



Buy (old: Buy)

Price target: EUR 39.00 (old: EUR 39.00)

Price: EUR 21.55 **Next result:** AGM 2010 16.06.10
Bloomberg: FRG GR **Market cap:** EUR 55.2 m
Reuters: FRGG.DE **Enterprise Value:** EUR 52.6 m

14-April-10

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Final number for 2009 and solid Q1 2010

Today, Frogster published the final numbers for total sales and net profit and gave an update on Q1 2010. The full annual report will likely be published on April 23.

Both sales of € 9.5m and net profit of € 1m came in slightly above our estimates (see below) mainly driven by one-off revenues of an estimated € 0.7m from sales of sublicenses and development services in Korea.

EUR	H2 09E	H2 09E est	H2 08	yoy	FY 09E	FY 09E est	FY 08	yoy
Total Sales	9.5	8.9	1.5	554.2%	14.7	14.0	2.3	540.3%
Gross profit*	6.9	6.5	0.8	718.5%	10.7	10.3	1.5	618.0%
Gross margin	72.2%	72.9%	57.7%	+ 14.5 pp	73.2%	73.7%	65.3%	+ 7.9 pp
EBITDA*	2.1	1.9	-2.0	n.a.	3.4	3.3	-3.4	n.a.
EBITDA margin	21.5%	21.9%	-137.3%	+ 158.9 pp	23.4%	23.7%	-149.9%	+ 173.3 pp
EBIT*	1.9	1.8	-4.0	n.a.	3.0	2.9	-5.6	n.a.
EBIT margin	19.6%	19.9%	-274.0%	+ 293.7 pp	20.5%	20.7%	-244.6%	+ 265.1 pp
Net profit	1.0	0.9	-3.1	n.a.	2.1	2.0	-4.6	n.a.
Net margin	10.2%	9.6%	-216.1%	+ 226.3 pp	14.3%	14.0%	-201.7%	+ 215.9 pp
EPS	0.38	0.33	-1.77	n.a.	0.85	0.80	-2.60	n.a.

* Hauck & Aufhäuser estimates

In accordance with the strong operating performance, the balance sheet structure improved considerably. With an equity ratio of 75%, net cash of c. € 3m and a FCF 2010E of c. € 2m, Frogster looks well prepared to finance the expansion into the direction of browser games, which was already announced in March (acquisition of two browser-based games at an est. price of € 0.1-0.3m per continent/game).

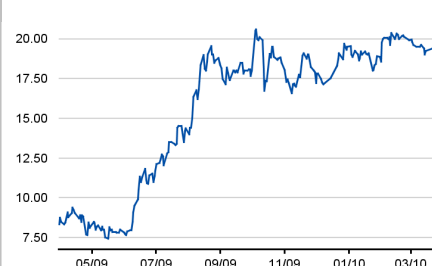
More importantly, growth remained intact in Q1 2010E. In March the company achieved record sales of € 2m. Whilst these were mainly driven by the blockbuster Runes of Magic (€ 1.6m vs. Q4 09E average of € 1.4m), Bounty Bay Online also continued to contribute an increasing share (€ 0.3m vs. Q4 09E average of € 0.15m).

Overall, Q1 2010E sales came in at € 5m. Adj. for the one-offs, sequential growth was 25%, which is in-line with our estimates for 2010E. The launch of the new Runes of Magic release as well as the in-game item shop scheduled for May could serve as a catalyst for even stronger growth.

Remains a Buy with a PT of € 39 based on FYF yield 2011E and a DCF model.

Y/E 31.12 (EUR m)	2007	2008	2009E	2010E	2011E
Sales	4.0	2.3	14.7	26.1	41.6
Sales growth	n/a	-42 %	540 %	78 %	59 %
EBITDA	-3.0	-3.4	3.4	6.7	11.2
EBIT	-6.8	-5.6	3.0	6.1	10.3
Net income	-4.6	-5.4	2.1	4.1	6.7
Net debt	-1.1	-1.5	-2.6	-4.5	-8.1
Net gearing	-12.6 %	-21.0 %	-23.5 %	-28.1 %	-37.8 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
EPS fully diluted	-3.03	-2.28	0.82	1.55	2.52
CPS	-1.58	-1.71	0.92	1.14	2.25
DPS	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Gross profit margin	60.3 %	65.3 %	73.2 %	73.7 %	74.5 %
EBITDA margin	-76.1 %	-150.1 %	23.4 %	25.8 %	26.9 %
EBIT margin	-171.8 %	-244.8 %	20.5 %	23.5 %	24.7 %
ROCE	-75.0 %	-69.0 %	31.0 %	42.6 %	52.5 %
EV/sales	7.9	21.5	3.6	2.0	1.2
EV/EBITDA	-10.4	-14.3	15.4	7.9	4.4
EV/EBIT	-4.6	-8.8	17.5	8.6	4.8
PER	-22.2	-13.2	26.4	13.9	8.5
Adjusted FCF yield	-2.6 %	-5.9 %	3.7 %	8.5 %	14.5 %

