FROGSTER INTERACTIVE PICTURES AG

GERMANY / ENTERTAINMENT SOFTWARE

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

2009 ANNUAL REPORT

RATING:	Strong Buy
PRICE TARGET:	€34.30
RETURN POTENTIAL:	69.4%
RISK RATING:	High

RAISING PRICE TARGET FROM €30.40 TO €34.30

Frogster's 2009 annual report, published on 23 April, confirmed the good preliminary results of 19 February. Growth in 2009 was mainly driven by "Runes of Magic" (RoM), which we believe contributed ~€11m to total sales of €14.7m. However, with sales of ~€1.5m "Bounty Bay Online (BBO)" has been performing surprisingly well. As the prospects for the online games industry remain very positive (see our updates from 22 Feb and 30 March), we maintain our Strong Buy rating for the company. Adjustments to our valuation model cause us to raise our price target from €30.40 to €34.30.

85% of 2009 sales from MMOGs 85% or €12.5m of 2009 sales stemmed from MMOGs (massively multiplayer online games), especially RoM, which in December 2009 had ~2.6m registered users in Europe and the US and 100k in South Korea (our estimates). We are encouraged that after the introduction of the add-on "Beyond the Horizon" at the end of November 2009, BBO has generated six-digit monthly revenues, thus reducing Frogster's dependence on RoM. In Q1/10, Frogster's total sales were >€5m.

EBIT margin of 17.7%, EPS of €0.85 Frogster's 2009 EBIT (€2.6m, 17.7% margin) came in slightly lower than our estimate (€2.7m) and the consensus of (€3.1m). Higher-than-expected other operating expenses (costs for marketing, office, administration and rents) slightly outweighed the lower-than-expected cost of goods sold. However, we see no need to change our estimates for 2010 and subsequent years. With an EPS of €0.85 after minorities, Frogster beat our estimate (€0.71) and the consensus of (€0.75). The reason was a lower-than-expected effective tax rate (11.1% vs our estimate of 30%) in connection with tax-loss carry forwards.

Strong balance sheet; 2010 dividend possible At the end of 2009, the company had an equity ratio of 75%, cash of €2.6m and no financial debt. We believe the low investment requirements of Frogster's business model (e.g. working capital-to-sales ratio in 2009 was c. -7.5%), and the strong forecast growth in profits will lead to high free cash flow generation in the coming years (for 2010, we estimate a free cash flow of €3m). Management has recently indicated that a dividend could be paid on 2010 profits. In our view, this also makes the stock interesting for value investors.

FINANCIAL HISTORY & PROJECTIONS

	2007	2008	2009	2010E	2011E	2012E
Revenue (€m)	3.97	2.29	14.72	26.02	45.54	68.31
Y-o-y growth	na	-42.4%	543.4%	76.8%	75.0%	30.0%
EBIT (€m)	-6.83	-5.60	2.61	6.51	11.43	17.21
EBIT margin	-171.9%	-244.6%	17.7%	25.0%	25.1%	25.2%
Net income (€m)	-4.57	-4.61	2.06	4.56	8.05	12.27
EPS (diluted) (€)	-1.79	-1.80	0.85	1.71	3.02	4.61
P/E (x)	na	na	24.0	11.8	6.7	4.4
DPS (€)	0.00	0.00	0.00	0.51	0.91	1.38
Yield	0.0%	0.0%	0.0%	2.5%	4.5%	6.8%

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.

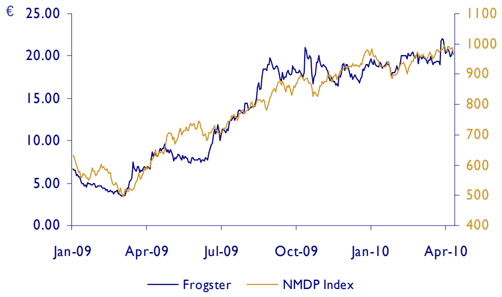
COMPANY PROFILE

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. In April 2010, Frogster had over 200 employees worldwide.

