FIRST BERLIN
Equity Research

JAXX AG

GERMANY / LOTTERY AND BETTING SOLUTIONS

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

Q1 RESULTS

RATING:	Add
PRICE TARGET:	€2.20
RETURN POTENTIAL:	15.8%
RISK RATING:	High

RESULTS OUTPERFORMED EXPECTATIONS

Jaxx has published strong Q1 results. In the coming months, Jaxx should benefit from its restructuring program, the FIFA World Cup and improved consumer spending. We maintain our €2.20 price target and the rating remains Add.

Sales higher y-o-y and than expected For Q1/10, Jaxx reported sales of €32.0m (+26.6% y-o-y; our forecast: €27.5m). In the Sport Betting segment revenues increased to €25.4m (+32.2% y-o-y), mainly due to an increase in the number of existing online customers coupled with the strong growth of the offline business (i.e. betting shops). 38% (48% in Q1/09) of total sales stemmed from online business and 62% (52% in Q1/09) from terrestrial channels. Revenues from lotteries & gambling (casino and poker) rose to €6.4m (+7.9% y-o-y, our forecast: €6.2m), as strong casino and poker business offset weakness in lotteries (e.g. the Spanish lottery business was hit by the financial crisis). Due to the planned disposal of Pferdewetten.de AG, Jaxx now has the following segments: Lotteries (sales of €3.6m in Q1/10), Casino & Poker (€2.7m), Sports Betting and Others (horse betting sales, €0.2m in Q1/10, our forecast: €0.1m).

EBIT and net income better than we expected For Q1/10, Jaxx reported an EBIT of €0.5m (1.7% margin, Q1/09: €0.7m, our forecast: €-0.2m). The reason for the weaker result y-o-y was lower hold margins in the online and offline business. Net profit of -€0.1m (Q1/09: €0.1m) was also above our forecast (-€0.2m). The weaker hold margins were not offset by a better cost structure. The share of other operating expenses (i.e. commissions for venture, marketing costs) in total sales (27.4% vs 33.6% in Q1/09) and personnel costs (7.1% vs 7.9% in Q1/09) declined significantly y-o-y. According to Jaxx, the restructuring program which was implemented in Q3/09, showed its full effect for the first time in Q1/10.

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	0.08
P/E (x)	na	na	na	503.6	48.4	24.3
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.

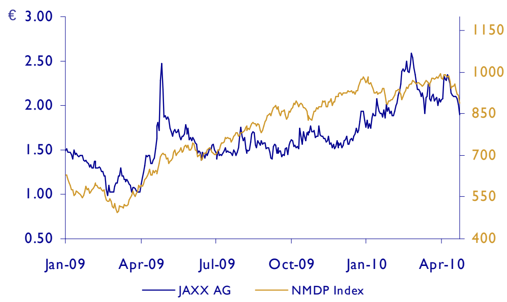
COMPANY PROFILE

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 162 employees on average in Q1 2010.

TRADING DATA

Closing price (07.05.10)	€1.90
Shares outstanding	19.37m
Market capitalisation	€36.80m
52-week range	€1.38 / 2.59
Average volume (12 months)	44,668

STOCK OVERVIEW



COMPANY DATA (as of 31 March 2010)

Liquid assets	€10.01m
Current assets	€21.08m
Intangible assets (incl. goodwill)	€13.78m
Total assets	€37.27m
Current liabilities	€13.73m
Consolidated equity	€17.06m

SHAREHOLDERS

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

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Q2 expected to be weak despite the FIFA World Cup / Full-year 2010 to be profitable According to Jaxx, the FIFA World Cup in South Africa, which starts on 11 June, should translate into much higher betting activity and sales. Jaxx has prepared for this event by improving its sport betting platforms Jaxx.de & Jaxx.com and launching live bets. However, the company expects profitability in Q2 to be low as it plans significantly increased marketing expenditures during the FIFA World Cup. Another negative factor should be seasonally low gross margins from sports betting due to a high number of favourite wins at the end of the European soccer leagues. We forecast that both effects will outweigh the cost savings associated with the restructuring program. For full-year 2010, Jaxx expects higher sales and a positive net result. We believe the sale of Pferdewetten.de AG will happen in Q4/10, which should result in a seven-digit cash inflow and together with improved profitability reduce net debt, which currently stands at €2.9m.

Expansion to France and Italy As part of a strategic decision to move into Western European countries which are set to liberalise their gambling markets, Jaxx has made expansion to Italy and France short-term priorities. In its Q1 report, the company said that the market entry in Italy, which it wants to conduct with a limited marketing budget, will be implemented as planned. However, expansion to France will be postponed by a few months as the company first wants to observe how market liberalisation progresses. Recently, the French Senate introduced significantly higher entry hurdles for private gambling operators, which will increase their operating costs. The EU Commission is likely to examine whether the law conforms with EU regulations.

