

JAXX AG

GERMANY / LOTTERY AND BETTING SOLUTIONS

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

WORLD CUP UPDATE

RATING:	Buy
PRICE TARGET:	€2.20
RETURN POTENTIAL:	29.4%
RISK RATING:	High

GOOD PERFORMANCE DURING THE FIFA WORLD CUP

Jaxx' management tell us that the company generated a strong hold margin from sports betting during the FIFA World Cup while keeping its costs under control. We now believe that Q2 and Q3 results could outperform our estimates. We await the H1/10 report, which will be released on 12 August and should provide more information. For the time being, we are keeping our estimates and the €2.20 price target unchanged. However, due to the recent drop in the share price, our rating goes up from Add to Buy.

Competitors very happy with the FIFA World Cup On 13 July, the Austrian newspaper "Der Standard" published an article on how the FIFA World Cup (took place from 11 June to 11 July 2010) developed for some of Jaxx' competitors. Compared to the EURO 2008 and the fiscal year 2009, Austrian bwin Interactive Entertainment increased its sales from sports betting from c. €660k per day on average and c. €533k per day (our estimate) respectively to c. €1.1m per day. Another Austrian gambling company, Tipp3, had three times higher sales than in a "normal" June because of the FIFA World Cup. Bet-at-Home.com reported the highest monthly sales in its history. The high number of wins for outsiders - these are the most profitable results for sports betting companies - had a very positive impact on the sports betting margin. For example, bwin had a margin of 9.1% compared to 7.4% in the fiscal year 2009.

Jaxx generated a high hold margin at relatively low costs Management tell us that although sales were in-line with their expectations, Jaxx was able to achieve a hold margin (equals betting stakes minus winnings) of >20% during the FIFA World Cup. The reason was the relatively high number of outsider wins. In the fiscal year 2009, the hold margin was 18.1%. We are encouraged that this could be achieved at relatively low costs. We believe this is attributable to the ongoing restructuring program, which was implemented in Q3/09 and is expected to generate cost savings of > €1m by Q3/10.

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	0.75	1.48
EPS (diluted) (€)	-0.35	-1.08	-0.45	0.00	0.04	0.08
P/E (x)	na	na	na	450.6	44.0	22.2
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.

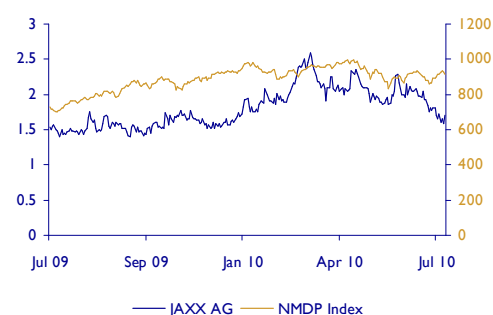
COMPANY PROFILE

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 (16.07.10)	€1.70
Shares outstanding	19.37m
Market capitalisation	€32.93m
52-week range	€1.40 / 2.59
Average volume (12 months)	45,151

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%



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

Table I

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...39	↓	↓	↓	↓	↓	↓
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	10 May 2010	€1.90	Add	€2.20	€2.28	20.0%
43	Today	€1.70	Buy	€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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