

## JAXX AG

GERMANY / LOTTERY AND BETTING SOLUTIONS

Primary exchange: Frankfurt  
 Bloomberg symbol: FXXN GR  
 ISIN: DE000A0JRU67

### Q3 RESULTS

<b>RATING:</b>	<b>Add</b>
<b>PRICE TARGET:</b>	<b>€1.70</b>
<b>RETURN POTENTIAL:</b>	<b>2.4%</b>
<b>RISK RATING:</b>	<b>High</b>

#### BOTTOM LINE REMAINS IN THE RED

**Jaxx published its Q3 results last week. Sales increased slightly y-o-y but profitability remained negative, causing us to reduce our estimates for 2009. However, we maintain our €1.70 price target and our Add recommendation.**

**Sales slightly higher y-o-y, but lower than we forecast** For Q3/09, Jaxx reported sales of €29.4m (+2.8% y-o-y; we forecast: €31.8m). The main reason for the growth was the Sport Betting segment, where revenues increased by 24.9% y-o-y to €18.5m mainly due to the average number of active customers increasing by 42.2% y-o-y. However, a difficult market environment and lower share of the betting agency business compared to betting business retained for own account continued to negatively impact sales in the Horse Betting segment (€3.9m, -37.5% y-o-y). Due to the State Treaty on gambling in Germany, sales in the Lottery & Gaming segment in Q3/09 (€7.0m, -7.5% y-o-y) only stemmed from casino & poker, ticket sales for the Spanish Christmas lottery and other foreign European lotteries.

**EBIT better than we expected, weak net income** For Q3/09, Jaxx reported an EBIT of -€1.0m (Q3/08: -€0.2m; our forecast: -€1.1m). However, net profit at -€1.2m (-154.4% y-o-y) did not meet our expectations of -€0.8m. The main reason was a 45.7% decline in other operating income (i.e. income from disposal of fixed assets) and a rise in the cost of sales (mainly betting winnings) to 63.9% of sales (61.7% in Q3/08).

**Q4 expected to be profitable, lower estimates due to low visibility** We expect Q4 sales and profitability to be much stronger than in Q1-3. The main drivers of the improvement should be the soccer season, strong ticket sales related to the Spanish Christmas lottery and the ongoing restructuring program, which Jaxx announced in August (costs savings of more than €1m to be achieved within a year among others through reductions in staff and marketing expenses, renegotiation of service contracts and merging of departments). However, due to limited revenue visibility, we have decided to reduce our top and bottom line estimates for 2009. We believe that Jaxx will be able to improve results from 2010 when we expect the restructuring program to show its full impact and the start of a recovery in consumer spending; hence we leave our 2010 and 2011 estimates unchanged.

#### FINANCIAL HISTORY & PROJECTIONS

	2006	2007	2008	2009E	2010E	2011E
Revenue (€m)	50.92	73.85	123.54	125.40	142.52	158.20
Y-o-y growth	na	45.0%	67.3%	1.5%	13.7%	11.0%
EBIT (€m)	-5.89	-4.88	-10.44	-1.88	2.85	6.33
EBIT margin	-11.6%	-6.6%	-8.5%	-1.5%	2.0%	4.0%
Net income (€m)	-8.23	-5.67	-17.23	-1.68	1.26	3.48
EPS (diluted) (€)	-0.55	-0.36	-1.06	-0.10	0.08	0.22
P/E (x)	na	na	na	na	21.1	7.6
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

The primary risks to our forecasts and price target include, but are not limited to: JAXX' entry into highly competitive international markets; integration risks posed by acquisitions; and legislative and regulatory uncertainty in Germany.

#### COMPANY PROFILE

JAXX AG is a holding company and invests in companies in the gaming industry. From betting, casino and poker to bingo and lotteries, the companies that make up the JAXX Group offer state-licensed gaming products via online platforms such as [www.jaxx.com](http://www.jaxx.com), [www.myBet.com](http://www.myBet.com) and [www.pferdewetten.de](http://www.pferdewetten.de). With investment companies in Germany, the UK, Spain, Austria and Malta, the JAXX Group has a total of 188 employees.

