

JAXX AG

GERMANY / LOTTERY AND BETTING SOLUTIONS

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

2009 ANNUAL REPORT

RATING:	Add
PRICE TARGET:	€2.20
RETURN POTENTIAL:	2.8%
RISK RATING:	High

2009 RESULTS MOSTLY BELOW ANALYSTS' ESTIMATES

Jaxx' 2009 sales were higher y-o-y and better than analysts expected. But EBIT and net income missed both our and consensus estimates, despite a cost reduction program which has been in place since Q3/09. Although we expect better business development in 2010, due mainly to improving consumer spending and the World Cup in South Africa, we reduce our estimates for 2010 and beyond. However, the inclusion of a peer group in our valuation model raises our fair value estimate to €2.20 (from €1.70). The rating remains Add.

Sales higher y-o-y and better than consensus estimates For 2009, Jaxx reported sales of €114.5m (+15.0% y-o-y). As the company plans to sell its 65.1% subsidiary Pferdewetten.de AG in 2010, 2009 reported sales do not include the subsidiary. Unadjusted sales were €129.5m (2008: €123.7m) - 4.9% higher than the consensus estimate of €123.5m. Sports Betting sales rose 30.4% to €90.6m as the number of registered and active users increased to 596k (+46.8% y-o-y) and 15.2k (+36.0% y-o-y) respectively. Sales in the Lottery & Gaming and Horse Betting segments fell by 18.5% and 56.4% respectively, y-o-y.

EBIT and net income better y-o-y, but lower than consensus Jaxx reported 2009 EBIT of -€2.8m (2008: -€7.4m) and net income of -€7.2m (-€17.2m). A restructuring program in place since Q3/09, entailing staff reductions, renegotiation of service contracts and merging of departments, targets cost savings of >€1m by Q3/10. Despite this, the company could not meet consensus expectations with regard to EBIT and net income (-€2.3m and -€2.6m respectively). One reason for this, in our view, was much lower other operating income y-o-y (€1.1m vs €2.4m, including e.g. income from disposal of fixed assets). Nevertheless, we note that significant improvements in the cost structure are already visible. For example, the share of other operating costs (including e.g. marketing and consulting expenses) fell from 32.8% in 2008 to 29.5% in 2009. However, despite the restructuring program and stronger expected sales and profits at Sports Betting in 2010 due to the FIFA World Cup, we reduce our estimates (see table 3 on page 4) due to the company's recent track record of failing to meet analysts' estimates.

FINANCIAL HISTORY & PROJECTIONS

	2007	2008	2009	2010E	2011E	2012E
Revenue (€m)	73.85	99.63	114.54	126.00	132.30	143.54
Y-o-y growth	na	34.9%	15.0%	10.0%	5.0%	8.5%
EBIT (€m)	-4.88	-7.36	-2.75	0.13	1.06	2.22
EBIT margin	-6.6%	-7.4%	-2.4%	0.1%	0.8%	1.6%
Net income (€m)	-5.67	-17.23	-7.23	0.07	0.76	1.51
EPS (diluted) (€)	-0.35	-1.08	-0.45	0.00	0.04	0.09
P/E (x)	na	na	na	515.7	49.6	24.9
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.

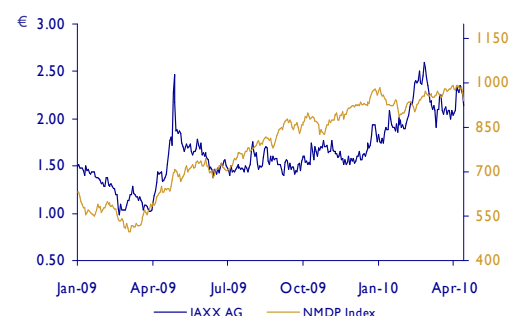
COMPANY PROFILE

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 and www.myBet.com. With investment companies in Germany, the UK, Spain, Austria and Malta, the JAXX Group had 160 employees on average in 2009.

