

Industry report

Video Games

One of the most dynamic media segments

Company name: City Interactive S.A.
Country: Poland
ISIN: PLCTINT00018
Reuters: CIAT.WA
Website: www.city-interactive.pl

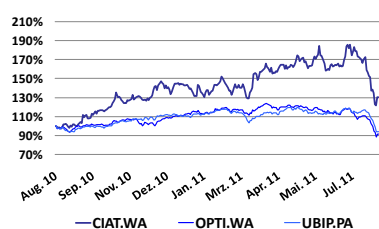
Price target: 34.85
Rating: Buy
Last price: 19.35
Market Cap. (PLNm) 246.23

Company name: CD Projekt RED S.A.
Country: Poland
ISIN: PLOPTTC00011
Reuters: OPTI.WA
Website: www.optimus.pl

Price target: 5.01
Rating: Reduce
Last price: 5.40
Market Cap. (PLNm) 512.73

Company name: Ubisoft Entertainment SA
Country: France
ISIN: FR0000054470
Reuters: UBIP.PA
Website: www.ubisoftgroup.com

Price target: 5.46
Rating: Accumulate
Last price: 4.99
Market Cap. (€m) 472.87



■ In the recent past, the video games industry has been one of the most dynamic segments of the media market. Since 2004, the industry has grown with a CAGR of 13.2% (Source: PWC) and together with internet and mobile advertising has exhibited the strongest growth of all media segments. Despite the global financial crisis, it increased its worldwide volume in 2009 from USD 51bn in the previous year to USD 52.5bn.

■ As nowadays video games are available for different platforms such as consoles, handhelds, smartphones and the internet, they are not only being played by young hardcore gamers, but also by seniors and women. Due to the fact that games are relatively cheap and can be consumed everywhere, the video game industry faces a demand which shows only a relatively modest correlation with the overall economy.

■ According to several market research companies e.g. Gartner and PWC the video game industry will continue its dynamic growth over the coming years. Due to an increasing availability of broadband internet connections and smartphones with improved graphics and fast internet access, this growth will be primarily driven by online and mobile games which generate revenues through in-game advertising or item sales. Faster internet connections are also changing the way people buy their games, with online download portals becoming increasingly important as a distribution channel.

■ In this report, we have analysed the most important video game companies in the world with a particular focus on the European ones. Due to its financial strengths, attractive pipeline of new releases and low valuation our top pick in the sector is the Polish company City Interactive S.A. Our 12-months price target for the stock is PLN 34.85 with an upside of 80.1%.

in m	City Interactive		CD Projekt RED		Ubisoft Entertainment	
	2010	2011E	2010	2011E	2010	2011E
Revenues	89.04	77.10	50.45	195.56	1,038.83	1,074.50
EBITDA	40.55	27.48	0.79	66.49	451.49	450.89
EBIT	34.19	21.97	-0.68	62.58	-80.49	46.20
Net Income	26.89	17.82	-3.45	48.81	-52.12	26.76
EPS	2.13	1.41	-0.06	0.51	-0.55	0.28
BVPS	3.40	4.55	1.35	1.39	7.53	7.82
RoE	89.99%	35.45%	-8.49%	46.65%	-7.06%	3.68%
Net margin	30.20%	23.11%	-6.84%	24.96%	-5.02%	2.49%
Equity ratio (in %)	72.06%	85.39%	46.36%	63.10%	67.49%	68.39%
EBIT margin	38.40%	28.50%	-1.34%	32.00%	-7.75%	4.30%

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1 Investment Case

- Despite the financial crisis, the worldwide video game industry grew by 2.9% y-o-y in 2009 according to PriceWaterhouseCoopers (PwC). As many people regard video games as a relatively cheap means of entertainment which can be consumed on many different platforms, the industry exhibits only a relatively modest correlation with the economic cycle.
- Due to increasingly sophisticated games which are available for different platforms (online, mobile, consoles and PCs) the market for video games is strongly expanding. Nowadays, not only young hardcore gamers play games, but also women and seniors. In addition, video game companies not only generate revenues by selling games in retail stores, but also online through content download, sales of mobile game apps, in-game advertising or item-sales.
- We believe that the video game industry will continue its dynamic growth over the coming years. In our view, the winners will be companies which have already adjusted their business strategy to the ongoing industry trends such as a stronger focus on online and mobile platforms. As video games are hit-driven and gamers nowadays demand high quality games, it is also important for the video game companies that they control their costs and focus on fewer games with high potential. We have identified such companies especially in Poland which still has significantly lower wage costs than Western Europe or the US (KRe: 2.5-3 times lower salaries for software developers)
- Our top pick in the sector is currently the Polish company City Interactive S.A. Its title “Sniper – Ghost Warrior” which was published in 2010 has been a huge global success so far from which in our view the company will continue to benefit. An additional growth trigger should be the ongoing expansion into online and mobile games. Our 12-months price target for City Interactive is **PLN 34.85** with an upside of **80.1%** on current level. Our recommendations for the other two European game publishers CD Projekt RED and Ubisoft Entertainment is **Reduce with a 12-months PT PLN 5.01** and **Accumulate with a PT €5.46** respectively.

2 Video games – one of the most dynamic media segments

The market for video games has developed very dynamically over the last years. According to the consultancies PWC and Gartner, the sector has grown with a worldwide CAGR of 14.4% between 2008 and 2010, far stronger than for example TV (CAGR 08-10 of c. 3.4%).

2.1 Characteristics of the video games sector

In general, the video games sector can be divided into providers of PC and console games on the one hand, and online (including social games e.g. for Facebook) and mobile games on the other. The business is (1) extremely hit-dependent, meaning that single games often account for >50% of a company's total sales (2) competitive (3) seasonal, with Q4 usually being the best period of the year and Q2 the worst, and (4) exhibits only a modest correlation with the economic cycle.

PC and console games

PC and console games are riskier as players demand increasingly sophisticated games which are very expensive to develop (for example, "Call of Duty: Modern Warfare" by Activision Blizzard, the most successful game ever, cost USD 200m according to Wikipedia.org). This holds especially for console games where license and production fees (fix and variable one which is usually a percentage of sales less CoGS and marketing expenses) which have to be paid to the respective console manufacturer (Microsoft, Sony or Nintendo) can constitute a substantial part of costs. In order to reduce risk, video game companies keep the size of their game portfolios under control and concentrate their development activities on the titles with the biggest sales potential. In the past, many big video game companies such as US-based Electronic Arts (EA) and THQ have had problems with profitability because they had too many games (as a reaction, EA has reduced its game portfolio since fiscal-year 2009 from 67 to 22 primary titles). In contrast to IFRS accounting standards, R&D expenses cannot be capitalised according to US GAAP and thus have a negative effect on profitability.

Despite their high risk, most PC and console games usually are far less profitable than online and mobile games due to piracy and the way they are distributed. If they are sold through retail stores, the distributor gets a distribution fee which amounts to a single-digit percentage of the price per unit. The distribution fee can be reduced if direct distribution is conducted, meaning the respective video game company approaches the retailers itself and not through agents.

The most profitable way to sell games (in terms of gross margin) is through online download portals such as Steampowered.com, GOG.com or Gamesload.de. Then, the video game company does not have any costs relating to the production of the physical game boxes. With the increasing availability of broadband internet connections, this distribution channel is becoming more and more important.

Online and mobile games

The main differences between PC and console games on the one hand and online and mobile games on the other are their lifecycle, revenue generation model and profitability. For example online games have a lifecycle between five and 10 years vs. 1-2 years for traditional video games.

The only costs which online games generate are those associated with the development of the games, marketing and their operation on online servers. There are absolutely no costs relating to distribution as well as the production of physical game boxes which is the reason why online game companies usually generate much higher operating margins than traditional ones (see Peer Group Analysis).

In terms of revenues, there are basically three models which are utilized in online games: (1) Monthly subscription fees (2) Free-to-play games with in-game advertising, and (3) Free-to-play games with item sales. The first model is used for example in case of Blizzard's "World of Warcraft (WOW)" which is the most successful Massively Multiplayer Online Game (MMOG) worldwide with c. 12m subscribers (Source: brighthub.com) and NCSoft's "Aion" (3.4m subscribers in mid-2010 according to brighthub.com). Both "WOW" and "Aion" charge the players a monthly subscription fee of up to USD 15.

"Free-to-play (F2P) with item-sales" games are highly popular especially in Asia where people are less wealthy than in Europe or North America and piracy is a big issue. Examples are "Perfect World" and "Jade Dynasty" from Perfect World Entertainment, "Ragnarok Online" from Gravity Interactive and "LaTale" from Actoz Soft. Due to the popularity of among others the Facebook game "Farmville" from US-based company Zynga and the MMOG "Runes of Magic" (KRe: c. 5m of registered users) from Germany-based Frogster Interactive Pictures) the F2P model is also becoming more and more popular in the Western world. The main issues which online game companies face are the conversion of registered users into active ones and the maximization of the average revenue per user (ARPU) per month.

The in-game revenue model is also becoming increasingly popular with mobile games which have seen a huge surge in popularity in the last years due to faster internet connections (like in case of online games) as well as the availability of tablets (iPad etc.) and smartphones (e.g. iPhone, BlackBerry) with better graphics. According to paidContent.org, in-app purchases account for 52% of total revenues of the 200 top iPhone and iPad games, up from just 8% in 2010. However, this has pushed down download prices which have decreased by 28% since 2010 to c. USD 1.4 on average.

2.2 Latest software and hardware charts

The latest software and hardware charts show the dominance of the Japanese company Nintendo. Nintendo manufactures the currently most popular handheld “Nintendo DS” and latest-generation console “Nintendo Wii” (released in 2005 and 2006). “Nintendo Wii” has been the first console with a motion-controller on the market, meaning that it registers the players’ body movements.

The high popularity of the “Nintendo Wii” can be seen in the Top 10 software charts which include games for this device (e.g. “Wii Sports”, “Just Dance”). In H2/10, Microsoft and Sony brought their own motion-controllers “Kinect” and “PS3 Move” on the market which have also been well-received by the customers.

Software charts North America, July 2011

Pos	Title	Publisher
1	Pokemon Black/White version	Nintendo
2	Kinect Adventures	Microsoft
3	Just Dance 2	Ubisoft
4	Wii Sports	Nintendo
5	Wii Sports Resort	Nintendo
6	Call of Duty: Black Ops	Activision
7	Zumba Fitness	505 Games
8	Wii Fit Plus	Nintendo
9	L.A. Noire	Take-Two Interactive
10	Killzone 3	Sony

Source: Dr. Kalliwoda Research GmbH, VGChartz.com

Software charts Europe, Middle East & Africa (EMEA), July 2011

Pos	Title	Publisher
1	Pokemon Black/White version	Nintendo
2	Wii Sports	Nintendo
3	Wii Sports Resort	Nintendo
4	Wii Fit Plus	Nintendo
5	L.A. Noire	Take-Two Interactive
6	Kinect Adventures	Microsoft
7	Just Dance 2	Ubisoft
8	Mario Kart 2	Nintendo
9	Wii Party	Nintendo
10	Zumba Fitness	505 Games

Source: Dr. Kalliwoda Research GmbH, VGChartz.com

Installed hardware base worldwide, July 2011

Pos	Console/handheld	Number of units
1	Nintendo DS	147.5m
2	Sony Playstation 2	143.8m
3	Nintendo Wii	87.2m
4	Sony PSP	68.9m
5	Microsoft Xbox 360	55m
6	Sony Playstation 3	51.6m

Source: Dr. Kalliwoda Research GmbH, VGChartz.com

Although the PC is the preferred platform for strategy and online games, consoles are becoming more and more important. There are however huge regional difference: While Asian customers prefer Nintendo's and Sony's consoles, Microsoft's Xbox console leads the sales statistics in North America. Despite the fact that in the US and Japan virtually nobody plays games on computers anymore, in some countries such as Germany and Poland the PC is still the dominant platform.

In the recent past, the trend towards consoles has been reinforced by three factors: (1) consoles have more user-friendly controls than keyboards (2) console games cost more and are less subject to piracy, thus generating higher gross margins for the video game companies, and (3) the major console manufacturers have significantly reduced their prices since H2/09.

3 Future outlook: dynamic growth likely to continue

For the coming years, the market research firms forecast that the video game industry will continue its dynamic growth. This growth will be primarily driven by online, social and mobile gaming as well as new technologies such as 3D, motion control and smart gesture recognition. The consultancy PwC forecasts that in order to improve monetization companies will need to create content which is available on multiple platforms. Because of that, there is an ongoing trend among major video game companies towards strengthening online and mobile activities which is conducted primarily through M&A (e.g. EA's acquisitions of Playfish and PopCap, Ubisoft's acquisition of Nadeo and Owlent). By offering downloadable ad-ons e.g. additional game levels, the established video game companies also use the online channel to prolong the lifecycle of their packaged games and thus to improve their profitability.

3.1 Market forecasts

According to market research firm Gartner, the worldwide video game industry will grow from USD 67bn in 2010 to USD 112bn in 2015 (CAGR 10-15 13.7%), whereby for software and hardware volumes it expects a CAGR 10-15 of 6.0% (USD 56.5bn in 2015) and 11.1% (USD 27.4bn) respectively. For the years 2011 to 2015, PwC expects the video game industry to expand with a CAGR of 8%. Both Gartner and PwC forecast that mobile gaming will be the main contributor to growth. Gartner believes that after 15% in 2010 mobile gaming will reach a share of 20% in the total market in 2015, resulting from a shift of gaming activity from handhelds such as Nintendo DS to smartphones and tablets. The total volume of online and mobile games is expected to increase from USD 11.9bn in 2011 to USD 28.3bn in 2015 (CAGR of 24.8%). For online and mobile games, consultancies such as Cartagena Capital expect that developers who are based outside Asia will increasingly gain market share. With game companies such as BigPoint, Gameforge, Travian and Innogames, Germany is regarded as one of the centres of online gaming in Europe. Due to the ongoing trend towards socialisation, Cartagena Capital expects that multi-player mobile gaming and social mobile gaming networks such as Scoreloop and OpenFeint will become increasingly popular in the near future.

3.2 Most expected games in the next 12 months

The tables below show which games are most expected by players which usually results in very good sales for the respective titles. Especially, EA's new releases perform very well in the rankings which is in our view one of the reasons why the company's stock is currently that expensive compared to its peers (see Peer Group Analysis). Activision Blizzard's game "Call of Duty" has been a "frequenter" in the international game charts. The last version of the game, "Call of Duty: Black Ops" which was released in November 2010, generated total revenues of more than USD 1bn in just a month. According to slashgear.com, in the entertainment segment only "Call of Duty" and the 3D movie "Avatar" had ever reached USD 1bn in sales that quickly.