#### TRADING DATA

Closing price (09.11.09)	€1.66
Shares outstanding	16.03m
Market capitalisation	€26.61m
52-week range	€0.99 / 2.47
Average volume (12 months)	41,249

#### STOCK OVERVIEW



#### COMPANY DATA (as of 30 September 2009)

Liquid assets	€9.36m
Current assets	€17.79m
Intangible assets (incl. goodwill)	€21.29m
Total assets	€43.46m
Current liabilities	€13.30m
Shareholders' equity	€20.41m

#### SHAREHOLDERS

Free Float	100.0%
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### Q3 2009 RESULTS VS OUR FORECASTS

All figures in €m	Q3 2009E	Q3 2009A	Difference	%Difference
Sales	31.81	29.44	-2.37	-7.4%
Sport Betting	21.66	18.54	-3.12	-14.4%
Horse Betting	4.42	3.87	-0.55	-12.4%
Lottery & Gaming	5.73	7.03	1.30	22.8%
EBIT	-1.05	-0.97	0.08	7.3%
Margin (%)	-3.3%	-3.3%	-	-
Net income	-0.83	-1.16	-0.32	-38.3%
EPS diluted (€)	-0.05	-0.07	-0.02	-38.3%

Table 1

Source: Jaxx, First Berlin

### Q3 2009 RESULTS VS Q3 2008

All figures in €m	Q3 2008	Q3 2009	Difference	%Difference
Sales	28.63	29.44	0.81	2.8%
Sport Betting	14.84	18.54	3.70	24.9%
Horse Betting	6.20	3.87	-2.32	-37.5%
Lottery & Gaming	7.60	7.03	-0.57	-7.5%
EBIT	-0.23	-0.97	-0.74	-317.6%
Margin (%)	-0.8%	-3.3%	-	-
Net income	-0.45	-1.16	-0.70	-154.4%
EPS diluted (€)	-0.03	-0.07	-0.04	-154.4%

Q3 2008: Lottery & Gaming includes €1.8m revenues from casino & poker, which were previously booked under Sports Betting

Q3 2009: Lottery & Gaming included €2.4m of revenues from casino & poker, which were previously booked under Sports Betting

Table 2

Source: Jaxx, First Berlin

### 2009 QUARTERLY RESULTS

All figures in €m	Q1 2009	Q2 2009	Q3 2009	Q4 2009E
Sales	29.33	30.14	29.44	36.48
Sport Betting	17.58	18.89	18.54	25.47
Horse Betting	4.20	4.26	3.87	4.74
Lottery & Gaming	7.55	6.99	7.03	6.28
EBIT	0.57	-3.17	-0.97	1.70
EBIT margin	1.9%	-10.5%	-3.3%	4.7%
Net income	0.09	-2.80	-1.16	2.18
Net profit margin	0.3%	-9.3%	-3.9%	6.0%

Q1 2009: Lottery & Gaming includes €2.2m of revenues from casino & poker, which were previously booked under Sports Betting

Q2 2009: Lottery & Gaming includes €2.5m of revenues from casino & poker, which were previously booked under Sports Betting

Table 3

Source: Jaxx, First Berlin

### CHANGES IN OUR FORECASTS

All figures in €m	2009E		
	old	new	% change
Sales	127.25	125.40	-1.5%
EBIT	0.38	-1.88	-595.0%
Margin (%)	0.3%	-1.5%	-
Net income	-0.12	-1.68	-1301.7%
EPS diluted (€)	-0.01	-0.10	-1301.7%

Table 4

Source: First Berlin



### 9M SALES SPLIT / SALES AND COSTS PER EMPLOYEE

All figures in €'000	9M 2008	9M 2009
Sport Betting	44,864	55,009
<i>% change y-o-y</i>		22.6%
<i>% sales</i>	51.7%	61.9%
Horse Betting	20,235	12,335
<i>% change y-o-y</i>		-39.0%
<i>% sales</i>	23.3%	13.9%
Lottery & Gaming	21,636	21,568
<i>% change y-o-y</i>		-0.3%
<i>% sales</i>	24.9%	24.3%
<b>Total sales</b>	<b>86,734</b>	<b>88,912</b>
Avg. number of employees	183	188
Sales per employee (€'000)	474	473
Personnel costs per employee (€ '000)	41	41

9M 2008: Lottery & Gaming includes €4.5m of revenues from casino & poker, which were previously booked under Sports Betting

9M 2009: Lottery & Gaming includes €7.0m of revenues from casino & poker, which were previously booked under Sports Betting

Table 5

Source: Jaxx, First Berlin

**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	12 October 2005	€3.53	Strong Buy	€4.40	-	-
2...36	↓	↓	↓	↓	↓	↓
37	2 April 2009	€1.02	Buy	€2.60	€2.47	142.2%
38	7 May 2009	€2.18	Buy	€2.60	€1.88	-13.8%
39	14 August 2009	€1.51	Add	€1.70	€1.77	17.2%
40	Today	€1.66	Add	€1.70	-	-

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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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