Source: Company data, Hauck & Aufhäuser Close price as of: 13.04.2010



Source: Company data, Hauck & Aufhäuser

High/low 52 weeks: 21.55 / 7.45

Price/Book Ratio: 5.0

Relative performance (SDAX):

3 months 4.9 %

6 months 8.3 %

12 months 104.3 %

Changes in estimates

		Sales	EBIT	EPS
2009	old:	14.0	2.9	0.80
	Δ	4.6%	3.7%	6.2%
2010	old:	26.1	6.1	1.55
	Δ	-	-	0.1%
2011	old:	41.6	10.3	2.52
	Δ	-	-	0.0%

Key share data:

Number of shares: (in m pcs) 2.5

Authorised capital: (in € m) 0.5

Book value per share: (in €) 4.3

Ø trading volume: (12 months) 10,000

Major shareholders:

Free Float 75.0 %

Management & Families 20.0 %

Other founders 5.0 %

Company description:

Frogster Interactive Pictures AG publishes interactive online computer games. The Company focuses on the operation and marketing of virtual worlds, so-called massively multiplayer online games (MMO Games).

Financials

Profit and loss (EUR m)	2007	2008	2009E	2010E	2011E
Net sales	4.0	2.3	14.7	26.1	41.6
<i>Sales growth</i>	<i>n/a</i>	<i>-42.4 %</i>	<i>540.3 %</i>	<i>78.2 %</i>	<i>59.4 %</i>
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0
Total sales	4.0	2.3	14.7	26.1	41.6
Other operating income	0.4	0.8	1.3	1.2	1.1
Material expenses	1.6	0.8	3.9	6.9	10.6
Personnel expenses	2.5	2.0	4.1	6.8	10.1
Other operating expenses	3.2	3.6	4.5	6.9	10.8
Total operating expenses	7.0	5.7	11.2	19.4	30.4
EBITDA	-3.0	-3.4	3.4	6.7	11.2
Depreciation	0.1	0.1	0.3	0.4	0.5
EBITA	-3.1	-3.5	3.1	6.3	10.7
Amortisation of goodwill	0.3	0.3	0.0	0.0	0.0
Amortisation of intangible assets	0.3	0.3	0.1	0.2	0.4
Impairment charges	3.1	1.5	0.0	0.0	0.0
EBIT	-6.8	-5.6	3.0	6.1	10.3
Interest income	0.0	0.0	0.0	0.1	0.2
Interest expenses	0.0	0.0	0.1	0.0	0.0
Other financial result	0.0	0.0	0.0	0.0	0.0
Financial result	0.0	0.0	0.0	0.1	0.2
Recurring pretax income from continuing operations	-6.8	-5.6	3.0	6.2	10.5
Extraordinary income/loss	0.0	-0.7	0.5	0.0	0.0
Earnings before taxes	-6.8	-6.3	3.5	6.2	10.5
Taxes	-2.0	-0.9	1.1	2.1	3.6
Net income from continuing operations	-4.8	-5.4	2.3	4.1	6.9
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0
Net income	-4.8	-5.4	2.3	4.1	6.9
Minority interest	-0.2	0.0	0.3	0.0	0.2
Net income (net of minority interest)	-4.6	-5.4	2.1	4.1	6.7
Average number of shares	1.3	2.1	2.5	2.7	2.7
EPS reported	-3.39	-2.60	0.85	1.55	2.52