Pre-order charts Americas, July 2011

Pos	Title	Publisher	Release
1	Gears of War 3	Microsoft	Sep 11
2	Call of Duty: Modern Warfare 3	Activision	Oct 11
3	Battlefield 3	Electronic Arts	Oct 11
4	Madden NFL 12	Electronic Arts	Sep 11
5	The Elder Scrolly: Skyrim	Zenimax	Nov 11
6	Assassine's Creed: Revelations	Ubisoft	Activision
7	Mass Effect 3	Electronic Arts	Mar 12
8	Uncharted 3: Drake's Deception	Sony	Nov 11
9	The Legend of Zelda: Skyward Sward	Nintendo	-
10	Batman: Arkham City	Warner Bros. Interactive	Oct 11

Source: Dr. Kalliwoda Research GmbH, VGChartz.com

Pre-order charts UK, July 2011

Pos	Title	Publisher	Release
1	Battlefield 3	Electronic Arts	Oct 11
2	The Sims 3: Pets	Electronic Arts	Oct 11
3	The Elder Scrolls V: Skyrim	Zenimax	Nov 11
4	Call of Duty: Modern Warfare 3	Activision	Nov 11
5	Deux Ex: Human Revolution	Square Enix	Aug 11
6	Mass Effect 3	Electronic Arts	Mar 12
7	Assassine's Creed: Revelations	Ubisoft	Nov 11
8	Warhammer 40000: Space Marine	Games Workshop	Sep 11
9	Batman: Arkham City	Warner Bros. Interactive	Oct 11
10	Call of Juarez: The Cartell	Ubisoft	Sep 11

Source: Dr. Kalliwoda Research GmbH, Play.com

Pre-order charts Germany, July 2011

Pos	Title	Publisher	Release
1	Uncharted 3: Drake's Deception	Sony	Nov 11
2	Diablo III	Blizzard	-
3	FIFA 12	Electronic Arts	Sep 11
4	Star Wars: The Old Republic	Electronic Arts	-
5	The Sims 3: Add-on	Electronic Arts	-
6	Assassine's Creed: Revelations	Ubisoft	Nov 11
7	Call of Duty: Modern Warfare 3	Activision	Nov 11
8	Zumba Fitness	Nintendo	Nintendo
9	The Sims 3: City Accessoires	Electronic Arts	-
10	The Elder Scrolls V: Skyrim	Zenimax	Nov 11

Source: Dr. Kalliwoda Research GmbH, Amazon.de

4 CD Projekt RED S.A.

CDPROJEKTRED

Company description

CD Projekt RED S.A. (formerly Optimus SA) was founded in 1988 as a company assembling computers and fiscal registers as well as delivering integrated IT solutions to the public sector and large companies. The company also established the leading Polish online portal Onet.pl. In 2009, after the reverse takeover of the CD Projekt Group (CDP Investment Sp. z.o.o) by Optimus S.A. the company changed its business model towards electronic entertainment. Today, CD Projekt RED S.A. consists of the fully-owned subsidiaries CD Projekt Sp. z.o.o (distribution of video games, translation into different languages, DVD and Blu-ray movies in Poland), CD Projekt RED S.A. (development of video games, especially the international hit-title "The Witcher", selling licenses to third-party distributors) and GOG.COM Ltd. (online portal for the digital distribution of video games).

Financials

For Q1/11, CD Projekt RED reported net sales of PLN 15.8m after only PLN 333k in the previous year. The reason was CD Projekt Group which after the reverse takeover by Optimus S.A. between November 2009 and April 2010 has only been consolidated since 1 May 2010. In addition, the company's distribution business performed badly in whole 2010 due to a small number of hit titles. Q1/11 EBIT and net margins were 29.7% and 26.2% respectively, PLN 4.7m and PLN 4.1m in absolute terms. As of 31 March 2011, CD Projekt RED had a solid balance sheet structure. The net gearing amounted to 1.7% and the equity ratio to 59.4%.

For H1/11, we forecast net sales of PLN 60m and a net income of PLN 24m.

CD Projekt RED S.A.

in PLN	2008	2009	2010	2011E	2012E	2013E
EPS	0.05	-0.08	-0.06	0.51	0.31	0.56
ROE	21.7%	-48.8%	-8.5%	46.7%	20.1%	30.0%
P/E	100.40	-62.75	-83.67	9.76	16.14	8.92
P/FCF	-44.46	-105.69	50.39	31.23	11.73	11.43
EV/Sales	10.20	376.09	9.48	2.45	3.89	2.43
EV/EBITDA	156.13	-268.45	606.31	7.19	12.17	6.94
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BVPS	21.77	40.30	3.72	3.62	2.95	2.45

Source: Dr. Kalliwoda Research GmbH, company information

CD Projekt RED S.A.

PC and Console

15.08.2011

Reuters: OPTI.WA
Bloomberg: CDR PW

Last price: PLN 5.40
Market capitalisation: PLN 512.7m
Free float: 47.0%

12-months chart

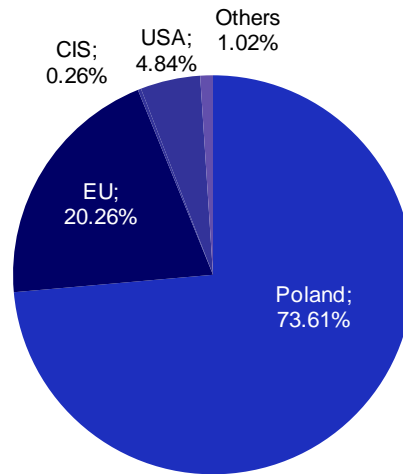
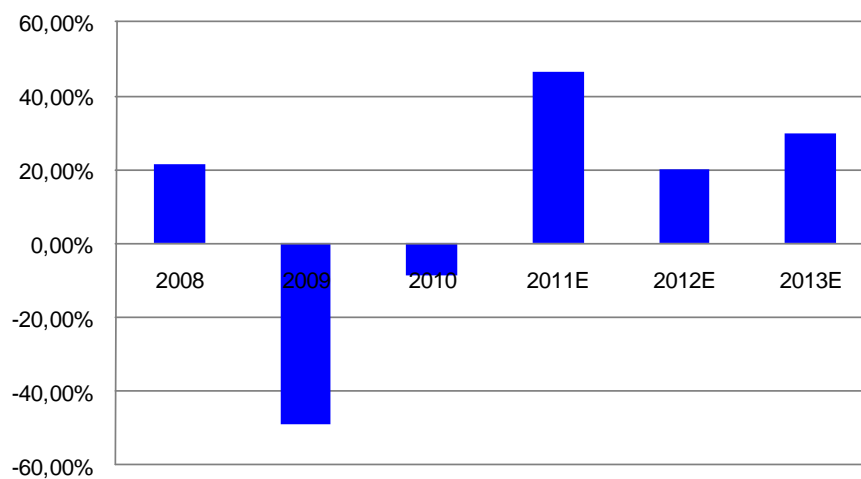
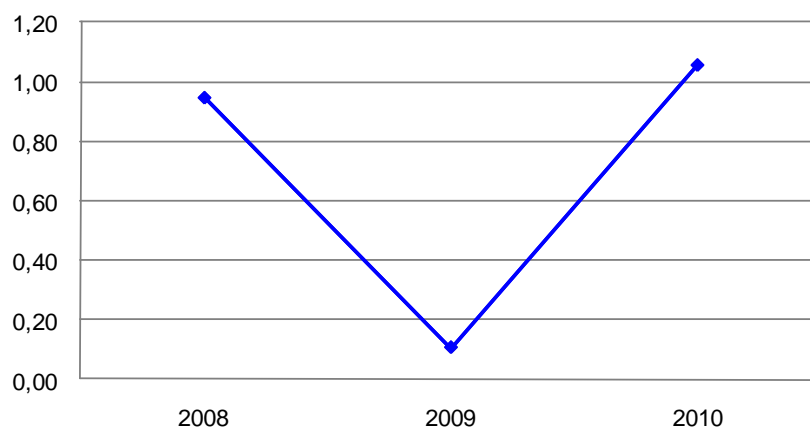


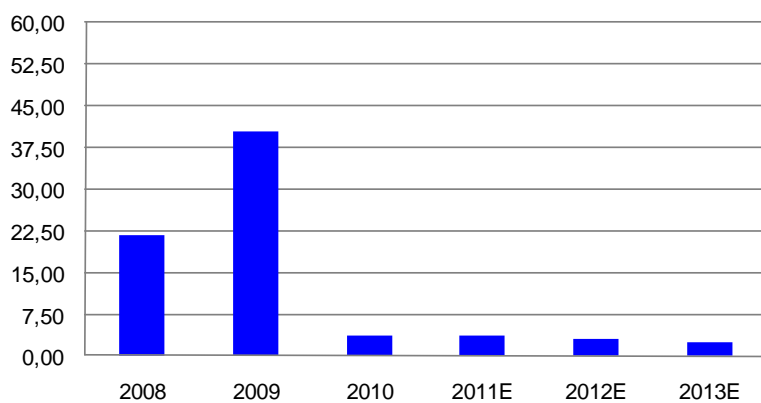
52 weeks

High: PLN 9.88
Low: PLN 1.83

Stock performance

4 weeks: -24.79%
1 year: +154.72%
3 years: +342.62%

Sales split 2010**Return on equity (ROE)****Current ratio**

P/BVPS

Holder Name	Position	% O/S
Michal Kicinski	16,261,313	17.1%
Marcin Iwinski	15,810,313	16.7%
PKO TFI	9,000,000	9.5%
Piotr Nielubowicz	6,092,072	6.4%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge

SWOT

Strengths

- Largest distributor of computer and video games in the CEE region
- Developer and publisher of the internationally well-known title “The Witcher” which has won numerous awards worldwide since 2007 (e.g. from gamestar/gamerpro, PC Games, JeuxVideo, RPG France, Gaming XP.com)
- “The Witcher 2” which was released on 17 May 2011 is expected to sell 2m copies for PC and Xbox by the end of 2011, thus more than “The Witcher 1” since 2007
- GOG.com is one of the leading online distribution platforms worldwide with a particular focus on the segment of older classical and popular games which is characterized by low competitiveness
- In the distribution segment, CD Projekt co-operates with the largest video game and entertainment companies worldwide (e.g. Disney, EA, THQ, Touchstone Pictures)
- Distribution agreements with the largest Polish retail chains such as Empik, Media Markt, Saturn, Tesco and Carrefour
- Founders of CD Projekt are still shareholders in the company and members of its management
- The RED Engine, CD Projekt’s proprietary games engine, accelerates the production of games and reduces development costs

Weaknesses

- CD Projekt RED has only developed one game so far
- No presence in the area of online and mobile games

Opportunities

- Exploitation of the global popularity of the “The Witcher” brand, especially by the GOG.com platform which is the most profitable part of CD Projekt RED
- Better relations with retailers due to the global success of “The Witcher”
- Expansion of the portfolio of third-party games and films
- Refund of PLN 35.7m from the Polish treasury which sued the company because of VAT debts worth PLN 16.4m in 2001, a decision which was declared illegal by the Polish Highest Administrative Court
- The RED Engine can be easily adjusted to the new generation of consoles which will be introduced from 2012
- Dividend payments from 2014 possible due to strong cash flow generation

Threats

- Risk that games do not meet customers’ expectations
- Failure to adjust to technological changes quickly enough
- Breach of copyrights
- Currency risk
- Interest-rate risk as all bank debt and leasing contracts are based on variable rates
- Loss of key personnel, especially in the game development segment CD Projekt RED

DCF model

For our DCF model, we have used the following assumptions:

- Risk-free rate of 6.5% which is the current yield of Polish 30-year government bonds
- Beta of 1.30
- Target equity ratio of 100%
- Terminal sales growth rate of 3%
- Corporate tax rate of 19%
- Sales of “The Witcher 2”: 2m copies in 2011, 1m copies in 2012
- Although “The Witcher 2” was released on 17 May 2011, we forecast that H2/11 will be much better than H1/11 in terms of sales and profitability due to the Christmas season
- Due to strong sales of “The Witcher 2” EBIT margin will reach 32% in 2011, however after that will continuously fall to less than 20% as (1) games will be increasingly expensive due to high quality requirements by customers and (2) we do not expect that every title of CD Projekt RED will be a hit and as profitable as “The Witcher”

in PLNm	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Total revenues	195.56	122.86	196.96	315.07	204.79	235.51	264.95	291.45	313.30
(y-o-y change)	287.7%	-37.2%	60.3%	60.0%	-35.0%	15.0%	12.5%	10.0%	7.5%
EBIT	62.58	36.86	65.00	97.67	59.39	63.59	66.24	67.03	65.79
(operating margin)	32.0%	30.0%	33.0%	31.0%	29.0%	27.0%	25.0%	23.0%	21.0%
NOPLAT	50.69	29.86	52.65	79.11	48.11	51.51	53.65	54.30	53.29
+ Depreciation & amortisation	3.91	2.46	3.94	6.30	4.10	4.71	5.30	5.83	6.27
= Net operating cash flow	54.60	32.31	56.59	85.41	52.20	56.22	58.95	60.13	59.56
- Total investments (Capex and WC)	-37.46	8.66	-15.65	-24.65	14.40	-8.27	-8.55	-8.59	-8.36
Capital expenditure	-43.47	-4.10	-6.06	-8.58	-5.72	-6.79	-7.40	-7.95	-8.41
Working capital	6.01	12.76	-9.60	-16.07	20.12	-1.49	-1.15	-0.64	0.05
= Free cash flow (FCF)	17.14	40.97	40.93	60.77	66.60	47.94	50.40	51.53	51.20
PV of FCF's	16.35	34.59	30.59	40.19	38.98	24.83	23.10	20.90	18.38
PV of FCFs in explicit period	263.48								
PV of FCFs in terminal period	159.09								
Enterprise value (EV)	422.57								
+ Net cash / - net debt	-1.73								
Shareholder value	420.84								
Number of shares outstanding (m)	94.95								
WACC	13.0%								
Cost of equity	13.0%								
Pre-tax cost of debt	5.0%								
Normal tax rate	19.0%								
After-tax cost of debt	4.1%								
Share of equity	100.0%								
Share of debt	0.0%								
Fair value per share in PLN (today)	4.43								
Fair value per share in PLN (in 12 months)	5.01								

	Terminal EBIT margin							
	16.0%	17.0%	18.0%	19.0%	20.0%	21.0%	22.0%	
9.0%	6.54	6.75	6.96	7.17	7.38	7.59	7.80	
10.0%	5.70	5.87	6.03	6.20	6.36	6.53	6.69	
11.0%	5.07	5.20	5.33	5.47	5.60	5.73	5.86	
12.0%	4.57	4.68	4.78	4.89	5.00	5.11	5.22	
13.0%	4.16	4.25	4.34	4.43	4.52	4.61	4.70	
14.0%	3.83	3.90	3.98	4.05	4.13	4.20	4.28	
15.0%	3.54	3.61	3.67	3.74	3.80	3.86	3.93	

Source: Dr. Kalliwoda Research GmbH

With WACC (Weighted Average Cost of Capital) of 13.0%, our 12-months DCF-based price target for CD Projekt RED is **PLN 5.01**. This implies a downside of **-7.3%** at current level.

