# JAXX AG

GERMANY / LOTTERY AND BETTING SOLUTIONS

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

Q2 RESULTS

| | |
|---|---|
| RATING: | Buy |
| PRICE TARGET: | €2.20 |
| RETURN POTENTIAL: | 33.6% |
| RISK RATING: | High |

## MIXED Q2 RESULTS

**Jaxx has published mixed Q2 results. EBIT was better than we and the market expected, but we were too optimistic on revenues and net income. In the coming months, Jaxx should continue to benefit from its restructuring program and improved consumer spending. Moreover, ticket sales for the popular Spanish Christmas lottery start in Q3. However, Jaxx' expenses are likely to increase due to higher legal costs associated with the regulatory situation in Germany. We maintain our €2.20 price target and the Buy rating.**

**Sales higher y-o-y but lower than expected** For Q2/10, Jaxx reported sales of €31.7m (+20.7% y-o-y, our forecast: €32.8m). In the Sport Betting segment revenues increased to €24.5m (+17.5% y-o-y), mainly due to a €11 higher average betting stake (€201 vs €190 in Q2/10) resulting from the FIFA World Cup. 39% (47% in Q2/09) of total sales stemmed from online business and 61% (53% in Q2/09) from terrestrial channels. Terrestrial channels are usually more profitable for Jaxx. Revenues from Lotteries & Gambling (casino and poker) rose to €6.4m (+25.3% y-o-y), as strong casino and poker business (+34.7% y-o-y to €4.2m) offset weakness in the lottery business which suffers from the State Treaty on Gambling in Germany.

**EBIT better than we expected but net income missed our forecasts** For Q2/10, Jaxx reported an EBIT of €53k (Q2/09: -€3.1m, our forecast: -€0.5m). The reason for the much stronger result y-o-y was a high margin (20% vs 7.1% in Q2/09) in the sports betting business during the FIFA World Cup resulting from a high number of outsider wins and drawn games. In Q2/09, betting margins were very low due to a high number of favourite wins at the end of the European soccer season. Moreover, the share of depreciation & amortisation in total sales (2.7% vs 7.7% in Q2/09) decreased due to a lower volume of syndicate contracts. Personnel costs (7.8% vs 8.3% in Q2/09) declined y-o-y due the impact of the restructuring program (in place since Q3/09). However, net income (-€0.6m, Q2/09: -€2.8m) slightly missed our forecast of -€0.5m due to a loss from discontinued operations of €0.4m. Jaxx plans to sell its 65.1%-owned subsidiary Pferdewetten.de AG in the short term. However, it has so far not received satisfactory offers from potential investors.

## 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 | 0.38 | 1.06 | 2.22 |
| EBIT margin | -6.6% | -7.4% | -2.4% | 0.3% | 0.8% | 1.6% |
| Net income (€m) | -5.67 | -17.23 | -7.23 | -0.76 | 0.78 | 1.52 |
| EPS (diluted) (€) | -0.35 | -1.08 | -0.45 | -0.04 | 0.04 | 0.08 |
| P/E (x) | na | na | na | na | 41.0 | 20.9 |
| 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.

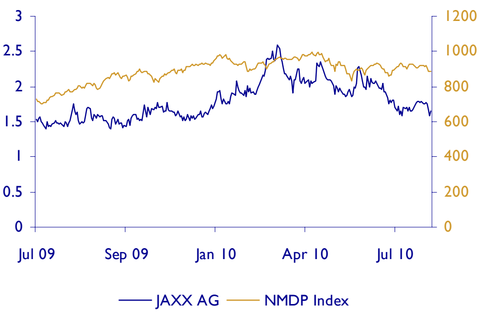
## COMPANY PROFILE

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 163 employees on average in H1 2010.

## TRADING DATA

| | |
|---|---|
| Closing price (13.08.10) | €1.65 |
| Shares outstanding | 19.37m |
| Market capitalisation | €31.90m |
| 52-week range | €1.40 / 2.59 |
| Average volume (12 months) | 44,065 |

## STOCK OVERVIEW




## COMPANY DATA (as of 30 June 2010)

| | |
|---|---|
| Liquid assets | €7.97m |
| Current assets | €21.82m |
| Intangible assets (incl. goodwill) | €13.91m |
| Total assets | €38.12m |
| Current liabilities | €14.34m |
| Consolidated equity | €17.28m |

## 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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**Jaxx outperforms Bet-at-Home in Q2** Bet-at-Home AG, which we consider Jaxx's main peer, had a much higher net loss in Q2/10 than Jaxx (-€2.4m vs -€0.8m). This was attributable to high marketing expenditures as Bet-at-Home invested heavily in the acquisition of new customers during the FIFA World Cup. Jaxx also increased its marketing expenditures y-o-y, but only slightly (€3.1m vs €2.9m in Q2/09) and spent more effectively. In our view, Bet-at-Home will likely report strong results in the second half due to its investment in the acquisition of new clients and the start of the European soccer season in August. However, as its share price has already increased by c. 41% since the beginning of 2010, we believe that there is little further upside potential. In contrast to Bet-at-Home, which currently trades at an EV/Sales and EV/EBITDA 2010 of 0.9x and 7.7x respectively, Jaxx valuation is still low (EV/Sales 2010 = 0.2x, EV/EBITDA = 4.0x). This is so even though, in our opinion, the company will report positive results in the coming years due to recovering consumer spending, a much better cost structure after the completion of the restructuring program in Q3/10 and expansion to other European countries. We currently recommend overweighting Jaxx over Bet-at-Home.

**Bwin to buy PartyGaming** On 29 July, Austrian Bwin announced the acquisition of UK-based PartyGaming. The resulting company will be the biggest provider of online gambling worldwide. Bwin is currently Europe's largest provider of sports betting whereas PartyGaming is the largest provider of online casino & poker. Thus, both companies complement each other very well, which should enable them to generate significant synergies through the deal.