TRADING DATA

Closing price (28.04.10)	€2.14
Shares outstanding	17.61m
Market capitalisation	€37.69m
52-week range	€1.38 / 2.59
Average volume (12 months)	49,262

STOCK OVERVIEW



COMPANY DATA (as of 31 December 2009)

Liquid assets	€9.56m
Current assets	€24.05m
Intangible assets (incl. goodwill)	€13.75m
Total assets	€40.59m
Current liabilities	€17.05m
Consolidated equity	€17.09m

SHAREHOLDERS

DGF GmbH	6.1%
Arcalis Balear S.L	4.7%
Brickell Investments S.L	3.1%
Free Float	86.1%



JAXX' 2009 RESULTS VS 2008, OUR AND CONSENSUS ESTIMATES

All figures in €m	2008	2009	Difference	%Difference
Sales	99.63	114.54	14.91	15.0%
Sport Betting	69.48	90.63	21.15	30.4%
Horse Betting	1.70	0.74	-0.96	-56.4%
Lottery & Gaming	28.45	23.17	-5.28	-18.5%
EBIT	-7.36	-2.75	4.61	62.6%
Margin (%)	-7.4%	-2.4%	-	-
Net income	-17.23	-7.23	10.00	58.0%
EPS (diluted) (€)	-1.08	-0.45	0.62	58.0%

All figures in €m	2009 FBe	2009A	Difference	%Difference
Sales	110.41	114.54	4.13	3.7%
Sport Betting	80.48	90.63	10.15	12.6%
Horse Betting	2.09	0.74	-1.35	-64.5%
Lottery & Gaming	27.84	23.17	-4.67	-16.8%
EBIT	2.30	-2.75	-5.05	-219.5%
Margin (%)	2.1%	-2.4%	-	-
Net income	2.17	-7.23	-9.40	-433.8%
EPS (diluted) (€)	0.14	-0.45	-0.59	-433.8%

All figures in €m	2009 Cons	2009A	Difference	%Difference
Sales	108.51	114.54	6.03	5.6%
EBIT	1.89	-2.75	-4.64	-245.4%
Margin (%)	1.7%	-2.4%	-	-
Net income	1.26	-7.23	-8.49	-675.7%
EPS (diluted) (€)	0.08	-0.45	-0.53	-675.7%

Note: all figures do not include Pferdewetten.de

Table 1

Source: Jaxx, Bloomberg, First Berlin

2009 SALES SPLIT / SALES AND COSTS PER EMPLOYEE

All figures in €'000	2008	2009
Sport Betting	69,479	90,626
% change y-o-y	62.8%	30.4%
% total sales	69.7%	79.1%
Horse Betting	1,703	743
% change y-o-y	-18.3%	-56.4%
% total sales	1.7%	0.6%
Lottery & Gaming	28,451	23,174
% change y-o-y	-2.2%	-18.5%
% total sales	28.6%	20.2%
Total sales	99,633	114,543
Avg. number of employees	155	160
Sales per employee (€'000)	643	716
Personnel costs per employee (€ '000)	54	54

Note: Horse Betting sales do not include revenues from Pferdewetten.de AG

Table 2

Source: Jaxx, First Berlin



SPORTS BETTING SOLE DRIVER OF 2009 SALES GROWTH

Lottery & Gaming and Horse Betting sales both declined in 2009, so overall sales growth stemmed only from the Sports Betting segment. In 2009, Sports Betting sales were €90.6m (2008: €69.5m) and EBIT was -€213k (€2k).

Sports Betting increased its sales by 30.4% y-o-y and its share in total revenues from 69.7% to 79.1%. The reason was a strong increase in the number of registered and active customers of the segment, which offset the lower average stake from active customers y-o-y (€180 vs €185) and weak consumer spending in 2009. The number of registered users increased from 406k to 596k and the active customers from 11.2k to 15.2k. Most of Sports Betting sales (59%) were generated offline (e.g. through betting shops). This is positive as selling bets offline has a higher hold margin (equal to betting stakes minus betting wins) than sales over the internet (20.1% vs 15.2%). However, the total hold margin for the Sports Betting segment fell y-o-y (from 19.4% to 18.1%) because of a very high number of favourite wins in the European soccer leagues in Q2/09 (hold margin in Q2/09 was only 6.8%).