Profit and loss statement

in PLNm	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Revenues	46.92	1.27	50.45	195.56	122.86	196.96	315.07	204.79
Cost of goods sold	-41.93	-0.77	-16.36	-43.02	-27.03	-43.33	-69.31	-45.05
Depreciation	-0.57	-0.37	-1.46	-3.91	-2.46	-3.94	-6.30	-4.10
Gross profit	4.41	0.13	32.63	148.63	93.37	149.69	239.45	155.64
Other operating income	8.57	4.82	1.56	1.59	1.62	1.66	1.69	1.72
Distribution expenses	-4.45	-1.02	-19.60	-39.11	-22.11	-35.45	-56.71	-36.86
Administration costs	-5.36	-4.22	-8.06	-25.42	-14.74	-23.44	-37.18	-23.96
Other operating expenses	-0.68	-1.87	-7.20	-23.10	-21.28	-27.46	-49.58	-37.15
EBIT	2.49	-2.15	-0.68	62.58	36.86	65.00	97.67	59.39
Net financial result	-1.22	-0.18	-0.30	-2.32	-0.41	0.97	1.86	4.27
EBT	1.28	-2.33	-0.98	60.26	36.45	65.97	99.53	63.66
Income taxes	0.00	0.00	-1.88	-11.45	-6.93	-12.53	-18.91	-12.10
Net result of acquired entities	0.00	0.00	-0.59	0.00	0.00	0.00	0.00	0.00
Net income / loss	1.28	-2.33	-3.45	48.81	29.52	53.43	80.62	51.57
EBITDA	3.06	-1.78	0.79	66.49	39.32	68.94	103.97	63.49
EPS	0.05	-0.08	-0.06	0.51	0.31	0.56	0.85	0.54
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.21	0.21

Source: Dr. Kalliwoda Research GmbH, company information

Balance sheet

in PLNm	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Current assets	16.82	2.36	77.88	80.01	102.47	135.67	198.16	221.22
Inventories	1.37	0.72	27.74	4.71	2.96	4.75	7.60	4.94
Trade accounts and notes receivables	12.99	1.12	17.87	16.07	10.10	16.19	25.90	16.83
Tax receivables	0.08	0.00	0.63	1.00	0.63	1.01	1.61	1.05
Other receivables	0.06	0.40	1.10	2.08	1.30	2.10	3.36	2.01
Prepaid expenses	0.04	0.10	14.95	15.24	9.49	15.34	24.54	14.73
Liquid funds	2.27	0.03	15.61	40.89	77.99	96.29	135.16	181.67
Non-current assets	6.94	32.87	89.63	128.55	130.19	132.31	134.59	136.21
Property, plant and equipment	6.79	6.44	9.07	9.64	9.83	10.03	10.23	10.43
Investments in subsidiaries	0.07	26.39	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.00	0.00	0.65	0.00	0.00	0.00	0.00	0.00
Other assets	0.02	0.00	0.26	0.59	0.37	0.59	0.95	0.61
Intangible assets	0.06	0.03	72.80	111.47	113.14	114.84	116.56	118.31
Goodwill	0.00	0.00	6.85	6.85	6.85	6.85	6.85	6.85
Total assets	23.75	35.23	167.51	208.55	232.66	267.97	332.75	357.43
Current liabilities	17.81	22.45	73.89	62.70	57.46	60.16	65.32	58.45
Short-term bank debt	0.00	0.25	23.60	29.00	26.00	23.00	20.00	17.00
Short-term leasing	0.00	0.03	0.17	0.18	0.20	0.22	0.25	0.27
Trade payables	14.30	2.02	28.09	9.43	5.92	9.50	15.19	9.87
Tax payables	0.06	0.00	0.05	0.05	0.06	0.06	0.06	0.07
Other payables	0.62	19.33	21.52	23.03	24.64	26.36	28.21	30.18
Deferred revenues	0.00	0.00	0.02	0.02	0.02	0.02	0.02	0.03
Pension provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
Other provisions	2.83	0.82	0.44	0.98	0.61	0.98	1.58	1.02
Long-term liabilities	0.05	9.16	15.96	14.26	13.71	13.27	12.87	12.29
Long-term bank debt	0.00	9.06	9.50	14.00	13.50	13.00	12.50	12.00
Long-term leasing	0.00	0.08	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.00	0.01	6.31	0.00	0.00	0.00	0.00	0.00
Deferred revenues	0.00	0.00	0.11	0.11	0.12	0.12	0.13	0.14
Pension provisions	0.02	0.01	0.03	0.13	0.08	0.13	0.21	0.14
Other provisions	0.02	0.00	0.01	0.02	0.01	0.02	0.03	0.02
Shareholder's equity	5.90	3.62	77.67	131.59	161.49	194.54	254.56	286.68
Total shareholder's equity and liabilities	23.75	35.23	167.51	208.55	232.66	267.97	332.75	357.43

Source: Dr. Kalliwoda Research GmbH, company information

Ratios

Fiscal year	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Gross margin	9.41%	10.53%	64.68%	76.00%	76.00%	76.00%	76.00%	76.00%
EBITDA margin	6.53%	-140.09%	1.56%	34.00%	32.00%	35.00%	33.00%	31.00%
EBIT margin	5.32%	-169.03%	-1.34%	32.00%	30.00%	33.00%	31.00%	29.00%
Net margin	2.73%	-182.78%	-6.84%	24.96%	24.03%	27.13%	25.59%	25.18%
Return on equity (ROE)	21.68%	-48.85%	-8.49%	46.65%	20.15%	30.02%	35.90%	19.05%
Return on assets (ROA)	10.50%	-7.29%	-3.11%	27.19%	13.57%	20.96%	26.22%	13.70%
Return on capital employed (ROCE)	41.95%	-22.97%	1.17%	62.19%	27.32%	40.39%	48.91%	24.96%
Net debt (in PLNm)	-2.24	9.40	17.69	2.43	-38.21	-59.93	-102.20	-152.25
Net gearing	-38.04%	259.56%	22.78%	1.85%	-23.66%	-30.80%	-40.15%	-53.11%
Equity ratio	24.83%	10.28%	46.36%	63.10%	69.41%	72.60%	76.50%	80.21%
Current ratio	0.94	0.11	1.05	1.28	1.78	2.26	3.03	3.78
Quick ratio	0.73	0.05	0.44	0.50	0.34	0.52	0.77	0.54
Net interest cover	2.05	-12.29	-2.23	27.02	90.44	-67.02	-52.64	-13.90
EBITDA/Net debt	-1.37	-0.19	0.04	27.34	-1.03	-1.15	-1.02	-0.42
Book value per share	0.23	0.12	1.35	1.39	1.70	2.05	2.68	3.02
Capex/Depreciation	n.a	-0.02	57.18	11.03	1.76	1.48	1.31	1.48
Working capital/Sales	-0.91%	-1495.20%	24.75%	3.31%	-5.11%	1.68%	6.15%	-0.36%
EV/Sales	10.97	404.45	10.20	2.63	4.19	2.61	1.63	2.51
EV/EBITDA	167.91	-288.70	652.04	7.74	13.09	7.46	4.95	8.10
EV/EBIT	206.28	-239.29	-762.17	8.22	13.96	7.92	5.27	8.66
P/BVPS	23.42	43.35	4.00	3.90	3.18	2.64	2.01	1.79
P/E	108.00	-67.50	-90.00	10.50	17.37	9.60	6.36	9.94
P/FCF	-47.83	-113.69	54.20	33.60	12.62	12.29	8.23	7.32

Source: Dr. Kalliwoda Research GmbH, company information



5 City Interactive S.A.

Company description

City Interactive SA which was founded in 2002 is a Polish developer, publisher and distributor of proprietary and third-party video games. The company's product portfolio includes logical, adventure and sport games as well as car races, shooters and simulators. Its most popular franchise is the shooter "Sniper – Ghost Warrior" of which it has sold over 1m copies worldwide since June 2010. City Interactive is based in Warsaw/Poland and has additional offices in Germany, UK, Canada and the US. At the end of March 2011, it had 137 employees.

Financials

In Q1/11, City Interactive generated net sales of PLN 13.4m which were 17.1% higher y-o-y. The sales growth mainly stemmed from "Sniper – Ghost Warrior" which had been released in June 2010 and until March 2011 sold 1.1m copies worldwide. Due to a lower gross margin y-o-y (41.9% vs. 58.4%) which consists of expenses relating to distribution agents and the production of game boxes as well as a much higher share of distribution costs (22.1% vs. 10.2% in Q1/10) the operating and net profit decreased by 66.5% (to PLN 1.5m) and 65.7% (to PLN 1.1m) respectively. As of 31 March 2011, CI had a net gearing of -24.2% and equity ratio of 82.8%.

For H1/11, we forecast net sales of PLN 40.8m and a net profit of PLN 9.3m.

City Interactive S.A.

in PLN	2008	2009	2010	2011E	2012E	2013E
EPS	0.03	-1.07	2.13	1.41	3.37	4.17
ROE	1.3%	-57.7%	90.0%	35.4%	54.3%	41.8%
P/E	617.93	-18.05	9.10	13.74	5.75	4.64
P/FCF	-19.11	-52.57	14.17	27.91	9.14	7.40
EV/Sales	7.83	7.90	2.63	3.03	1.52	1.10
EV/EBITDA	54.04	-45.97	5.77	8.51	3.99	3.23
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BVPS	8.04	14.57	5.70	4.25	2.46	1.61

Source: Dr. Kalliwoda Research GmbH, company information

City Interactive S.A.

PC, Console, Online & Mobile

15.08.2011

Reuters: CIAT.WA

Bloomberg: CIA PW

Last price: **PLN 19.35**
 Market capitalisation: **PLN 244.8m**
 Free float: **43.6%**

12-months chart



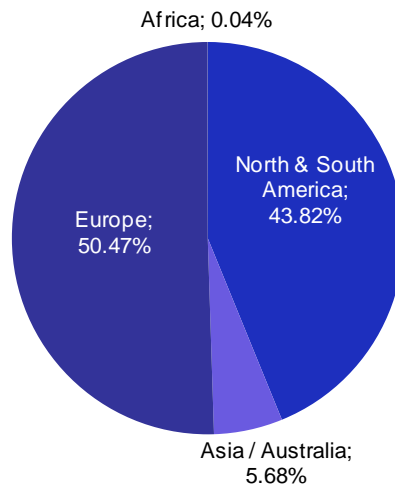
52 weeks

High: **PLN 37.00**
 Low: **PLN 13.06**

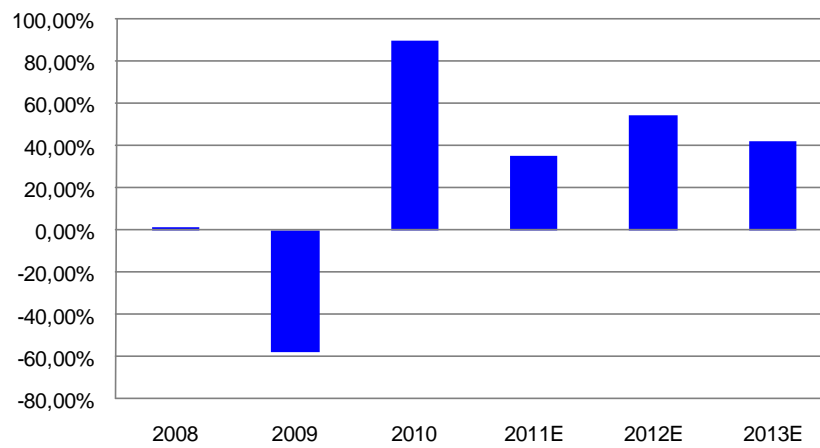
Stock performance

4 weeks: **-28.07%**
 1 year: **+27.81%**
 3 years: **+115.00%**

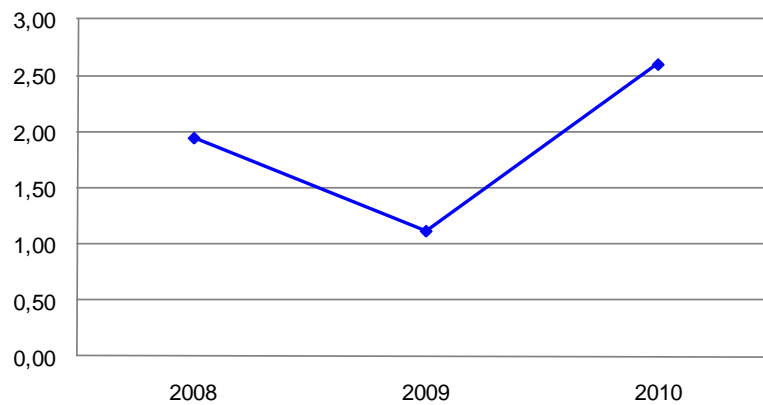
Sales split 2010

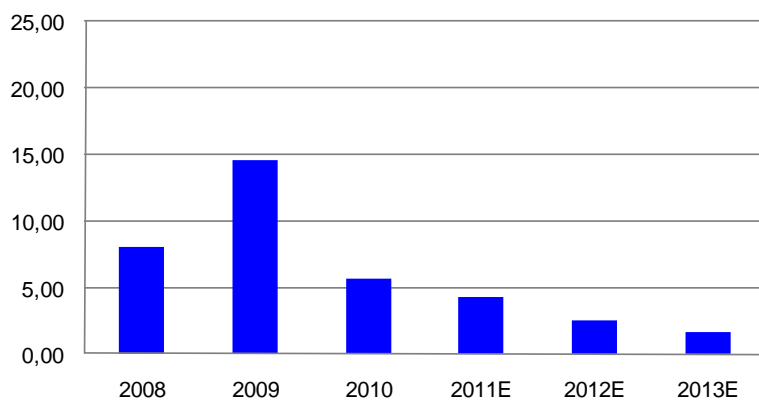


Return on equity (ROE)



