion of a shareholders' pool which aims to sell a majority shareholding to a strategic investor, the further development and roll-out of RoM and the introduction of MMOG "The Chronicles of Spellborn" (TCoS) in Asia. Our €30.40 price target and Buy rating remain unchanged.

Strong sales development According to Frogster's press release, 9M/09 sales were ~€9m, and so were approx. four times higher than the 2008 total of (€2.3m). The company also said that November sales of (~€1.8m) set another monthly record, as have all other months so far this year. In November 2009, 50% of sales have been generated outside Germany for the first time, with France, Spain and the US developing particularly strongly. Frogster introduced a German and English language version of RoM in March 2009, a French and Spanish version in September and a Korean version on 19 November.

Significant positive operating cash flow in 2009 Management expects the company will generate its first significant positive cash flow in 2009. Cashflow in 2009 will be supported by positive EBIT as well as MMOGs' low working capital requirement which is a strong competitive advantage of Frogster.

Higher 2009 sales forecast, price target remains unchanged By the end of November Frogster had already generated sales of ~€12m, equal to our old full-year 2009 forecast. We have thus increased our 2009 sales estimate to €13.5m, in-line with the company's guidance. We do not currently see a reason to change our EBIT estimates for 2009 or the forecasts for subsequent years.

FINANCIAL HISTORY & PROJECTIONS

	2007	2008	2009E	2010E	2011E	2012E
Revenue (€m)	3.97	2.29	13.50	24.02	42.04	63.06
Y-o-y growth	na	-42.4%	490.0%	78.0%	75.0%	30.0%
EBIT (€m)	-6.83	-5.60	2.70	6.37	11.18	16.84
EBIT margin	-171.9%	-244.6%	20.0%	26.5%	26.6%	26.7%
Net income (€m)	-4.57	-4.61	1.82	4.42	7.79	11.87
EPS (diluted) (€)	-1.79	-1.80	0.71	1.72	3.04	4.63
P/E (x)	na	na	26.8	11.0	6.2	4.1
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

RISKS

Risks include but are not limited to: dependence on hit titles, risks related to licensing from third party developers and loss of key individuals.

COMPANY PROFILE

Headquartered in Berlin, the Frogster Group is a publisher of online computer games with additional offices in San Francisco and Seoul. The company focuses on the operation and distribution of virtual worlds, so called Massively Multiplayer Online (MMO) games. At the end of November 2009, Frogster had 130 employees.

TRADING DATA

Closing price (03.12.09)	€18.97
Shares outstanding	2.56m
Market capitalisation	€48.60m
52-week range	€3.50 / 21.01
Average volume (12 months)	8,760

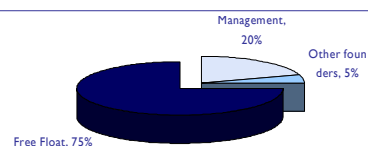
STOCK OVERVIEW



COMPANY DATA (as of 30 June 2009)

Liquid assets	€0.92m
Current assets	€2.76m
Intangible assets (incl. goodwill)	€2.99m
Total assets	€10.38m
Current liabilities	€2.29m
Shareholders' equity	€8.09m

SHAREHOLDERS



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M&A ADVISOR MANDATED TO SEARCH FOR A STRATEGIC INVESTOR

On 30 Nov, Frogster's management were contacted by Günther Paul Löw, CEO of Impera Total Return AG, which is a ~2.8% shareholder in Frogster. Mr Löw informed Frogster that the pool under his leadership has so far collected ~40% of the shares in Frogster. The pool has mandated an M&A advisor to search for a strategic investor. The target is to sell >50% of Frogster within the next nine months at the market price, but at least €30 per share. Frogster is not a party to Mr Löw's efforts and has a neutral position towards the transaction sought by the pool of shareholders.

STOCK PRICE TRIGGERS IN THE NEXT 12 MONTHS

We believe major stock price triggers for Frogster over the next 12 months will be the ongoing expansion of the shareholders' pool which aims to sell a majority shareholding to a strategic investor, a further roll-out and development of RoM (e.g. new language versions, expansion of the game) and the introduction of a free-to-play version of TCoS in Asia (e.g. an introduction in South Korea is planned for Q1/10). This version of TCoS has already received many positive reviews e.g. SpielXpress (18/2009). In addition, Frogster plans to acquire the rights for another client-based MMOG and introduce browser-based MMOGs, which are more easily accessible for players.

OUR ESTIMATES VS FROGSTER'S GUIDANCE

Our 2009 sales estimate is in line with Frogster's guidance but our 2009 and 2010 estimates differ from company guidance. Our 2010 sales estimate of €24m is slightly more conservative than guidance of €25m. But, we expect higher EPS figures for 2009 (€0.71 vs guidance of €0.70) and 2010 (€1.72 vs guidance of €1.50) as we forecast lower operating expenses.



FIRST BERLIN RATING & PRICE TARGET HISTORY

Report No.	Date of publication	Previous day closing price	Rating	Price target	Interim high	% change to high
Initial Report	9 November 2009	€18.88	Buy	€30.40	€18.97	0.5%
2	Today	€18.97	Buy	€30.40	-	-

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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