LOTTERY & GAMBLING: HIT BY STATE TREATY ON GAMBLING

The German State Treaty on Gambling has prohibited the sale of lottery products over the internet and so revenues of this segment in Germany were almost zero in 2009.

Although lottery revenues in Spain, from the pan-European Euromillions and casino and poker products, developed well, they could not offset the loss of sales in Germany. Segment sales fell from €28.5m to €23.2m in 2009 and EBIT amounted to -€27k (2008: -€1.6m).

HORSE BETTING: PLANNED SALE OF PFERDEWETTEN.DE AG

Sales in the Horse Betting segment were very disappointing in 2009. Due to the lower number of races and race days compared with 2008 (1,474 vs 1,559 and 184 vs 197 respectively), weak consumer spending and a higher share of betting agency business compared to betting business retained for own account, segment sales decreased from €25.8m to €15.7m. EBIT of the segment also went down from -€3.1m to -€4.2m.

As the Horse Betting segment has not been profitable since Jaxx bought Pferdewetten.de AG (earlier Sportwetten.de AG) at the beginning of 2008, the company plans to sell the 65.1% subsidiary in 2010. Jaxx originally bought the company because horse betting has been excluded from the German State Treaty on Gambling.

Due to the planned sale of Pferdewetten.de AG, the 2009 P&L does not include the subsidiary's sales. In accordance with IFRS, the net income of Pferdewetten.de AG is only taken into account as the result of discontinued operations below earnings after tax.

REDUCTION OF ESTIMATES / FORECASTS OF QUARTERLY RESULTS 2010

In the recent past, Jaxx' results have failed to meet company guidance on several occasions. In addition earnings visibility is very poor. Against this background, we have decided to reduce our estimates for 2010 and beyond.



CHANGE OF ESTIMATES

All figures in €m	2010E			2011E		
	old	new	% change	old	new	% change
Sales	142.52	126.00	-11.6%	158.20	132.30	-16.4%
EBIT	2.85	0.13	-95.6%	6.33	1.06	-83.3%
Margin (%)	2.0%	0.1%	-	4.0%	0.8%	-
Net income	1.26	0.07	-94.2%	3.48	0.76	-78.2%
EPS diluted (€)	0.08	0.00	-94.7%	0.22	0.04	-80.2%

Table 3

Source: First Berlin

FORECASTS OF QUARTERLY RESULTS 2010

in €'000	Q1/10E	Q2/10E	Q3/10E	Q4/10E	FY 2010
Lottery & Gaming	6,188	5,827	4,990	7,253	24,257
change y-o-y	5.0%	14.9%	40.5%	-16.2%	4.7%
Share in sales	22.5%	19.3%	15.1%	20.5%	19.3%
Sports Betting	21,157	23,927	27,875	27,989	100,949
change y-o-y	10.0%	15.0%	26.6%	-2.0%	11.4%
Share in sales	77.0%	79.4%	84.4%	79.2%	80.1%
Horse Betting	147	385	158	102	792
change y-o-y	5.0%	5.0%	5.0%	18.6%	6.6%
Share in sales	0.5%	1.3%	0.5%	0.3%	0.6%
Total sales	27,492	30,139	33,022	35,344	125,997
change y-o-y	8.8%	14.8%	28.4%	-5.3%	10.0%
EBITDA	880	784	1,288	1,961	4,913
change y-o-y	144.4%	115.9%	153.3%	86.1%	2.5%
EBITDA margin	3.2%	2.6%	3.9%	5.5%	3.9%
EBIT	-165	-362	33	620	126
change y-o-y	95.3%	94.9%	100.7%	95.0%	104.6%
EBIT margin	-0.6%	-1.2%	0.1%	1.8%	0.1%
Net income	-178	-375	20	607	73
change y-o-y	95.6%	94.2%	100.4%	92.4%	101.0%
Net margin	-0.6%	-1.2%	0.1%	1.7%	0.1%

Table 4

Source: First Berlin

Jaxx' business model is subject to seasonal factors. Due to the end of the European soccer season and the high number of favourite wins, Q2 is usually the weakest quarter. We do not think that the FIFA World Cup in South Africa this year will reverse this. Q4 is usually the best quarter, mainly due to the Spanish Christmas lottery.