Current ratio



P/BVPS

Holder Name	Position	% O/S
Marek Tyminski	6,480,794	51.2%
Aviva Investors Poland	657,896	5.2%
Union Investment TFI	53,381	0.4%
KBC TFI	19,527	0.2%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge

SWOT

Strengths

- “Sniper – Ghost Warrior” has been a big international success and has strongly increased CI’s brand recognition worldwide
- “Sniper – Ghost Warrior for PS3” which was released in April 2011 has improved its quality ratings compared to the PC and XBox version
- International presence through offices in Germany, UK and North America and distribution co-operations in other regions
- In-house Polish development team costs less than development in Western Europe and ensures control over quality of the games
- Licenses for technologically advanced game engines such as “CryEngine 3” and “Unreal Engine 3”
- Strict cost control
- CEO & founder holds majority of CI’s shares
- Net margin of 20-30% and strong balance sheet with net cash

Weaknesses

- “Sniper” is CI’s by far biggest title in terms of sales
- Reviews of CI’s most other games on gaming websites and magazines have been mediocre
- The release of “Sniper 2” has been postponed from Q3/11 to 2012
- High investments in the short-term due to the expansion into online and mobile games

Opportunities

- Promising game pipeline, especially “Sniper 2” and “Alien Fear”
- Stronger position with distributors due to the international success of “Sniper – Ghost Warrior”
- Improved cash position allows for higher development budgets, thus higher product potential
- Stronger focus on high-quality games, increasing share of console games and expansion into online & mobile games should translate into high margins
- Stock incentive program for key employees which is tied to net income should help the company to further improve its results in the coming years
- Dividend payments from 2013 possible due to strong cash generation

Threats

- Legal dispute with the developer “The Farm 51” after CI terminated the contract for “Alien Fear”
- There is a risk that new games do not meet the expectations of the gaming community
- Most important competitors e.g. Electronic Arts are much stronger financially
- Risks relating to exchange rate fluctuations and investments in emerging markets
- Loss of key personnel

DCF model

For our DCF model, we have used the following assumptions:

- Risk-free rate of 6.5% which is the current yield of Polish 30-year government bonds
- Beta of 1.30
- Target equity ratio of 100%
- Terminal sales growth rate of 3%
- Corporate tax rate of 19%
- Sales of „Sniper“: 700k units in 2011, 1.3m in 2012 due to the release of “Sniper 2”
- Sales of “Alien Fear”: 150k in 2011 (release in Q4/11), 200k in 2012
- As there will be promising new releases in every remaining quarter of 2011, we forecast that all will show good results, however Q4 should be the best due to the Christmas season
- EBIT margin is expected to increase to 34% in 2012 due to “Sniper 2”, but after that should decrease to less than 20% as (1) games will be increasingly expensive due to high quality requirements by customers, and (2) we do not expect that all of CI's titles will be a hit and as profitable as “Sniper”

in PLNm	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Total revenues	77.10	154.25	213.25	245.24	277.12	307.60	335.29	358.76	376.69
(y-o-y change)	-13.4%	100.1%	38.2%	15.0%	13.0%	11.0%	9.0%	7.0%	5.0%
EBIT	21.97	52.45	63.98	68.67	72.05	73.82	73.76	71.75	67.80
(operating margin)	28.5%	34.0%	30.0%	28.0%	26.0%	24.0%	22.0%	20.0%	18.0%
NOPLAT	17.80	42.48	51.82	55.62	58.36	59.80	59.75	58.12	54.92
+ Depreciation & amortisation	5.51	6.17	8.53	9.81	11.08	12.30	13.41	14.35	15.07
= Net operating cash flow	23.31	48.65	60.35	65.43	69.45	72.10	73.16	72.47	69.99
- Total investments (Capex and WC)	-14.56	-22.22	-28.52	-18.38	-18.22	-18.27	-17.86	-18.43	-18.43
Capital expenditure	-15.47	-11.19	-19.87	-13.58	-13.43	-13.67	-13.65	-14.81	-15.59
Working capital	0.91	-11.03	-8.65	-4.79	-4.79	-4.60	-4.21	-3.62	-2.84
= Free cash flow (FCF)	8.75	26.43	31.83	47.05	51.22	53.83	55.30	54.04	51.56
PV of FCF's	8.35	22.32	23.78	31.12	29.98	27.88	25.34	21.92	18.51
PV of FCFs in explicit period	224.35								
PV of FCFs in terminal period	157.28								
Enterprise value (EV)	381.63								
+ Net cash / - net debt	10.79								
Shareholder value	392.42								
Number of shares outstanding (m)	12.73								
		Terminal EBIT margin							
WACC	13.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%	19.0%	
Cost of equity	13.0%	9.0%	45.19	47.08	48.97	50.86	52.74	54.63	56.52
Pre-tax cost of debt	5.0%	10.0%	39.28	40.76	42.25	43.74	45.22	46.71	48.19
Normal tax rate	19.0%	11.0%	34.79	35.99	37.18	38.38	39.57	40.77	41.96
After-tax cost of debt	4.1%	12.0%	31.27	32.24	33.22	34.20	35.17	36.15	37.12
Share of equity	100.0%	13.0%	28.41	29.22	30.03	30.84	31.65	32.45	33.26
Share of debt	0.0%	14.0%	26.05	26.73	27.41	28.08	28.76	29.44	30.11
Fair value per share in PLN (today)	30.84	15.0%	24.07	24.64	25.21	25.78	26.35	26.92	27.49
Fair value per share in PLN (in 12 months)	34.85								

Source: Dr. Kalliwoda Research GmbH

With WACC (Weighted Average Cost of Capital) of 13.0%, our 12-months DCF-based price target for City Interactive is **PLN 34.85**. This implies an upside of **80.1%** at current level.

Profit and loss statement

in PLNm	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Revenues	29.88	29.60	89.04	77.10	154.25	213.25	245.24	277.12
Cost of goods sold	-9.65	-11.23	-29.52	-27.76	-58.62	-81.04	-93.19	-105.30
Depreciation	-5.35	-10.84	-6.36	-5.51	-6.17	-8.53	-9.81	-11.08
Gross profit	14.88	7.53	53.15	43.83	89.47	123.69	142.24	160.73
Other operating income	0.50	0.73	1.06	1.11	1.17	1.22	1.28	1.35
Distribution expenses	-8.61	-10.09	-10.27	-11.57	-18.51	-25.59	-29.43	-33.25
Administration costs	-5.74	-4.66	-4.94	-5.40	-9.26	-12.58	-14.22	-15.80
Other operating expenses	-2.05	-9.43	-4.81	-6.01	-10.42	-22.76	-31.20	-40.98
EBIT	-1.02	-15.93	34.19	21.97	52.45	63.98	68.67	72.05
Net financial result	1.68	-0.66	-1.64	0.03	0.43	1.52	2.84	4.32
EBT	0.66	-16.59	32.54	22.00	52.88	65.50	71.51	76.37
Income taxes	-0.27	3.03	-5.65	-4.18	-10.05	-12.44	-13.59	-14.51
Net income / loss	0.39	-13.56	26.89	17.82	42.83	53.05	57.92	61.86
EBITDA	4.33	-5.09	40.55	27.48	58.62	72.51	78.48	83.14
EPS	0.03	-1.07	2.13	1.41	3.37	4.17	4.55	4.86
DPS	0.00	0.00	0.00	0.00	0.00	0.00	1.57	1.57

Source: Dr. Kalliwoda Research GmbH, company information

Balance sheet

in PLNm	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Current assets	27.00	20.75	42.83	43.90	92.24	141.64	179.95	223.62
Inventories	3.68	5.52	5.24	4.93	10.41	14.40	16.55	18.71
Prepayments	0.00	0.00	1.25	1.00	2.01	2.77	3.19	3.60
Short-term borrowings	2.14	0.08	0.90	0.95	0.99	1.04	1.09	1.15
Trade accounts and notes receivables	16.50	10.95	17.18	14.87	29.76	41.14	47.31	53.46
Tax receivables	1.87	2.30	2.25	2.37	2.49	2.61	2.74	2.88
Cash & cash equivalents	2.24	1.42	15.52	19.27	46.06	79.12	108.48	143.21
Other current assets	0.56	0.48	0.48	0.50	0.53	0.56	0.58	0.61
Non-current assets	17.75	14.96	16.79	23.53	28.55	39.89	43.66	46.01
Property, plant and equipment	1.42	0.59	0.44	0.38	0.77	1.06	1.22	1.37
Investments in subsidiaries	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01
Deferred tax assets	1.39	4.10	3.22	0.00	0.00	0.00	0.00	0.00
Intangible assets	14.94	10.27	13.11	23.13	27.77	38.81	42.43	44.62
Goodwill	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total assets	44.75	35.71	59.62	67.43	120.79	181.53	223.61	269.63
Current liabilities	13.89	18.67	16.45	9.66	20.19	27.87	32.04	36.19
Short-term commercial bond	0.00	5.03	5.02	0.00	0.00	0.00	0.00	0.00
Short-term bank loan	2.66	2.04	0.00	0.00	0.00	0.00	0.00	0.00
Short-term financial lease	0.17	0.18	0.11	0.11	0.11	0.11	0.12	0.12
Tax payables	1.12	0.48	1.09	0.00	0.00	0.00	0.00	0.00
Trade payables	6.12	9.20	9.30	8.75	18.47	25.54	29.37	33.19
Other short-term liabilities	3.82	1.74	0.93	0.80	1.61	2.22	2.55	2.88
Long-term liabilities	0.68	0.24	0.20	0.19	0.30	0.39	0.44	0.49
Pension provision	0.04	0.01	0.01	0.01	0.01	0.02	0.02	0.02
Leasing	0.27	0.09	0.05	0.06	0.06	0.06	0.06	0.06
Tax provision	0.37	0.15	0.13	0.12	0.23	0.32	0.37	0.42
Shareholder's equity	30.18	16.80	42.96	57.58	100.29	153.26	191.13	232.95
Total shareholder's equity and liabilities	44.75	35.71	59.62	67.43	120.79	181.53	223.61	269.63

Source: Dr. Kalliwoda Research GmbH, company information

Ratios

Fiscal year	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Gross margin	49.80%	25.43%	59.70%	56.85%	58.00%	58.00%	58.00%	58.00%
EBITDA margin	14.49%	-17.19%	45.54%	35.65%	38.00%	34.00%	32.00%	30.00%
EBIT margin	-3.41%	-53.83%	38.40%	28.50%	34.00%	30.00%	28.00%	26.00%
Net margin	1.31%	-45.82%	30.20%	23.11%	27.77%	24.88%	23.62%	22.32%
Return on equity (ROE)	1.30%	-57.73%	89.99%	35.45%	54.26%	41.85%	33.64%	29.18%
Return on assets (ROA)	-2.88%	-32.08%	59.87%	28.01%	45.05%	34.09%	27.19%	23.33%
Return on capital employed (ROCE)	-4.65%	-78.65%	133.28%	51.82%	78.82%	59.89%	47.34%	40.35%
Net debt (in PLNm)	-1.93	3.70	-10.43	-19.20	-45.99	-79.05	-108.41	-143.13
Net gearing	-6.39%	22.02%	-24.28%	-33.35%	-45.85%	-51.58%	-56.72%	-61.45%
Equity ratio	67.45%	47.06%	72.06%	85.39%	83.03%	84.43%	85.47%	86.39%
Current ratio	1.94	1.11	2.60	4.54	4.57	5.08	5.62	6.18
Quick ratio	1.35	0.66	1.99	3.53	3.75	4.31	4.86	5.43
Net interest cover	0.61	-24.28	20.78	-865.30	-120.69	-41.98	-24.19	-16.66
EBITDA/Net debt	-2.25	-1.38	-3.89	-1.43	-1.27	-0.92	-0.72	-0.58
Book value per share	2.41	1.33	3.40	4.55	7.88	12.04	15.02	18.31
Capex/Depreciation	n.a	0.49	1.42	2.81	1.81	2.33	1.38	1.21
Working capital/Sales	38.68%	26.71%	17.96%	19.55%	16.92%	16.30%	16.13%	16.00%
EV/Sales	7.83	7.90	2.63	3.03	1.52	1.10	0.95	0.84
EV/EBITDA	54.04	-45.97	5.77	8.51	3.99	3.23	2.98	2.81
EV/EBIT	-229.37	-14.68	6.84	10.65	4.46	3.66	3.41	3.25
P/BVPS	8.04	14.57	5.70	4.25	2.46	1.61	1.29	1.06
P/E	617.93	-18.05	9.10	13.74	5.75	4.64	4.25	3.98
P/FCF	-19.11	-52.57	14.17	27.91	9.14	7.40	4.96	4.47

Source: Dr. Kalliwoda Research GmbH, company information

6 Ubisoft Entertainment SA



Company description

Ubisoft Entertainment SA is a France-based company that is engaged in the development, publishing and distribution of video games. Its product portfolio includes such titles as "Assassine's Creed", "Prince of Persia", "Call of Juarez", "Tom Clancy's Splinter Cell", "Just Dance", "Driver" and "The Settlers". Ubisoft Entertainment SA operates through subsidiaries which are located in 28 countries, such as France, Spain, Germany, United States and China. The company's distribution network covers more than 55 countries around the world. In fiscal year 2010/11, Ubisoft had 6,289 employees on average.

Financials

In fiscal year 2010/11 which ended on 31 March, Ubisoft generated net sales of €1bn which went up by 19.3% y-o-y. Revenues were driven by the success of the Dance titles (e.g. "Just Dance", "Just Dance Kids") as well as "Assassine's Creed – Brotherhood". Despite a significantly higher gross margin y-o-y (64.8% vs. 58.9% in 2009/10) and lower share of administration costs (6.9% vs. 8.6%), EBIT went down from €-72.1m to €-80.5m as Ubisoft incurred restructuring expenses of €95.9m. With a net financial result of €-3.7m (2009/10: €+4.8m), the company reported a net loss of €52.1m (€-43.7m). The balance sheet structure as of March 2011 was however excellent. Net gearing was -13.7% and the equity ratio 67.5%.

For H1/11, which ends on 30 September, we forecast net sales of €210m (Q1 2011/12 net sales were €103m vs. guidance of €90m, Q2 guidance is €99m) and a net loss of €-50m. Ubisoft's guidance for the whole fiscal-year 2011/12 is €1040m-1080m in net sales and €40m-60m in EBIT.