Profit and loss (common size)	2007	2008	2009E	2010E	2011E
Net sales	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Increase/decrease in finished goods and work-in-process	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Total sales	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Other operating income	9.2 %	32.9 %	8.9 %	4.6 %	2.6 %
Material expenses	39.7 %	34.7 %	26.8 %	26.3 %	25.5 %
Personnel expenses	64.2 %	89.4 %	28.0 %	26.1 %	24.3 %
Other operating expenses	81.4 %	158.9 %	30.7 %	26.4 %	26.0 %
Total operating expenses	176.1 %	250.1 %	76.6 %	74.2 %	73.1 %
EBITDA	-76.1 %	-150.1 %	23.4 %	25.8 %	26.9 %
Depreciation	2.5 %	3.7 %	2.2 %	1.5 %	1.2 %
EBITA	-78.6 %	-153.8 %	21.2 %	24.3 %	25.7 %
Amortisation of goodwill	7.6 %	13.9 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	7.6 %	11.5 %	0.7 %	0.8 %	1.0 %
Impairment charges	78.1 %	65.7 %	0.0 %	0.0 %	0.0 %
EBIT	-171.8 %	-244.8 %	20.5 %	23.5 %	24.7 %
Interest income	1.2 %	1.9 %	0.1 %	0.4 %	0.5 %
Interest expenses	0.2 %	0.5 %	0.3 %	0.0 %	0.0 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	1.0 %	1.4 %	-0.3 %	0.4 %	0.5 %
Recurring pretax income from continuing operations	-170.8 %	-243.5 %	20.2 %	23.9 %	25.2 %
Extraordinary income/loss	0.0 %	-31.9 %	3.4 %	0.0 %	0.0 %
Earnings before taxes	-170.8 %	-275.4 %	23.6 %	23.9 %	25.2 %
Tax rate	29.9 %	15.1 %	32.5 %	34.0 %	34.0 %
Net income from continuing operations	-119.8 %	-233.9 %	16.0 %	15.8 %	16.6 %
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	-119.8 %	-233.9 %	16.0 %	15.8 %	16.6 %
Minority interest	-4.7 %	0.0 %	1.7 %	0.0 %	0.5 %
Net income (net of minority interest)	-115.0 %	-233.9 %	14.3 %	15.8 %	16.1 %

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2007	2008	2009E	2010E	2011E
Intangible assets	3.1	2.2	4.2	6.6	8.2
Property, plant and equipment	0.3	0.2	0.4	0.5	0.5
Financial assets	0.0	0.0	0.0	0.0	0.0
FIXED ASSETS	3.4	2.4	4.5	7.0	8.6
Inventories	0.1	0.0	0.0	0.0	0.0
Accounts receivable	1.0	0.3	1.4	2.1	3.2
Other current assets	0.4	0.6	2.9	5.2	8.9
Liquid assets	1.1	1.5	2.6	4.5	8.1
Deferred taxes	3.1	4.0	3.3	1.0	0.0
Deferred charges and prepaid expenses	1.7	0.0	0.0	0.0	0.0
CURRENT ASSETS	7.4	6.3	10.2	12.8	20.2
TOTAL ASSETS	10.8	8.7	14.7	19.9	28.9
SHAREHOLDERS EQUITY	8.8	7.0	11.1	15.9	21.5
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0
Long-term debt	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0
Other provisions	0.3	0.2	1.2	0.7	1.1
Non-current liabilities	0.3	0.2	1.2	0.7	1.1
short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.3	0.7	1.3	1.3	2.3
Advance payments received on orders	0.1	0.0	0.2	0.2	0.5
Other liabilities (incl. from lease and rental contracts)	1.4	0.8	1.0	1.8	3.5
Deferred taxes	0.0	0.0	0.0	0.0	0.0
Deferred income	0.0	0.0	0.0	0.0	0.0
Current liabilities	1.7	1.6	2.5	3.3	6.3
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	10.8	8.7	14.7	19.9	28.9