Acquisition of shares in QED Ventures Ltd. from minority shareholders In Q1/10, Jaxx reached an agreement with the minority shareholders of QED Ventures Ltd. (operates Jaxx' online platform myBet.com) regarding the acquisition of their shares in the subsidiary. Jaxx agreed to buy a stake of 20% in exchange for 1.8m shares from its approved capital at a price of €1.69. The transaction has increased Jaxx' stake in QED from 80% to 99.4%.

Q1 2010 RESULTS VS OUR FORECASTS

All figures in €m	Q1/10 FBe	Q1 2010	Difference	%Difference
Sales	27.49	31.99	4.50	16.4%
Sport Betting	21.16	25.42	4.27	20.2%
Horse Betting	0.15	0.21	0.06	40.8%
Lottery & Gambling*	6.19	6.36	0.17	2.7%
EBITDA	0.88	1.60	0.72	81.8%
Margin (%)	*3.2%*	*5.0%*	-	-
EBIT	-0.17	0.55	0.71	na
Margin (%)	*-0.6%*	*1.7%*	-	-
Net income	-0.18	-0.08	0.10	na
EPS (diluted) (€)	-0.01	-0.01	0.01	na

Table 1 Source: Jaxx, First Berlin

Q1 2010 RESULTS VS Q1 2009

All figures in €m	Q1 2009	Q1 2010	Difference	%Difference
Sales	25.27	31.99	6.72	26.6%
Sport Betting	19.23	25.42	6.19	32.2%
Others (horse bets)	0.14	0.21	0.07	47.9%
Lottery & Gambling*	5.89	6.36	0.46	7.9%
EBITDA	2.14	1.60	-0.54	-25.3%
Margin (%)	*8.5%*	*5.0%*	-	-
EBIT	0.72	0.55	-0.17	-23.8%
Margin (%)	*2.8%*	*1.7%*	-	-
Net income	0.09	-0.08	-0.17	na
EPS (diluted) (€)	0.01	-0.01	-0.01	na

Table 2 Source: Jaxx, First Berlin

* contain sales from Lottery business and Casino & Poker
In Q1/10, Lottery had sales of ~€3.6m and Casino & Poker ~€2.7m

2010 QUARTERLY RESULTS

in €'000	Q1/10	Q2/10E	Q3/10E	Q4/10E	FY 2010
Lottery & Gaming	**6,356**	**5,827**	**4,990**	**7,084**	**24,257**
change y-o-y	*7.9%*	*14.9%*	*40.5%*	*-18.2%*	*4.7%*
Share in sales	*19.9%*	*17.8%*	*17.0%*	*22.2%*	*19.3%*
Sports Betting	**25,424**	**26,632**	**24,220**	**24,673**	**100,949**
change y-o-y	*32.2%*	*28.0%*	*10.0%*	*-13.6%*	*11.4%*
Share in sales	*79.5%*	*81.2%*	*82.5%*	*77.4%*	*80.1%*
Horse Betting	**207**	**325**	**158**	**102**	**792**
change y-o-y	*47.9%*	*-11.4%*	*5.0%*	*18.6%*	*6.5%*
Share in sales	*0.6%*	*1.0%*	*0.5%*	*0.3%*	*0.6%*
Total sales	**31,987**	**32,783**	**29,367**	**31,859**	**125,997**
change y-o-y	*26.6%*	*24.9%*	*14.2%*	*-14.6%*	*10.0%*
EBITDA	**1,600**	**754**	**1,145**	**1,413**	**4,913**
change y-o-y	*180.7%*	*115.3%*	*147.4%*	*90.0%*	*2.5%*
EBITDA margin	*5.0%*	*2.3%*	*3.9%*	*4.4%*	*3.9%*
EBIT	**547**	**-492**	**29**	**42**	**127**
change y-o-y	*115.6%*	*na*	*100.6%*	*99.7%*	*104.6%*
EBIT margin	*1.7%*	*-1.5%*	*0.1%*	*0.1%*	*0.1%*
Net income	**-81**	**-505**	**16**	**644**	**74**
change y-o-y	*na*	*na*	*100.3%*	*91.9%*	*101.0%*
Net margin	*-0.3%*	*-1.5%*	*0.1%*	*2.0%*	*0.1%*

Table 3 Source: Jaxx, First Berlin

Q1 SALES SPLIT / SALES AND COSTS PER EMPLOYEE

All figures in €'000	Q1 2009	Q1 2010
Sport Betting	19,234	25,424
% change y-o-y	*26.6%*	*32.2%*
% total sales	*76.1%*	*79.5%*
Horse Betting	140	207
% change y-o-y	*na*	*47.9%*
% total sales	*0.6%*	*0.6%*
Lottery & Gambling	5,893	6,356
% change y-o-y	*-1.5%*	*7.9%*
% total sales	*23.3%*	*19.9%*
Total sales	**25,267**	**31,987**
Avg. number of employees	152	162
Sales per employee (€'000)	166	197
Personnel costs per employee (€ '000)	13	14

Table 4 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...38	↓	↓	↓	↓	↓	↓
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	29 April 2010	€2.14	Add	€2.20	€2.12	-0.9%
42	Today	€1.90	Add	€2.20	-	-

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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.

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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