Ubisoft Entertainment SA

in €	2008	2009	2010	2011E	2012E	2013E
EPS	0.74	-0.46	-0.55	0.28	0.48	0.52
ROE	9.2%	-5.8%	-7.1%	3.7%	5.9%	6.2%
P/E	6.89	-11.09	-9.27	18.06	10.65	9.74
P/FCF	-223.37	-4.99	12.91	45.49	29.14	23.32
EV/Sales	0.51	0.62	0.52	0.50	0.47	0.45
EV/EBITDA	3.29	2.39	1.19	1.19	1.15	1.10
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BVPS	0.63	0.64	0.68	0.65	0.61	0.59

Source: Dr. Kalliwoda Research GmbH, company information

Ubisoft Entertainment SA

PC, Console & Online Games

15.08.2011

Reuters: **UBIP.PA**

Bloomberg: **UBI FP**

Last price: €5.25
Market capitalisation: €497.6m
Free float: 49.9%

12-month chart



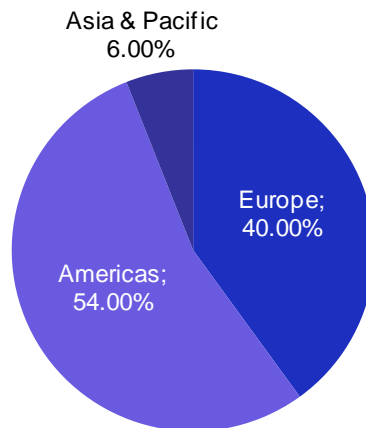
52 weeks

High: €10.10
Low: €4.42

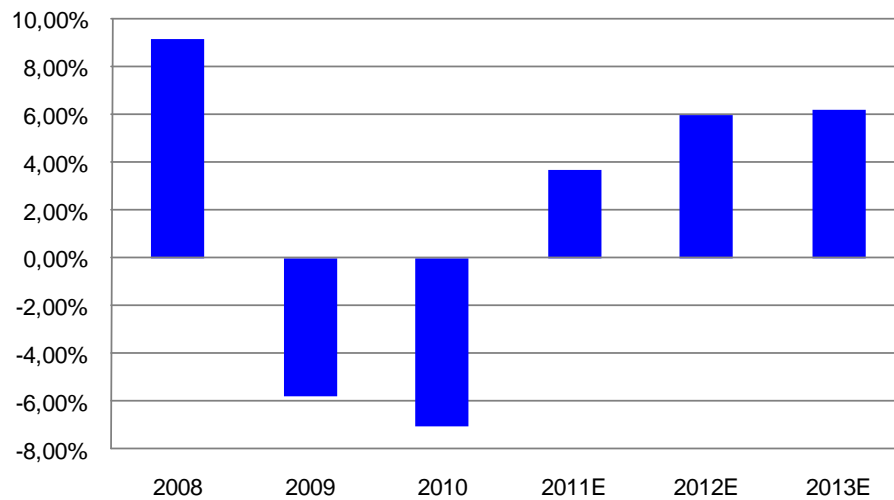
Stock performance

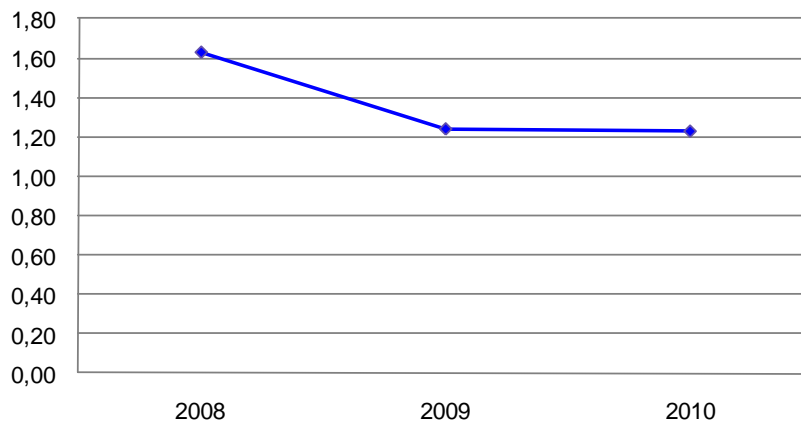
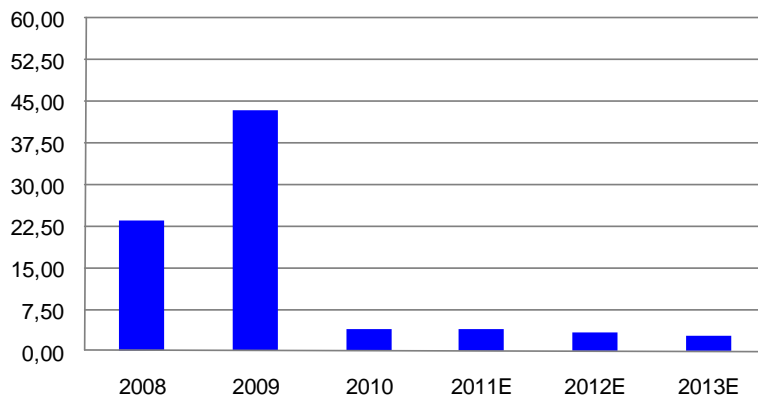
4 weeks: -18.11%
1 year: -24.69%
3 years: -83.82%

Sales split 2010



Return on equity (ROE)



Current ratio**P/BVPS**

Holder Name	Position	% O/S
Guillemot Family	10,635,654	11.2%
Invesco	9,554,422	10.1%
Invesco Trimark	9,512,954	10.0%
Fidelity Management & Research Company	7,021,277	7.4%
Altrinsic Global Advisors	6,067,896	6.4%
Harbinger Capital Partners	4,721,660	5.0%
Norges Bank Investment Management	4,677,384	4.9%
Morgan Stanley Investment Management	4,588,674	4.8%
Lone Pine Capital	4,506,502	4.8%
Goldman Sachs Asset Management	4,231,933	4.5%
T. Rowe Price Associates	2,564,457	2.7%
Ubisoft Entertainment Employees	768,664	0.8%
MFS Investment Management	500,000	0.5%
Covéa Finance	489,950	0.5%
Groupama Asset Management	407,761	0.4%
Dimensional Fund Advisors	378,132	0.4%
Allianz Global Investors	376,100	0.4%
Vanguard Group	310,410	0.3%
JPMorgan Asset Management U.K.	304,671	0.3%
Generali Investments France	270,000	0.3%
KBC Asset Management	268,626	0.3%
UBS Global Asset Management (Japan)	262,900	0.3%
Fjärde AP-Fonden	213,063	0.2%
Amundi Asset Management	184,992	0.2%
Aviva Investors France	160,000	0.2%
AllianceBernstein	153,143	0.2%
Montségur Finance	130,000	0.1%
TIAA-CREF	119,763	0.1%
Oppenheim Kapitalanlagegesellschaft	118,000	0.1%
Rothschild et Cie Gestion	112,000	0.1%
INVESCO Asset Management	109,469	0.1%
DnB NOR Asset Management	107,372	0.1%
Union Investment Group	100,000	0.1%
Equigest	93,246	0.1%
Palatine Asset Management	90,000	0.1%
March Gestión de Fondos	89,359	0.1%
CCR Asset Management	78,100	0.1%
Tetrem Capital Management	74,825	0.1%
Lyxor Asset Management	66,376	0.1%
Credit Suisse Private Banking (Switzerland)	64,032	0.1%
Allianz Global Investors	62,700	0.1%
Deka Investment	60,000	0.1%
GVC Gaesco Gestión	60,000	0.1%
Finter Bank Zürich	53,795	0.1%
State Street Global Advisors	51,889	0.1%
Amundi (UK)	50,000	0.1%
IFAG Institutionelle Fondsleitung	50,000	0.1%
Natixis Asset Management	48,076	0.1%
Dexia Asset Management Belgium	47,500	0.1%
Credit Suisse Asset Management	44,949	0.1%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge

SWOT

Strengths

- Number 1 independent publisher worldwide for “Microsoft Kinect”, “Nintendo Wii” and “Nintendo DS” consoles
- Top 4 independent publisher of video and console games worldwide
- Ubisoft’s “Assassine’s Creed” and “Just Dance” franchises are among the 10 most popular worldwide and both sell 7-8m copies each year
- “Assassine’s Creed” has been ranked at least 7 out of 10 on all 13 major game sites
- “The Settlers Online”, “CSI Crime City for Facebook” and “Heroes of Might & Magic” are all popular online/social games
- Stock-option program for employees who consistently overachieve performance goals
- Ubisoft has the second-largest creative force in the industry; its Montreal-based studio was ranked the Top 5 most innovative worldwide
- Truly global company with a presence in 28 countries worldwide
- Has developed an innovative anti-piracy system for PC games
- Net cash of €97.5m as of 31 March 2011
- Management & founders are biggest shareholders

Weaknesses

- High CAPEX requirements of >30% of yearly sales
- Ongoing reorganisation of development studios
- In July 2010, the major video game company Electronic Arts (EA) sold all of its shares (19.9% stake) in Ubisoft
- Proprietary titles which are more risky (high development costs) made up 96% of total sales in fiscal-year 2010/11

Opportunities

- Higher margins due to the focus on fewer high quality titles for consoles as well as online and social games
- Strong expansion into online and social games with Owlient, Nadeo (development studios), UPlay, ManiaPlanet (online game portals) and Quazal Technologies (technology provider for online games)
- Exploitation of the popularity of e.g. the “Assassine’s Creed” franchise through the sale of related books, comics, toys and short movies
- Share buyback of max. 9.8m shares until 31 December 2011

Threats

- Strong competition by larger and financially more potent players such as EA
- Currency risks
- Loss of key employees
- Risk that games do not meet customer expectations
- Legal risks relating to the violation of intellectual property rights

DCF model

For our DCF model, we have used the following assumptions:

- Risk-free rate of 4% which is the current yield of French 30-year government bonds
- Beta of 1.30
- Target equity ratio of 100%
- Terminal sales growth rate of 2%
- Corporate tax rate of 34.4%
- Sales of „Assassine’s Creed“: 7m units in FY 2011 (new version to be released in Q3/11), 7.2m in FY 2012
- Sales of the Dance titles: 7.8m in FY 2011, 8m in FY 2012
- Sales of “Call of Juarez”: 2m in FY 2011 (release of new version in Q3/11), 2.2m in FY 2012
- Due to the Christmas season and the release of a new version of Ubisoft’s main title “Assassine’s Creed” we forecast that H2 2011/12 will be much better than H1
- As the company completes its reorganization and we expect strong sales in H2 2011/12, we forecast an EBIT of €46.2m (4.3% margin) and EPS of €0.28 for the whole fiscal-year 2011/12 (less than consensus of €48.2m and €0.30 respectively). In the coming years, the EBIT margin should improve (KRe for 2014/15: 8.1%) due to an increasing share of high-margin online and social games.

in EURm	2011/12E	2012/13E	2013/14E	2014/15E	2015/16E	2016/17E	2017/18E	2018/19E	2019/20E
Total revenues	1,074.50	1,133.60	1,191.42	1,250.99	1,313.54	1,379.21	1,441.28	1,498.93	1,543.90
(y-o-y change)	3.4%	5.5%	5.1%	5.0%	5.0%	5.0%	4.5%	4.0%	3.0%
EBIT	46.20	74.82	79.82	92.57	106.40	110.34	113.86	116.92	118.88
(operating margin)	4.3%	6.6%	6.7%	7.4%	8.1%	8.0%	7.9%	7.8%	7.7%
NOPLAT	30.30	49.06	52.34	60.70	69.76	72.35	74.66	76.66	77.95
+ Depreciation & amortisation	376.08	385.42	393.17	400.32	407.20	413.76	417.97	419.70	416.85
= Net operating cash flow	406.37	434.48	445.51	461.02	476.96	486.11	492.63	496.36	494.80
- Total investments (Capex and WC)	-390.80	-412.03	-419.32	-427.37	-435.72	-443.83	-446.50	-446.30	-437.64
Capital expenditure	-392.67	-413.28	-420.42	-428.39	-436.68	-444.72	-447.22	-446.87	-438.05
Working capital	1.87	1.25	1.10	1.02	0.96	0.89	0.72	0.58	0.40
= Free cash flow (FCF)	15.57	22.45	26.19	33.64	41.24	42.28	46.13	50.07	57.16
PV of FCF's	14.62	19.08	20.15	23.42	25.99	24.12	23.82	23.40	24.18
PV of FCFs in explicit period	223.36								
PV of FCFs in terminal period	296.30								
Enterprise value (EV)	519.66								
+ Net cash / - net debt	10.79								
Shareholder value	530.45								
Diluted number of shares (m)	107.31								
WACC	10.5%								
Cost of equity	10.5%								
Pre-tax cost of debt	5.0%								
Normal tax rate	34.4%								
After-tax cost of debt	3.3%								
Share of equity	100.0%								
Share of debt	0.0%								
Fair value per share in EUR (today)	4.94								
Fair value per share in EUR (in 12 months)	5.46								

	Terminal EBIT margin							
	4.6%	5.6%	6.6%	7.6%	8.6%	9.6%	10.6%	
WACC	6.5%	7.5%	8.5%	9.5%	10.5%	11.5%	12.5%	
	6.52	5.41	4.64	4.06	3.61	3.26	2.97	
	7.72	6.31	5.33	4.61	4.06	3.62	3.27	
	8.92	7.20	6.02	5.16	4.50	3.98	3.57	
	10.11	8.10	6.71	5.71	4.94	4.35	3.87	
	11.31	8.99	7.40	6.25	5.39	4.71	4.17	
	12.51	9.88	8.09	6.80	5.83	5.07	4.47	
	13.70	10.78	8.79	7.35	6.27	5.44	4.78	

Source: Dr. Kalliwoda Research GmbH

With WACC (Weighted Average Cost of Capital) of 10.5%, our 12-months DCF-based price target for Ubisoft is **€5.46**. This implies an upside of **4.1%** at current level.