Balance sheet (common size)	2007	2008	2009E	2010E	2011E
Intangible assets	28.9 %	25.2 %	28.5 %	33.2 %	28.4 %
Property, plant and equipment	2.5 %	2.0 %	2.4 %	2.3 %	1.6 %
Financial assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
FIXED ASSETS	31.4 %	27.2 %	30.9 %	35.5 %	30.0 %
Inventories	1.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts receivable	8.8 %	3.2 %	9.5 %	10.8 %	11.1 %
Other current assets	4.1 %	6.6 %	19.7 %	26.2 %	30.8 %
Liquid assets	10.3 %	16.9 %	17.6 %	22.5 %	28.1 %
Deferred taxes	28.6 %	46.1 %	22.4 %	5.0 %	0.0 %
Deferred charges and prepaid expenses	15.8 %	0.0 %	0.0 %	0.0 %	0.0 %
CURRENT ASSETS	68.6 %	72.7 %	69.2 %	64.5 %	70.0 %
TOTAL ASSETS	100.0 %	100.0 %	100.1 %	100.0 %	100.0 %
SHAREHOLDERS EQUITY	81.4 %	80.3 %	75.0 %	79.9 %	74.4 %
MINORITY INTEREST	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Long-term debt	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Provisions for pensions and similar obligations	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other provisions	2.4 %	1.9 %	8.0 %	3.5 %	3.8 %
Non-current liabilities	2.4 %	1.9 %	8.0 %	3.5 %	3.8 %
short-term liabilities to banks	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	2.3 %	8.1 %	8.8 %	6.5 %	7.9 %
Advance payments received on orders	0.9 %	0.2 %	1.4 %	1.0 %	1.7 %
Other liabilities (incl. from lease and rental contracts)	12.9 %	9.5 %	6.8 %	9.1 %	12.1 %
Deferred taxes	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Current liabilities	16.1 %	17.9 %	17.0 %	16.6 %	21.8 %
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2007	2008	2009E	2010E	2011E
Net profit/loss	-4.8	-5.4	2.3	4.1	6.9
Depreciation of fixed assets (incl. leases)	3.2	1.6	0.3	0.4	0.5
Amortisation of goodwill	0.3	0.3	0.0	0.0	0.0
Amortisation of intangible assets	0.3	0.3	0.1	0.2	0.4
Others	3.1	1.2	0.0	0.0	0.0
Cash flow from operations before changes in w/c	2.1	-2.0	2.8	4.7	7.8
Increase/decrease in inventory	-0.1	0.1	0.0	0.0	0.0
Increase/decrease in accounts receivable	-1.0	0.7	-1.1	-0.7	-1.0
Increase/decrease in accounts payable	0.3	0.5	0.6	0.0	1.0
Increase/decrease in other working capital positions	-3.7	-2.8	0.2	-0.8	-1.6
Increase/decrease in working capital	-4.5	-1.6	-0.3	-1.6	-1.7
Cash flow from operating activities	-2.4	-3.6	2.4	3.2	6.2
CAPEX	4.5	-0.5	0.7	1.2	2.5
Payments for acquisitions	0.0	0.1	2.5	1.9	0.0
Financial investments	3.3	0.0	0.0	0.0	0.0
Income from asset disposals	4.5	0.0	0.0	0.0	0.0
Cash flow from investing activities	-3.4	0.4	-3.2	-3.1	-2.5
Cash flow before financing	-5.8	-3.1	-0.8	0.1	3.7
Increase/decrease in debt position	0.0	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Capital measures	6.7	3.3	1.9	1.8	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	0.1	0.2	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	6.8	3.5	1.9	1.8	0.0
Increase/decrease in liquid assets	1.0	0.4	1.1	1.9	3.7
Liquid assets at end of period	1.1	1.5	2.6	4.5	8.1

