



Frogster Interactive Pictures AG

Mid-term update, annual targets already met

		Key Data			
		Absolute %	-1m	-3m	Y-t-d
			30.1	96.9	179.1
		Net Gearing (2008)			0
		FCF Yield (2009e)			7.82%
		Shares outstanding (m)			2.525
		Market Cap (€m)			40.73
		Next event	publication of 2009 interim Report, September 2009		
			Source: Bloomberg, Silvia Quandt Research GmbH		
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Rating: Buy	Target price: €24.18	Close 17/09/09: €18.15	RIC: FRGG.DE
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- After Frogster reported its first ever profit after taxation based on the huge success of Runes of Magic and, the July and August turnovers, we expect an excellent Q3. H1 revenues rose over 500% to € 5.1m (08: €0.8m) and the profit after taxation was € 1.348m (08: € -1.623m) after minorities it was € 1.113m (08: €-1.468m). EPS were 53c (44c after minorities).
- Frogster has already upped its guidance for the full year as shown in the Table below. We have adjusted our Model and will explain why below.

	Frogster guidance		Silvia Quandt Research estimates	
	old	new	old	new
Revenues	10-15m	12.5-15m	12.78m	14.40m
Net Income	0-2m	1.3-2.4m	0.52m	1.85m
EPS incl. XO	0-80 cents	50-95 cents	0.21	0.73

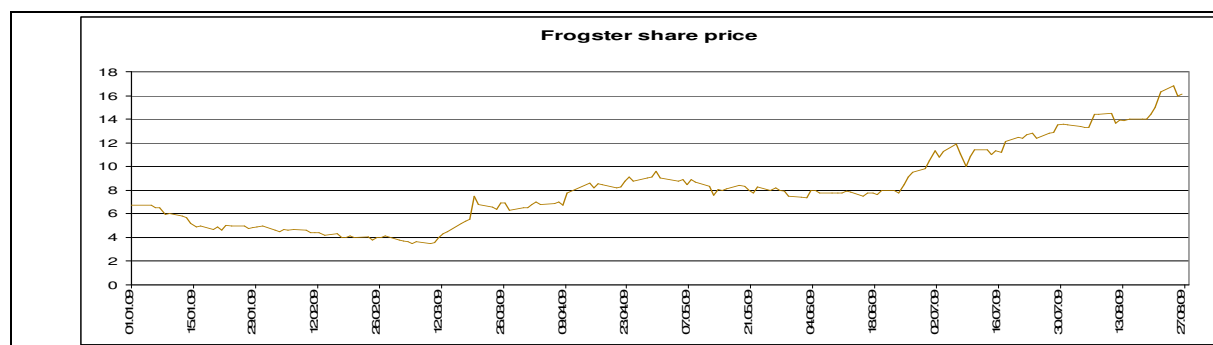
- Revenues for July were 20% ahead of June which should amount to around €1.1m, for August Revenues are up another 10%. **This is remarkable because normally, during the summer months people tend to spend more time outdoors and less in front of PCs.** Traditionally the summer months are bad business for media companies which is why TV stations usually run repeats. After billing costs we expect revenues to amount to just over €1m in August.
- This week (September 15th) saw the launch of Chapter 2 of Runes of Magic, the long awaited extra content which includes a new Race (Elves), new Territories (Weeping coast) and better Graphics. At the same time the French and Spanish version officially went Online. At the end of the month the game will be released in Korea one of the biggest gaming markets in the world. All this should lead to increases in registered and active users which in turns should translate into more paying users.
- We expect paying users to make a big leap up with the launch of pre-paid gaming cards in the US sometime in September/October. This should lead to more paying users without affecting the amount of registered-/active users. For the US that means an increase of at least 20% according to our new model.
- We expect Sales from October onwards to reach €1.35m for Runes of Magic alone. We expect total sales to reach €1.5m on a monthly basis.

- Since Frogster has already exceeded our Profit after taxation and EPS estimates for the whole year in H1, and it looks like H2 will be even stronger, we are adjusting our model upward as shown below.

**Income Statement - Annual - Standardised
in Millions of EUR**

	2008	2009e	2010e	2011e
Revenue	2.29	12.90	26.67	40.17
Other Revenue	0.75	1.50	2.00	2.50
Total Revenue	3.04	14.40	28.67	42.67
Cost of Revenue	0.79	2.88	8.51	12.59
Gross Profit	1.49	11.52	20.16	30.08
Selling/General/Admin. Expenses, Total	2.04	2.29	4.17	2.64
Unusual Expense (Income)	0.76			
Other Operating Expense	3.61	3.31	4.45	5.76
Total Operating Expense	7.2	8.49	17.13	20.99
EBITDA	-4.92	5.92	11.54	21.68
Depreciation/Amortization	2.17	2.20	2.24	2.32
EBIT	-7.09	3.72	9.30	19.36
Interest Inc.(Exp.),Net-Non-Op., Total	0.03			
Other, Net	0	-0.07	-0.29	-0.77
Net Income Before Taxes	-6.30	3.64	9.01	18.58
Provision for Income Taxes	-0.95	-1.17	-3.16	-5.42
Net Income After Taxes	-5.35	2.48	5.85	13.16
Minority Interest	0.73	0.63	0.67	1.07
Net Income	-4.61	1.85	5.18	12.10
Basic Weighted Average Shares	1.78	2.53	2.53	2.53
Basic EPS Including Extraordinary Items	-2.6	0.73	2.05	4.79
Gross Dividends - Common Stock	0	0.00	0.25	1.00
Total Special Items	0.76	0.63	0.67	1.07
Basic Normalized EPS	-2.32	0.48	1.78	4.37
Gross Margin	49.0%	80.0%	70.3%	70.5%
Pretax Margin	-233.2%	25.8%	32.4%	45.4%
Effective Tax Rate	13.4%	31.4%	34.0%	28.0%
Net Profit Margin	-151.6%	12.8%	18.1%	28.4%

- **We are maintaining our Buy rating and are placing our price target under watch for a possible upgrade.**



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