Profit and loss statement

in EURm	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E	2014/15E	2015/16E
Revenues	1057.93	870.95	1038.83	1074.50	1133.60	1191.42	1250.99	1313.54
Cost of goods sold	-418.66	-358.12	-365.21	-376.08	-385.42	-393.17	-400.32	-407.20
Gross profit	639.27	512.84	673.62	698.43	748.18	798.25	850.67	906.34
Other operating income	2.35	0.85	0.29	0.30	0.30	0.30	0.30	0.31
R&D costs	-258.54	-311.42	-369.59	-339.30	-352.29	-364.30	-376.26	-388.51
Marketing costs	-205.72	-197.79	-214.54	-197.38	-201.33	-211.39	-221.96	-233.06
Administration and IT costs	-63.12	-75.30	-71.25	-53.73	-55.55	-57.78	-60.05	-62.39
Other operating expenses	-0.78	-1.27	-99.02	-62.12	-64.49	-85.25	-100.13	-116.29
EBIT	113.46	-72.10	-80.49	46.20	74.82	79.82	92.57	106.40
Net financial result	-4.84	4.75	-3.68	-5.40	-5.60	-4.16	-2.50	-1.21
EBT	108.62	-67.35	-84.17	40.80	69.22	75.67	90.07	105.19
Income taxes	-39.79	23.62	32.05	-14.05	-23.83	-26.05	-31.01	-36.22
Net income / loss	68.85	-43.67	-52.12	26.76	45.39	49.62	59.06	68.97
EBITDA	163.27	224.34	451.49	450.89	465.25	485.74	506.71	517.53
EPS	0.74	-0.46	-0.55	0.28	0.48	0.52	0.62	0.73

Source: Dr. Kalliwoda Research GmbH, company information

Balance sheet

in EURm	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E	2014/15E	2015/16E
Current assets	480.78	449.55	377.00	394.74	420.80	451.74	491.71	540.73
Inventories	62.29	47.97	35.22	36.06	36.96	37.70	38.39	39.05
Trade receivables	69.53	68.75	49.26	50.95	53.76	56.50	59.32	62.29
Other receivables	72.09	89.16	59.48	63.94	68.73	73.89	79.43	85.39
Current financial assets	20.61	33.27	29.11	28.00	30.50	0.00	0.00	0.00
Current tax assets	19.04	25.08	10.57	11.37	12.22	13.14	14.12	15.18
Cash & cash equivalents	237.21	185.32	193.35	204.42	218.63	270.52	300.45	338.82
Non-current assets	652.95	734.57	680.90	688.29	700.52	710.68	718.43	727.64
Property, plant and equipment	27.42	31.80	34.82	36.02	38.00	39.94	41.94	44.03
Investments in subsidiaries	0.34	0.39	0.39	0.39	0.39	0.39	0.39	0.39
Non-current financial assets	3.35	3.61	3.34	3.22	3.40	3.57	3.75	3.94
Deferred tax assets	41.38	65.88	82.53	73.31	57.69	40.60	20.27	0.00
Intangible assets	480.91	526.38	451.70	467.21	492.91	518.05	543.95	571.15
Goodwill	99.55	106.50	108.13	108.13	108.13	108.13	108.13	108.13
Total assets	1,133.73	1,184.12	1,057.90	1,083.03	1,121.31	1,162.43	1,210.14	1,268.37
Current liabilities	295.35	363.25	307.53	315.19	323.79	332.44	341.50	351.11
Short-term borrowings	61.82	121.78	92.73	90.73	88.73	86.73	84.73	82.73
Trade payables	136.66	144.50	110.95	113.34	116.16	118.49	120.64	122.72
Other liabilities	76.87	93.62	96.85	103.63	110.88	118.64	126.95	135.83
Current tax liabilities	19.99	3.35	7.01	7.50	8.02	8.58	9.18	9.82
Long-term liabilities	86.63	59.39	36.38	27.20	11.62	5.52	5.58	5.64
Provisions	1.98	2.22	2.30	2.41	2.53	2.66	2.79	2.93
Employee benefits	1.64	1.71	1.20	1.22	1.24	1.27	1.29	1.32
Long-term borrowings	22.68	22.55	1.90	1.80	1.70	1.60	1.50	1.40
Deferred tax liabilities	60.32	32.92	30.99	21.78	6.15	0.00	0.00	0.00
Shareholder's equity	751.76	761.47	714.00	740.64	785.90	824.46	863.05	911.62
Total shareholder's equity and liabilities	1,133.73	1,184.12	1,057.90	1,083.03	1,121.31	1,162.43	1,210.14	1,268.37

Source: Dr. Kalliwoda Research GmbH, company information

Ratios

Fiscal year	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E	2014/15E	2015/16E
Gross margin	60.43%	58.88%	64.84%	65.00%	66.00%	67.00%	68.00%	69.00%
EBITDA margin	50.30%	18.75%	21.60%	42.02%	39.78%	39.05%	38.83%	38.58%
EBIT margin	10.73%	-8.28%	-7.75%	4.30%	6.60%	6.70%	7.40%	8.10%
Net margin	6.51%	-5.01%	-5.02%	2.49%	4.00%	4.16%	4.72%	5.25%
Return on equity (ROE)	9.16%	-5.77%	-7.06%	3.68%	5.95%	6.16%	7.00%	7.77%
Return on assets (ROA)	6.50%	-4.18%	-4.32%	3.00%	4.63%	4.71%	5.19%	5.66%
Return on capital employed (ROCE)	18.49%	-11.74%	-14.15%	8.18%	12.85%	13.19%	14.65%	16.02%
Net debt (in EURm)	-151.06	-39.27	-97.53	-110.67	-126.95	-180.92	-212.92	-253.38
Net gearing	-20.09%	-5.16%	-13.66%	-14.94%	-16.15%	-21.94%	-24.67%	-27.79%
Equity ratio	66.31%	64.31%	67.49%	68.39%	70.09%	70.93%	71.32%	71.87%
Current ratio	1.63	1.24	1.23	1.25	1.30	1.36	1.44	1.54
Quick ratio	0.87	0.60	0.72	0.74	0.77	0.81	0.88	0.97
Net interest cover	23.44	15.18	-21.88	8.56	13.37	19.21	37.00	88.20
EBITDA/Net debt	-3.52	-4.16	-2.30	-4.08	-3.55	-2.57	-2.28	-2.00
Book value per share	8.08	8.02	7.53	7.82	8.29	8.70	9.11	9.62
Capex/Depreciation	n.a	1.19	0.83	1.04	1.07	1.07	1.07	1.07
Working capital/Sales	-1.00%	-1.21%	-5.80%	-5.78%	-5.59%	-5.41%	-5.24%	-5.06%
EV/Sales	0.51	0.62	0.52	0.50	0.47	0.45	0.43	0.41
EV/EBITDA	3.29	2.39	1.19	1.19	1.15	1.10	1.06	1.04
EV/EBIT	4.73	-7.44	-6.67	11.61	7.17	6.72	5.80	5.04
P/BVPS	0.63	0.64	0.68	0.65	0.61	0.59	0.56	0.53
P/E	6.89	-11.09	-9.27	18.06	10.65	9.74	8.18	7.01
P/FCF	-223.37	-4.99	12.91	45.49	29.14	23.32	17.10	13.53

Source: Dr. Kalliwoda Research GmbH, company information



7 Electronic Arts Inc.

Company description

Electronic Arts Inc. (EA) develops, markets, publishes and distributes game software and content that can be played by consumers on a variety of platforms, including consoles, PCs, mobile phones, tablets, the internet and handheld game players. The company is organized around three operating Labels, EA Games, EA SPORTS and EA Play. It's most important titles include "FIFA", "Battlefield", "The Sims", "Madden NFL", "Mass Effect" and "Need for Speed". In fiscal-year 2010/11, it was number 1 worldwide in the areas of PC, console, mobile and casual games, number 2 in social games and it had the number 3 download portal. As of 31 March 2011, EA had 7,645 employees.

Financials

In Q1 2011/12, EA generated net sales of USD 999m (+22.6% y-o-y), whereby 20.9% stemmed from digital content (e.g. online subscriptions, F2P games, downloadable content for packaged goods). Most of the sales growth was attributable to the games "Crysis 2", "FIFA 11", "Battlefield 2" and "Tiger PGA Tour 12". Due to high investments into the high-margin digital business (e.g. acquisitions of Playfish, PopCap and Pogo) which the company has conducted in the last few years the gross margin increased from 72.8% in Q1 2010/11 to 76%. Together with a better structure of operating costs, this led to a growth of the EBIT margin from 12% to 22.7% and an increase of the net profit by 130.2% to USD 221m. At the end of June 2011, EA had a net gearing of -67.2% and an equity ratio of 63.1%.

For Q3 2011/12, EA expects USD 675m-725m in net sales and EPS of USD -1.03 to -0.87. For the whole fiscal-year, the company guides for USD 3.75bn-3.95bn in net sales and an EPS of USD 0.70-0.90. Due to the release schedule and the Christmas season, results in Q3 2011/12 should be particularly good.

Electronic Arts Inc.

in USD	2008	2009	2010	2011E	2012E	2013E
EPS	-3.40	-2.10	-0.80	0.90	1.10	1.40
ROE	-34.7%	-24.8%	-10.8%	8.6%	10.1%	17.7%
P/E	-5.86	-9.49	-24.91	22.14	18.12	14.24
P/FCF	-65.75	-44.28	25.94	15.33	11.07	8.30
EV/Sales	1.17	1.35	1.37	1.22	1.14	1.12
EV/EBITDA	-38.49	-13.65	1231.74	7.92	7.34	6.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BVPS	2.16	2.48	2.64	2.66	2.85	2.73

Source: Dr. Kalliwoda Research GmbH, company information

Electronic Arts Inc.

PC, Console & Online Games

15.08.2011

Reuters: **ERTS.O**
Bloomberg: **ERTS US**

Last price: **USD 19.93**
Market capitalisation: **USD 6.78bn**
Free float: **61.6%**

Chart

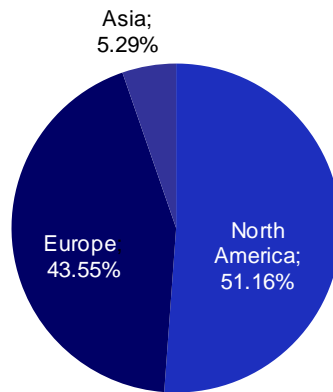
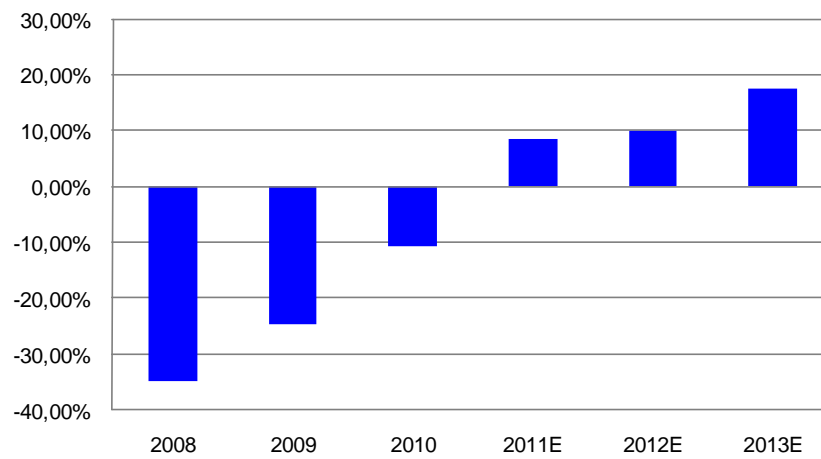


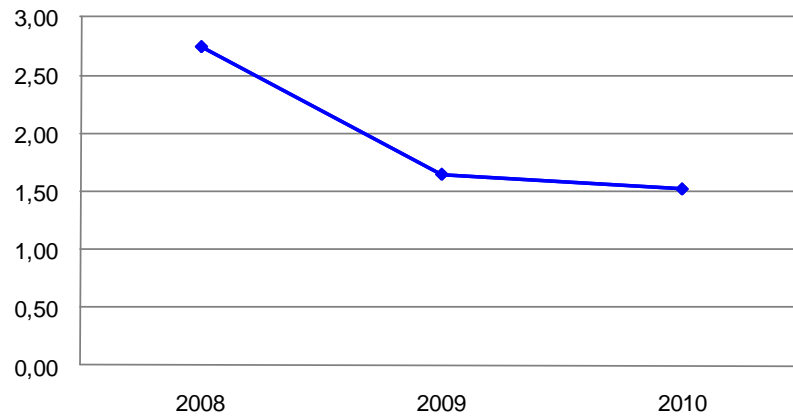
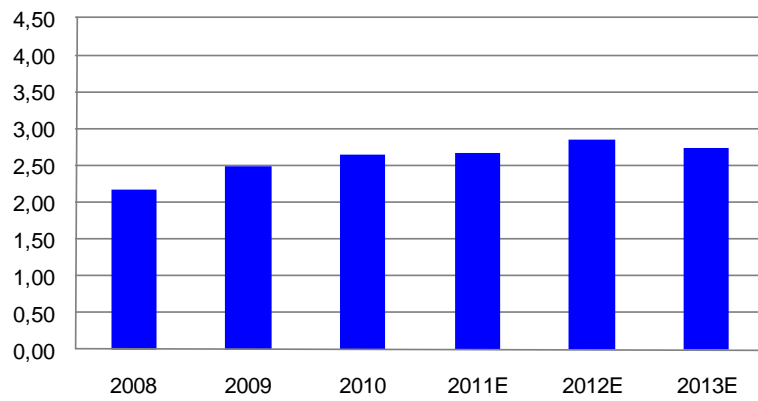
52 weeks

