

FROGSTER INTERACTIVE PICTURES AG

GERMANY / ENTERTAINMENT SOFTWARE

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

UPDATE

RATING:	Buy
PRICE TARGET:	€30.40
RETURN POTENTIAL:	62.6%
RISK RATING:	High

RECENT EVENTS CONFIRM OUR POSITIVE VIEW

Frogster's main product, "Runes of Magic" (RoM), was recently awarded two prestigious prizes, "Best International PC Game 2009" and "Overall Best New MMO of 2009". Moreover, our research indicates that the add-on "Beyond the Horizon", which Frogster published in November 2009 for its MMO "Bounty Bay Online" (BBO) has been well received by gamers, leading to higher monthly sales for this game than in H1/09. We reiterate our €30.40 price target and the Buy rating. Based on 2010 and 2011 peer multiples, the stock is currently undervalued by 39.5%.

Two important awards for RoM At the beginning of January, Frogster received the prestigious "Overall Best New MMO of 2009" award from the readers of "Massively", a major US online games magazine. RoM was ranked 1st in all seven relevant categories such as "Best Crafting in a 2009 MMO", "Best PvP in a 2009 MMO", "Best Visuals/Graphics" and "Best Launch of 2009". Frogster, as a company, also received first place in the category "Best MMO Studio of 2009". The company even beat such major competitors as NCsoft, which due to their size (NCsoft had 2008 sales of c. 346.6 billion South Korean Won or €213m) are able to invest much more in marketing of their games. In December 2009, Frogster also received the "German Game Developer Award" in the category "Best International PC Game 2009".

Successful launch of add-on "Beyond the Horizon" On 26 November, Frogster launched the BBO add-on "Beyond the Horizon". Based on opinions found on the internet, we believe the product has been well received by gamers. We thus expect that the game will contribute more to Frogster's total sales in H2/09 than in H1/09 (€0.8m-1m in H2 as opposed to €0.6m-0.8m in H1).

CEO expects sale of majority of shares by mid-2010 In an interview given in December 2009, CEO Christoph Gerlinger showed confidence that the pool built around Günter Paul Löw of Impera Total Return (owns ~2.8% of Frogster), will find a strategic investor for Frogster by mid-2010. The pool aims at selling >50% of the shares for a price of at least €30 per share.

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	26.4	10.9	6.1	4.0
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 (11.01.09)	€18.70
Shares outstanding	2.56m
Market capitalisation	€47.91m
52-week range	€3.50 / 21.01
Average volume (12 months)	8,439

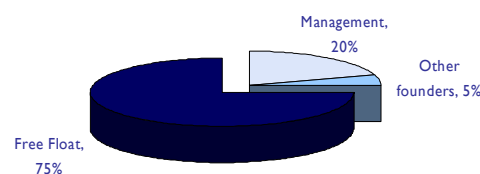
STOCK OVERVIEW



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



**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	4 December 2009	€18.97	Buy	€30.40	€19.10	0.7%
3	Today	€18.70	Buy	€30.40		

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First Berlin's investment rating system is five tiered and includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

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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