TRADING DATA

Closing price (27.04.10)	€20.25
Shares outstanding	2.56m
Market capitalisation	€51.88m
52-week range	€7.33 / 22.00
Average volume (12 months)	9,413

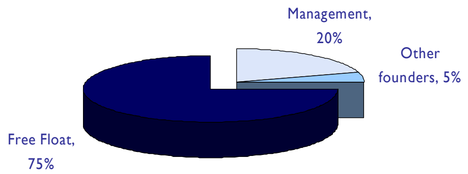
STOCK OVERVIEW



COMPANY DATA (as of 31 December 2009)

Liquid assets	€2.56m
Current assets	€4.94m
Intangible assets (incl. goodwill)	€5.47m
Total assets	€14.90m
Current liabilities	€3.77m
Shareholders' equity	€11.13m

SHAREHOLDERS



Analyst: Adrian Kowollik, Tel. +49 (0)30 - 80 93 96 90

2009 RESULTS VS OUR AND CONSENSUS ESTIMATES

All figures in €m	2009 FBe	2009A	Difference	%Difference
Total sales	13.50	14.72	1.22	9.1%
MMOG	11.93	12.51	0.58	4.9%
Ad-sales	1.14	1.00	-0.14	-12.4%
Others	0.43	1.21	0.78	180.3%
EBIT	2.70	2.61	-0.09	-3.3%
Margin (%)	*20.0%*	*17.7%*	-	-
Net income	1.82	2.06	0.24	13.1%
EPS diluted (€)	0.71	0.85 *	0.14	19.7%

MMOG: include revenues of the games "Runes of Magic", "Bounty Bay Online" and "Stone Age 2" (e.g. sales of virtual items and sub-licenses)
Ad-sales: include advertising revenues from the online portal OnlineWelten.com
Others: in 2009 included mainly sales from advertising services
* actual 2009 EPS is based on 2.4m shares outstanding (average number of shares according to Frogster)

All figures in €m	2009 Cons.	2009A*	Difference	%Difference
Total sales	14.20	14.72	0.52	3.7%
EBIT	3.14	2.61	-0.53	-16.8%
Margin (%)	*22.1%*	*17.7%*	-	-
Net income	1.92	2.06	0.14	7.1%
EPS diluted (€)	0.75	0.85 *	0.10	13.2%

Tables 1 & 2 Source: Frogster, Bloomberg, First Berlin estimates

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	12 January 2010	€18.70	Buy	€30.40	€20.08	7.4%
4	22 February 2010	€20.08	Buy	€30.40	€20.49	2.0%
5	30 March 2010	€19.50	Strong Buy	€30.40	€22.00	13.0%
6	Today	€20.25	Strong Buy	€34.30	-	-

Adrian Kowollik

First Berlin
Equity Research GmbH

Lennéstrasse 9
10785 Berlin

Tel. +49 (0)30 - 80 93 96 90
Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

FIRST BERLIN POLICY

In an effort to assure the independence of First Berlin research neither analysts nor the company itself trade or own securities in subject companies. In addition, analysts' compensation is not directly linked to specific financial transactions, trading revenue or asset management fees. Analysts are compensated on a broad range of benchmarks. Furthermore, First Berlin receives no compensation from subject companies in relation to the costs of producing this report.

ANALYST CERTIFICATION

I, Adrian Kowollik, certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

INVESTMENT RATING SYSTEM

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.

Up until 16 May 2008, First Berlin's investment rating system was three tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: BUY: expected return greater than 15%; HOLD: expected return between 0% and 15%; and SELL: expected negative return.

ADDITIONAL DISCLOSURES

This report is not constructed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer would be illegal. We are not soliciting any action based upon this material. This material is for the general information of clients of First Berlin. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, a client should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only; such opinions are subject to change without notice.