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2007	2008	2009E	2010E	2011E
Domestic	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a
Rest of Europe	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a
NAFTA	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a
TTL	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2007	2008	2009E	2010E	2011E
P&L growth analysis					
Sales growth	n/a	-42.4 %	540.3 %	78.2 %	59.4 %
EBITDA growth	n/a	13.7 %	-199.7 %	96.7 %	65.9 %
EBIT growth	n/a	-17.9 %	-153.6 %	104.3 %	67.5 %
EPS growth	n/a	-23.3 %	-132.7 %	82.2 %	62.9 %
Efficiency					
Total operating costs / sales	176.1 %	250.1 %	76.6 %	74.2 %	73.1 %
Sales per employee	39.3	25.4	146.5	161.7	192.9
EBITDA per employee	-29.9	-38.2	34.2	41.7	51.8
Balance sheet analysis					
Avg. working capital / sales	17.9 %	5.7 %	-1.9 %	1.1 %	1.3 %
Inventory turnover (sales/inventory)	37.3	0.0	0.0	0.0	0.0
Trade debtors in days of sales	87.8	44.4	34.9	30.0	28.0
A/P turnover [(A/P*365)/sales]	23.3	112.8	32.4	18.0	20.0
Cash conversion cycle (days)	53.9	-280.5	-86.0	-38.4	-50.4
Cash flow analysis					
Free cash flow	-6.9	-3.1	1.7	2.0	3.7
Free cash flow/sales	-174.3 %	-134.0 %	11.8 %	7.5 %	8.8 %
FCF / net profit	151.5 %	57.3 %	82.8 %	47.7 %	54.5 %
FCF yield	-21.3 %	-6.1 %	3.1 %	3.4 %	6.4 %
Capex / depre	207.1 %	-24.2 %	166.7 %	200.0 %	277.8 %
Capex / maintenance capex	n/a	0.0 %	416.7 %	333.3 %	277.8 %
Capex / sales	198.1 %	-22.9 %	4.8 %	4.6 %	6.0 %
Security					
Net debt	-1.1	-1.5	-2.6	-4.5	-8.1
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Net debt / equity	-0.1	-0.2	-0.2	-0.3	-0.4
Interest cover	0.0	0.0	60.1	999.0	999.0
Dividend payout ratio	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Asset utilisation					
Capital employed turnover	0.4	0.3	1.2	1.6	1.8
Operating assets turnover	4.0	-8.3	57.8	23.5	48.1
Plant turnover	14.7	13.2	41.5	57.6	91.8
Inventory turnover (sales/inventory)	37.3	0.0	0.0	0.0	0.0
Returns					
ROCE	-75.0 %	-69.0 %	31.0 %	42.6 %	52.5 %
ROE	-51.8 %	-76.7 %	18.9 %	26.0 %	31.3 %
Other					
Interest paid / avg. debt	n/a	n/a	n/a	n/a	n/a
No. employees (average)	101	90	100	161	216
Number of shares	1.3	2.1	2.5	2.7	2.7
DPS	0.0	0.0	0.0	0.0	0.0
EPS reported	-3.39	-2.60	0.85	1.55	2.52
Valuation ratios					
P/BV	3.7	7.3	5.0	3.6	2.7
EV/sales	7.9	21.5	3.6	2.0	1.2
EV/EBITDA	-10.4	-14.3	15.4	7.9	4.4
EV/EBITA	-10.0	-14.0	17.0	8.4	4.6
EV/EBIT	-4.6	-8.8	17.5	8.6	4.8
EV/FCF	-4.5	-16.0	30.4	26.9	13.4
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Company data, Hauck & Aufhäuser

Disclosure in respect of section 34b of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

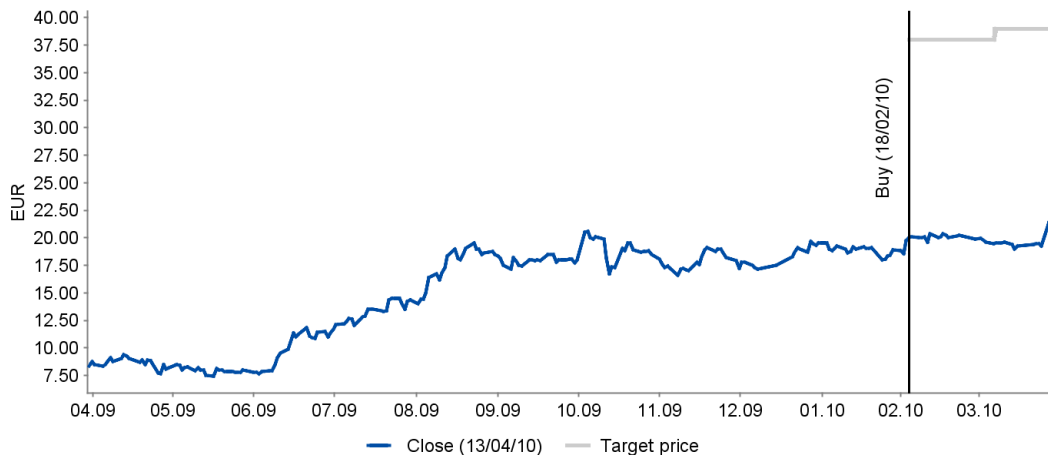
Company	Disclosure
Frogster Interactive Pictures AG	2

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Historical target price and rating changes for Frogster Interactive Pictures AG in the last 12 months

Price and Rating History Frogster Interactive Pictures AG as of 14/04/10

Initiation coverage
18-February-10



Hauck & Aufhäuser distribution of ratings and in proportion to investment banking services

Buy	80.77 %	75.00 %
Sell	15.38 %	0.00 %
Hold	3.85 %	25.00 %

Valuation basis/rating key

Buy: Sustainable upside potential of more than 10% within 12 months.

Sell: Sustainable downside potential of more than 10% within 12 months.

Hold: Upside/downside potential limited. No immediate catalyst visible.

Competent supervisory authority

Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin – (Federal Financial Supervisory Authority), Graurheindorfer Straße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt am Main, Germany

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