We think the announcement could be the beginning of consolidation in the European online gambling sector. In Germany, we believe that Jaxx could be a good partner for Tipp24. Tipp24 is a highly profitable provider of lottery and skill-based games. In 2009, Tipp24 generated an EBIT margin of 25.7%. With the acquisition of Jaxx, Tipp24 could complement its product portfolio with sports betting as well as with casino and poker and thus increase the diversification of its business. Moreover, we strongly believe that the deal could generate high value for Jaxx' shareholders as Jaxx' shares are currently very cheap.

Due to its very strong liquidity (at the end of June 2010 Tipp24 had cash & equivalents of €77.3m and practically no financial debt), Tipp24 would easily be able to finance the acquisition of Jaxx (market cap is currently €27.9m).

## Q2 2010 RESULTS VS OUR FORECASTS

| All figures in €m | Q2/10 Fbe | Q2 2010 | Difference | %Difference |
|---|---|---|---|---|
| Sales | 32.78 | 31.67 | -1.11 | -3.4% |
| Sport Betting | 26.63 | 24.46 | -2.18 | -8.2% |
| Horse Betting | 0.33 | 0.86 | 0.54 | 164.9% |
| Lottery & Gambling* | 5.83 | 6.36 | 0.53 | 9.1% |
| EBITDA | 0.75 | 0.92 | 0.17 | 21.9% |
| *Margin (%)* | *2.3%* | *2.9%* | - | - |
| EBIT | -0.49 | 0.05 | 0.60 | 109.7% |
| *Margin (%)* | *-1.5%* | *0.2%* | - | - |
| Net income | -0.51 | -0.59 | -0.09 | -17.4% |
| EPS (diluted) (€) | -0.03 | -0.04 | -0.01 | -17.4% |

Table 1 Source: Jaxx, First Berlin

## Q2 2010 RESULTS VS Q2 2009

| All figures in €m | Q2 2009 | Q2 2010 | Difference | %Difference |
|---|---|---|---|---|
| Sales | 26.25 | 31.67 | 5.43 | 20.7% |
| Sport Betting | 20.81 | 24.46 | 3.65 | 17.5% |
| Others (horse bets) | 0.37 | 0.86 | 0.49 | 134.6% |
| Lottery & Gambling* | 5.07 | 6.36 | 1.28 | 25.3% |
| EBITDA | 1.06 | 0.92 | 10.11 | 110.0% |
| *Margin (%)* | *4.0%* | *2.9%* | - | - |
| EBIT | -3.09 | 0.05 | 7.12 | 100.7% |
| *Margin (%)* | *-11.8%* | *0.2%* | - | - |
| Net income | -2.80 | -0.59 | 2.20 | 78.8% |
| EPS (diluted) (€) | -0.17 | -0.04 | 0.14 | 78.8% |

Table 2 Source: Jaxx, First Berlin

* contain sales from Lottery business and Casino & Poker
In Q2/10, Lottery had sales of ~€2.2m and Casino & Poker ~€4.2m

## 2010 QUARTERLY RESULTS AND ESTIMATES

| in €'000 | Q1/10 | Q2/10 | Q3/10E | Q4/10E | FY 2010 |
|---|---|---|---|---|---|
| **Lottery & Gaming** | **6,356** | **6,356** | **5,020** | **5,931** | **23,663** |
| *change y-o-y* | *7.9%* | *25.3%* | *41.3%* | *-31.5%* | *2.1%* |
| *Share in sales* | *19.9%* | *20.1%* | *17.1%* | *18.0%* | *18.8%* |
| **Sports Betting** | **25,424** | **24,456** | **24,220** | **26,849** | **100,949** |
| *change y-o-y* | *32.2%* | *17.5%* | *10.0%* | *-6.0%* | *11.4%* |
| *Share in sales* | *79.5%* | *77.2%* | *82.4%* | *81.5%* | *80.1%* |
| **Horse Betting** | **207** | **861** | **158** | **160** | **1,386** |
| *change y-o-y* | *47.9%* | *134.6%* | *5.0%* | *86.6%* | *86.5%* |
| *Share in sales* | *0.6%* | *2.7%* | *0.5%* | *0.5%* | *1.1%* |
| **Total sales** | **31,987** | **31,673** | **29,397** | **32,940** | **125,997** |
| *change y-o-y* | *26.6%* | *20.7%* | *14.3%* | *-11.7%* | *10.0%* |
| **EBITDA** | **1,600** | **920** | **853** | **1,036** | **4,409** |
| *change y-o-y* | *180.7%* | *118.6%* | *135.3%* | *92.7%* | *-8.0%* |
| *EBITDA margin* | *5.0%* | *2.9%* | *2.9%* | *3.1%* | *3.5%* |
| **EBIT** | **547** | **53** | **0** | **-221** | **379** |
| *change y-o-y* | *115.6%* | *na* | *100.0%* | *101.8%* | *113.8%* |
| *EBIT margin* | *1.7%* | *0.2%* | *0.0%* | *-0.7%* | *0.3%* |
| **Net income** | **-81** | **-774** | **-191** | **289** | **-758** |
| *change y-o-y* | *na* | *na* | *95.9%* | *96.4%* | *89.9%* |
| *Net margin* | *-0.3%* | *-2.4%* | *-0.6%* | *0.9%* | *-0.6%* |

Table 3 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...40 | ↓ | ↓ | ↓ | ↓ | ↓ | ↓ |
| 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 | 19 July 2010 | €1.70 | Buy | €2.20 | €1.80 | 5.7% |
| 44 | Today | €1.65 | Buy | €2.20 | - | - |

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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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