High: **USD 25.05**
Low: **USD 14.67**

Stock performance

4 weeks: **-15.55%**
1 year: **+24.17%**
3 years: **-58.87%**

Sales split 2010**Return on equity (ROE)**

Current ratio**P/BVPS**

Holder Name	Position	% O/S
Dodge & Cox	35,921,157	10.8%
PRIMECAP Management Company	26,464,279	8.0%
T. Rowe Price Associates	24,562,706	7.4%
Capital Research Global Investors	21,490,000	6.5%
Vanguard Group	18,757,379	5.7%
BlackRock Institutional Trust Company	12,267,954	3.7%
State Street Global Advisors	11,802,823	3.6%
Platinum Investment Management	7,519,019	2.3%
Manning & Napier Advisors	6,837,230	2.1%
The Boston Company Asset Management	6,768,622	2.0%
SRS Investment Management	6,000,000	1.8%
Relational Investors	4,904,216	1.5%
Robeco Investment Management	4,642,477	1.4%
American Century Investment Management	4,605,157	1.4%
Epoch Investment Partners	4,324,351	1.3%
Global Thematic Partners	4,092,077	1.2%
Invesco PowerShares Capital Management	3,974,833	1.2%
Fidelity Management & Research Company	3,839,110	1.2%
BlackRock Financial Management	3,769,153	1.1%
Eton Park Capital Management	3,750,000	1.1%
Wellington Management Company	3,725,140	1.1%
Norges Bank Investment Management	3,476,108	1.1%
RCM Capital Management	3,263,310	1.0%
BlackRock Advisors (UK)	3,256,048	1.0%
TIAA-CREF	3,127,775	0.9%
McLean Budden	2,978,180	0.9%
Apex Capital	2,881,800	0.9%
Columbia Management Investment Advisers	2,801,334	0.9%
Calamos Advisors	2,700,000	0.8%
D. E. Shaw & Co.	2,651,637	0.8%
Goldman Sachs Asset Management	2,595,777	0.8%
Renaissance Technologies Corp.	2,322,564	0.7%
Northern Trust Investments	2,319,987	0.7%
DnB NOR Kapitalforvaltning	2,208,048	0.7%
BNY Mellon Asset Management	1,926,869	0.6%
Kornitzer Capital Management	1,847,608	0.6%
Geode Capital Management	1,761,127	0.5%
OppenheimerFunds	1,727,603	0.5%
Citadel Investment Group	1,650,943	0.5%
Jacobs Levy Equity Management	1,551,540	0.5%
Valinor Management	1,307,617	0.4%
Legal & General Investment Management	1,268,718	0.4%
Janus Capital Management	1,266,030	0.4%
BlackRock Investment Management	1,263,003	0.4%
Mellon Capital Management	1,241,644	0.4%
New York State Common Retirement System	1,142,312	0.3%
Cyrte Investments	1,135,000	0.3%
Wells Capital Management	1,133,794	0.3%
BlackRock Investment Management	1,111,927	0.3%
Probst (Lawrence F III)	1,107,669	0.3%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge



8 Activision Blizzard Inc.

Company description

Activision Blizzard Inc. is a developer, publisher and distributor of online, PC, console, handheld, and mobile games. The company's most important titles include "Call of Duty", the most successful game ever with USD 250m in revenues on its first day of sales in 2010, "World of Warcraft", the most successful Massively Multiplayer Online Game (MMOG) with c. 12m subscribers worldwide, "Starcraft" and "Diablo". The majority of shares of Activision Blizzard is owned by the French media giant Vivendi SA. As of 30 June 2011, the company had 7,600 employees.

Financials

In H1/11, Activision Blizzard generated sales of USD 2.6bn (+14.1% y-o-y), whereby the online segment (e.g. subscriptions, F2P games, mobile games, downloadable digital content) increased its share from 29% in H1/10 to 33%. This had a positive impact on the gross margin which grew from 60.4% to 69.3%. Due to a strong cost discipline EBIT (+40.7% y-o-y to USD 1.1bn) and net income (+39.7% y-o-y to USD 838m) also showed a strong performance. At the end of H1/11, Activision Blizzard's balance sheet was very solid with a net gearing of -28.1% and an equity ratio equal to 87.4%.

For Q3/11, Activision Blizzard expects net sales of USD 650m and an EPS of USD 0.05. For the whole fiscal year, it guides for net sales of USD 4.2b and an EPS of USD 0.68.

Activision Blizzard Inc.

in USD	2008	2009	2010	2011E	2012E	2013E
EPS	-0.10	0.10	0.20	0.80	0.90	1.00
ROE	-0.7%	0.7%	2.9%	8.8%	9.5%	11.1%
P/E	-107.10	107.10	53.55	13.39	11.90	10.71
P/FCF	36.76	10.97	11.23	11.90	7.65	8.93
EV/Sales	4.32	3.05	2.94	2.28	2.03	1.92
EV/EBITDA	53.33	17.35	13.12	6.25	5.66	5.16
Dividend yield	0.0%	1.4%	1.6%	0.9%	0.9%	0.9%
P/BVPS	1.06	1.14	1.20	1.15	1.06	1.06

Source: Dr. Kalliwoda Research GmbH, company information

Activision Blizzard Inc.

PC, Console & Online Games

15.08.2011

Reuters: **ATVI.O**
Bloomberg: **ATVI US**

Last price: **USD 10.71**
Market capitalisation: **USD 12.24bn**
Free float: **37.2%**

Chart



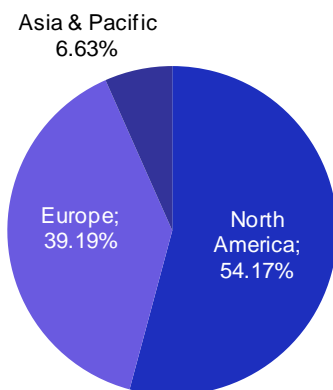
52 weeks

High: **USD 12.65**
Low: **USD 10.40**

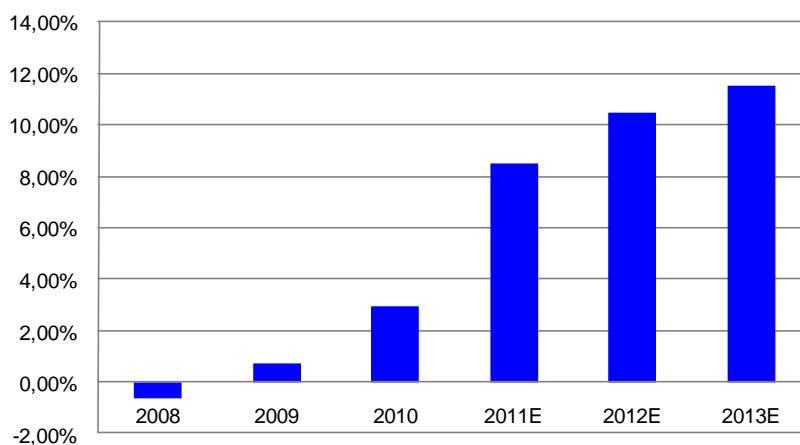
Stock performance

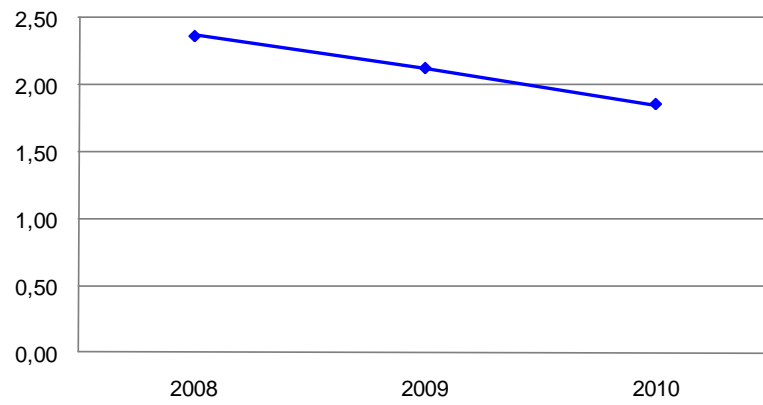
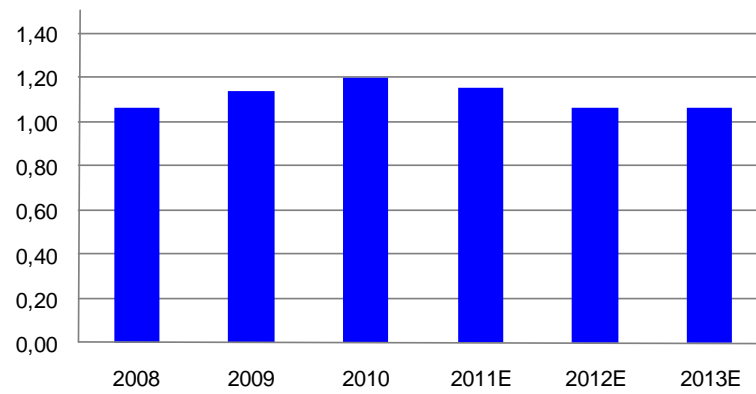
4 weeks: **-10.08%**
1 year: **-0.07%**
3 years: **-36.11%**

Sales split 2010



Return on equity (ROE)



Current ratio**P/BVPS**

Holder Name	Position	% O/S
Vivendi SA	71,864,389	62.8%
Davis Selected Advisers	27,024,828	2.4%
RS Investments	15,506,889	1.4%
BlackRock Institutional Trust Company	14,939,959	1.3%
Wellington Management Company	13,760,806	1.2%
Vanguard Group	13,620,216	1.2%
Invesco PowerShares Capital Management	12,422,183	1.1%
BlackRock Investment Management (UK)	10,977,523	1.0%
State Street Global Advisors	10,219,810	0.9%
Neuberger Berman	9,795,790	0.9%
Sarasin & Partners	9,286,733	0.8%
BlackRock Financial Management	7,300,964	0.6%
Invesco Trimark	6,786,500	0.6%
Anchor Capital Advisors	6,772,480	0.6%
D. E. Shaw & Co.	6,634,391	0.6%
Fir Tree Partners	6,609,791	0.6%
BlackRock Advisors (UK)	6,294,710	0.6%
RCM Capital Management	6,123,420	0.5%
PRIMECAP Management Company	5,606,300	0.5%
Dimensional Fund Advisors	5,118,175	0.5%
Norges Bank Investment Management	4,453,373	0.4%
ING Investment Management	4,000,000	0.4%
Citadel Investment Group	3,987,712	0.4%
AllianceBernstein	3,693,894	0.3%
M. D. Sass Investors Services	3,691,308	0.3%
Standard Life Investments	3,582,060	0.3%
Lord, Abbett & Co.	3,345,625	0.3%
Eaton Vance Management	3,319,371	0.3%
Atlanta Capital Management	3,054,575	0.3%
GE Asset Management	2,891,209	0.3%
Ceredex Value Advisors	2,841,400	0.3%
BlackRock Investment Management	2,839,786	0.3%
Goldman Sachs & Company	2,789,821	0.2%
Ivory Investment Management	2,656,457	0.2%
Morgan Stanley Investment Management	2,596,201	0.2%
Arrowstreet Capital	2,570,507	0.2%
BlackRock Japan	2,419,122	0.2%
Northern Trust Investments	2,408,179	0.2%
Managed Account Advisors	2,402,905	0.2%
Invesco Advisers	2,372,056	0.2%
TIAA-CREF	2,367,323	0.2%
Eagle Asset Management	2,363,918	0.2%
Standard Life Investments	2,164,187	0.2%
Scott & Stringfellow	2,139,796	0.2%
Legal & General Investment Management	2,122,693	0.2%
Burgundy Asset Management	2,117,514	0.2%
Goldman Sachs Asset Management	2,001,868	0.2%
Mellon Capital Management	1,875,140	0.2%
BNY Mellon Asset Management	1.836.243	0.2%
Morgan Stanley & Co	1,791,138	0.2%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge



9 Take-Two Interactive Inc.

Company description

Take-Two Interactive Software Inc. is a global publisher, developer and distributor of PC, console and handheld games. The company's publishing business consists of Rockstar Games, 2K Games, 2K Sports and 2K Play labels. Its most important titles are "Grand Theft Auto", "Sid Meier's Civilization", "Mafia", "Red Dead Redemption", "Bioshock", as well as the popular sport games "Major League 2K", "NBA 2K" and "NHL 2K". Take-Two Interactive had 2,118 employees at the end of March 2011.

Financials

In Q1/11, Take-Two Interactive generated net sales of USD 334.4m (-10.9% y-o-y), whereof 7.4% was from digital content. The biggest revenue contributors were "L.A. Noire" (4m units sold since release in May 2011), "Duke Nukem Forever", "NBA 2K11" and "Red Dead Redemption" (11m units sold since release in May 2010). Despite a higher gross margin y-o-y (38.8% vs. 35% in Q1/10), the company reported an operating loss of USD 1.9m which was caused by 50% higher selling & marketing expenses y-o-y. With USD -8.7m, the net income in Q1/11 was also significantly lower y-o-y (Q1/10: USD 26.3m). As of 30 June 2011, Take-Two Interactive had a net gearing of -22% and an equity ratio of 61.3%.

For Q2/11, Take-Two Interactive expects net sales of USD 70-85m and EPS of USD -0.65 to USD -0.55. For the whole fiscal-year 2011/12, the company guides for net sales of USD 1-1.1bn and an EPS of USD 0.10-0.35. Its most important upcoming releases are "NBA 2K12", "Nicktoons MLB", "Nickelodeon Dance" and "Bioshock Infinite".

Take-Two Interactive Inc.

in USD	2008	2009	2010	2011E	2012E	2013E
EPS	-1.80	-0.40	0.60	0.40	2.40	1.00
ROE	-22.8%	-5.3%	7.9%	-0.4%	28.0%	6.3%
P/E	-6.38	-28.70	19.13	28.70	4.78	11.48
P/FCF	7.56	-4.38	7.96	57.40	5.47	11.48
EV/Sales	1.17	2.29	0.72	0.75	0.49	0.65
EV/EBITDA	242.68	17.62	0.52	18.79	3.20	-
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BVPS	1.62	1.83	1.62	1.57	1.22	1.17

Source: Dr. Kalliwoda Research GmbH, company information

Take-Two Interactive Inc.