VALUATION

In order to benchmark the stock against its peers, we have included a peer group in our valuation model. However, as Jaxx is a microcap with a current market capitalisation of only €37.7m, we weight the peer group at only 30%. The weighted average of our updated DCF model (€1.64) and peer group (€3.56) produces a fair value for the stock of €2.21.

Based on the peer group valuation, Jaxx appears significantly undervalued. This is particularly true for the EV/Sales multiple, which in Jaxx' case, is currently only 0.3x for both fiscal years 2010 and 2011.



PEER GROUP ANALYSIS

Company	Share price	Shares outst. (m)	Market Cap (m)	Net debt (m)	EV (m)	EV/Sales		EV/EBITDA		EV/EBIT		P/E	
						2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Bet-at-Home (EUR)	21.00	3.51	73.7	-20.0	53.7	1.01	0.94	14.91	9.94	17.32	11.19	29.17	18.42
Tipp24 (EUR)	27.15	7.99	216.8	-69.1	147.7	1.50	1.44	3.44	3.32	3.73	3.63	7.06	6.85
Bwin (EUR)	40.23	35.72	1436.9	-166.1	1270.8	2.26	2.09	9.08	7.64	13.53	10.96	15.79	12.67
Partygaming (GBP)	3.06	408.18	1248.6	-164.7	1083.9	3.12	3.04	10.49	10.02	13.53	12.48	16.10	14.71
William Hill (GBP)	2.02	701.15	1416.3	597.2	2013.5	1.91	1.84	6.61	6.36	7.50	7.04	10.36	9.48
888 Holdings (GBP)	0.80	346.88	277.9	-87.5	190.4	1.06	1.01	5.44	5.02	6.86	6.63	10.14	9.00
Paddy Power (EUR)	26.16	48.06	1257.3	-64.1	1193.2	3.24	3.01	11.06	10.15	13.63	12.09	17.74	15.93
32Red Plc (GBP)	0.19	69.08	12.8	-1.5	11.3	0.86		8.09				9.74	
Sportech Plc (GBP)	0.49	159.07	77.9	83.9	161.8	1.82	1.65	6.17	5.56	7.39	7.07	4.26	3.98
Leisure & Gaming Plc (GBP)	0.05	94.43	5.1	-0.4	4.7	0.08		1.44		1.61		0.02	
<i>Median</i>						1.66	1.75	7.35	7.00	7.50	9.01	10.25	11.08
Jaxx (EUR)	2.14	17.61	37.7	-2.6	35.1	0.27	0.26	5.94	4.62	84.92	18.66	-76.63	58.50
Premium/Discount (Median)						-83.5%	-85.3%	-19.2%	-34.0%	1032.3%	107.1%	-847.7%	428.2%
Target price EV/Sales	12.89												
Target price EV/EBITDA	2.86												
Target price EV/EBIT	0.45												
Target price P/E	-1.95												
Fair value (EUR)	3.56												

Table 5

Source: Bloomberg, First Berlin

VALUATION SUMMARY

	Weighting	Target price (€)
Discounted cash flow	70%	1.64
Peer Group analysis	30%	3.56
Weighted average		2.21

Table 6

Source: 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...37	↓	↓	↓	↓	↓	↓
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	10 November 2009	€1.66	Add	€1.70	€2.59	56.0%
41	Today	€2.14	Add	€2.20	-	-

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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.

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.

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