PC & Console Games

15.08.2011

Reuters: **TTWO.O**
Bloomberg: **TTWO US**

Last price: **USD 11.48**
Market capitalisation: **USD 995.8m**
Free float: **66.8%**

Chart

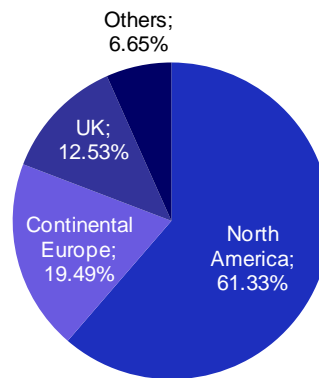
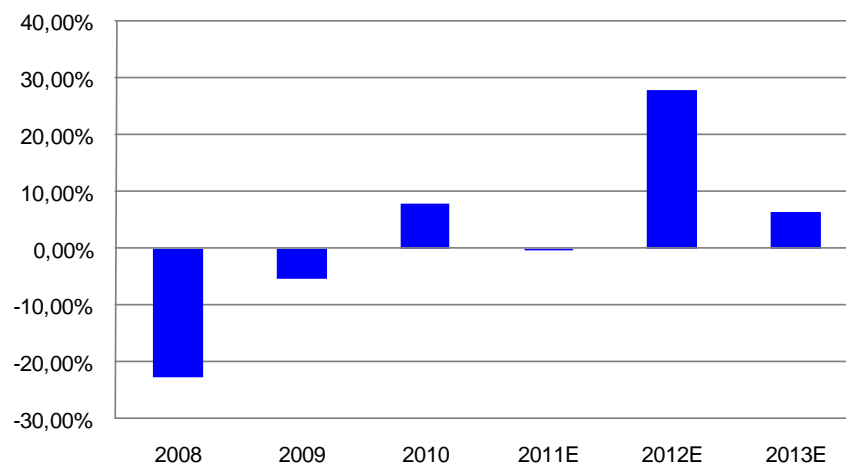


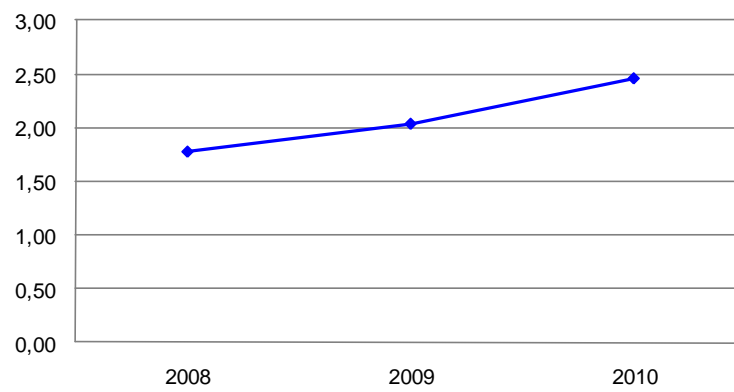
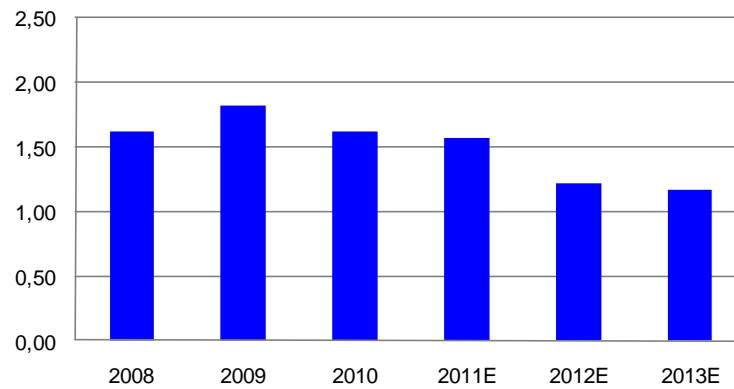
52 weeks

High: **USD 17.58**
Low: **USD 7.98**

Stock performance

4 weeks: **-20.11%**
1 year: **+38.40%**
3 years: **-53.56%**

Sales split 2010**Return on equity (ROE)**

Current ratio**P/BVPS**

Holder Name	Position	% O/S
Oppenheimer Funds	10,898,126	12.6%
Icahn Associates Corporation	7,305,626	8.4%
BlackRock Institutional Trust Company	5,883,577	6.8%
Vanguard Group	4,702,652	5.4%
Kensico Capital Management	4,257,600	4.9%
TCW Asset Management	2,663,782	3.1%
GAMCO Investors	2,181,960	2.5%
AllianceBernstein	2,179,224	2.5%
Denver Investment Advisors	1,895,234	2.2%
State Street Global Advisors	1,772,546	2.0%
Renaissance Technologies Corp.	1,558,650	1.8%
Zelnick (Strauss)	1,531,400	1.8%
Glenview Capital Management	1,205,848	1.4%
Schneider Capital Management	1,185,427	1.4%
BlackRock Advisors (UK)	1,168,490	1.4%
JP Morgan Asset Management	1,144,502	1.3%
Dimensional Fund Advisors	1,109,435	1.3%
Weintraub Capital Management	1,050,000	1.2%
The Boston Company Asset Management	965,216	1.1%
Robeco Investment Management	905,497	1.0%
Deutsche Asset Management Americas	826,938	1.0%
Northern Trust Investments	761,742	0.9%
TIAA-CREF	730,059	0.8%
Cramer Rosenthal McGlynn	698,170	0.8%
Federated Investors	663,347	0.8%
Citadel Investment Group	640,072	0.7%
BlackRock Investment Management	634,969	0.7%
Columbia Management Investment Advisers	626,760	0.7%
Fuller & Thaler Asset Management	581,500	0.7%
Kennedy Capital Management	559,073	0.6%
Nomura Securities	551,740	0.6%
Norges Bank Investment Management	511,450	0.6%
Bank of Nova Scotia	485,348	0.6%
BlackRock Financial Management	483,083	0.6%
Numeric Investors	461,400	0.5%
BNY Mellon Asset Management	419,879	0.5%
Quantitative Management Associates	418,777	0.5%
PSP Investments	388,700	0.5%
Principal Global Investors	359,526	0.4%
Geode Capital Management	338,685	0.4%
Visium Capital Management	330,000	0.4%
Legg Mason Capital Management	328,163	0.4%
New York State Teachers' Retirement	324,376	0.4%
Batterymarch Financial Management	317,440	0.4%
Kingdom Ridge Capital	300,000	0.4%
RBC Global Asset Management (U.S.)	286,000	0.3%
Susquehanna Financial Group	261,184	0.3%
Jacobs Levy Equity Management	255,500	0.3%
Goldstein (Lainie)	255,402	0.3%
California Public Employees' Retirement	247,729	0.3%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge



10 Shanda Games Ltd.

Company description

Shanda Games Ltd. develops and sources online game content (either MMORPGs or advanced casual games) through multiple channels, including in-house development, licensing, investment and acquisition, co-development and co-operation. The company currently operates 35-40 games which are mostly played by Chinese gamers (in Q1/11 revenues in China made up 94.6% of total sales). Shanda's game portfolio includes among others "Mir U", "Wool", "Maple Story", "Dragon Nest", "Hades Realm 2" and "Legend of Immortals". As of 31 March 2011, Shanda Games had 2,834 employees.

Financials

In Q1/11, Shanda Games generated total sales of USD 191m (+9.6% y-o-y). Massively Multiplayer Online Role Playing Games (MMORPG) operated in China had a share of 87.2% and advanced casual games 7.4%, whereas foreign revenues from game operation, licensing and advertising accounted for 5.4%. Both the active paying accounts (APA) and average revenue per user (ARPU) developed positively for MMORPG and advanced casual games. Despite an improvement in the gross margin from 59% to 60.8%, the operating income went down by 7.4% to USD 53.4m, especially due to 50.3% higher R&D costs y-o-y and 99.2% higher share-based compensation. At the end of March 2011, Shanda Games had a net gearing of -72.8% and an equity ratio of 60.3%.

Shanda Games Ltd.

in USD	2008	2009	2010	2011E	2012E	2013E
EPS	0.30	0.40	0.40	0.70	0.80	0.90
ROE	85.3%	51.5%	32.1%	29.7%	25.2%	23.2%
P/E	16.77	12.58	12.58	7.19	6.29	5.59
P/FCF	27.25	7.70	5.54	5.59	5.03	5.03
EV/Sales	1.99	1.40	1.49	1.28	1.14	1.00
EV/EBITDA	5.11	3.48	4.10	3.65	3.28	3.11
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/BVPS	8.38	3.26	2.29	1.86	1.44	1.20

Source: Dr. Kalliwoda Research GmbH, company information

Shanda Games Ltd.

Online Games

15.08.2011

Reuters: **GAME.O**
Bloomberg: **GAME US**

Last price: **USD 5.03**
Market capitalisation: **USD 1.43bn**
Free float: **100%**

Chart

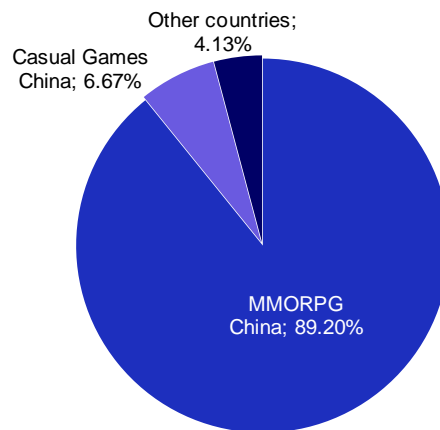
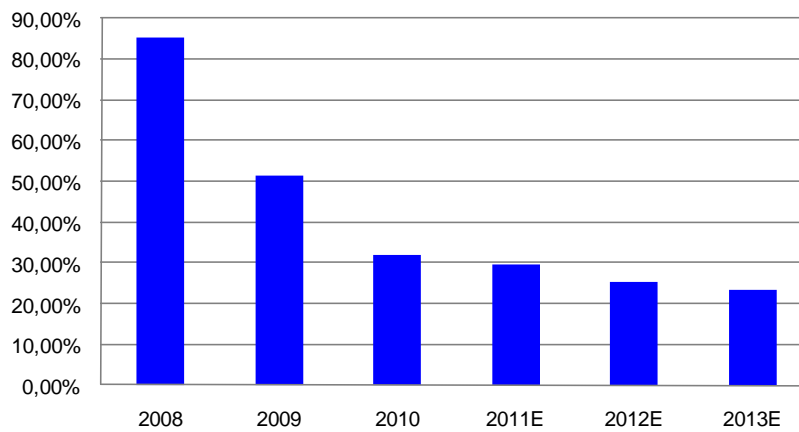


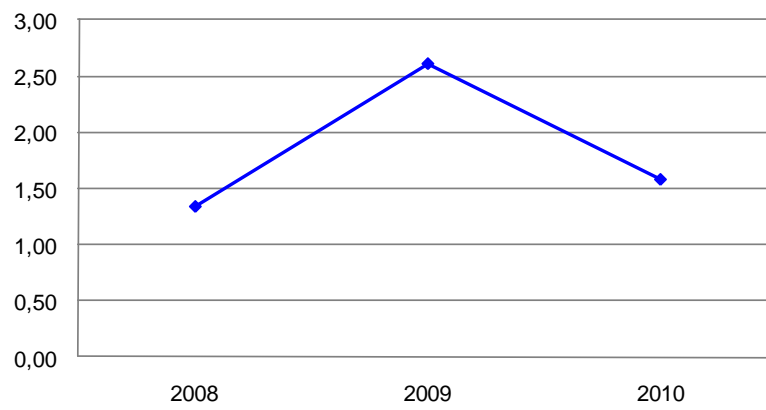
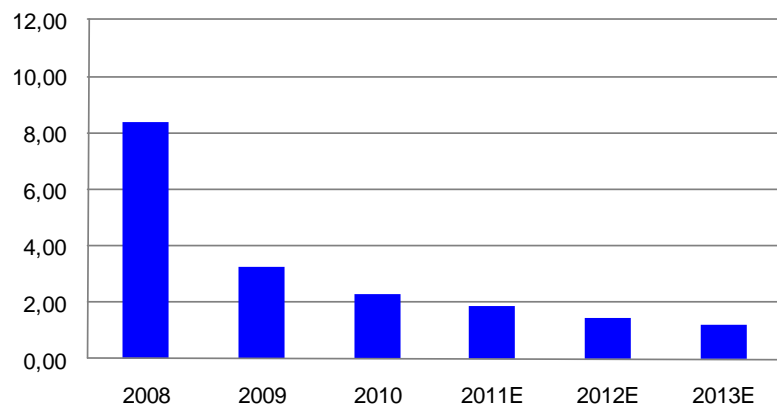
52 weeks

High: **USD 7.70**
Low: **USD 4.82**

Stock performance

4 weeks: **-26.25%**
1 year: **-23.90%**
3 years: **-**

Sales split 2010**Return on equity (ROE)**

Current ratio**P/BVPS**

Holder Name	Position	% O/S
Prudential Asset Management (Singapore)	9,083,310	3.2%
Government of Singapore Investment Corporation	8,564,531	3.0%
BlackRock Investment Management (UK)	4,000,529	1.4%
Capital International	3,473,200	1.2%
BlackRock Asset Management North Asia	2,826,994	1.0%
M & G Investment Management	2,608,528	0.9%
Investec Asset Management	2,060,973	0.7%
Hermes Fund Managers	1,783,244	0.6%
Delaware Investments	1,744,116	0.6%
Acadian Asset Management	1,601,291	0.6%
Fidelity Management & Research	1,530,065	0.5%
Alkeon Capital Management	1,356,000	0.5%
OppenheimerFunds	1,156,869	0.4%
Pyramis Global Advisors	963,283	0.3%
INVESCO Asset Management	836,709	0.3%
Two Sigma Investments	806,882	0.3%
Citadel Investment Group	647,017	0.2%
The Boston Company Asset Management	644,329	0.2%
Atlantis Investment Management (Hong Kong)	600,000	0.2%
BNY Mellon Asset Management	516,286	0.2%
State of Wisconsin Investment Board	488,463	0.2%
Goldman Sachs Asset Management	482,841	0.2%
Ignis Asset Management	394,892	0.1%
Credit Suisse Securities (USA)	393,131	0.1%
Capital International	357,900	0.1%
Morgan Stanley & Co	343,428	0.1%
PCA Securities Investment Trust	341,321	0.1%
Prudential Asset Management (HK)	327,704	0.1%
JPMorgan Asset Management U.K.	282,050	0.1%
Deutsche Asset Management Americas	278,694	0.1%
JP Morgan Asset Management	275,800	0.1%
Oxford Asset Management	251,265	0.1%
Bank of America Merrill Lynch (US)	239,366	0.1%
Invesco PowerShares Capital Management	236,513	0.1%
Neuflyze OBC Investissements	236,300	0.1%
Renaissance Technologies Corp.	229,800	0.1%
Symmetry Peak Management	225,437	0.1%
D. E. Shaw & Co	220,425	0.1%
BlackRock Institutional Trust Company	219,109	0.1%
Guggenheim Funds Investment Advisors	215,253	0.1%
I.G. Investment Management (Hong Kong)	205,101	0.1%
First Trust Advisors	184,946	0.1%
Capital Guardian Trust Company	175,300	0.1%
Millennium Management	173,352	0.1%
Moon Capital Management	152,126	0.1%
China Investment Corporation	150,000	0.1%
Prescott Group Capital Management	150,000	0.1%
Rydex Security Global Investors	148,135	0.1%
Employees Retirement System of Texas	145,000	0.1%
I.G. Investment Management	144,900	0.1%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge



11 NCSoft Corporation

Company description

NCSoft Corporation is a Korean developer and publisher of online games. The company offers massively multiplayer online role-playing games (MMORPGs) that enable players from different countries to play together online. Its product portfolio includes MMORPGs such as "Lineage II", "Aion", "Guild Wars", "City of Heroes", and "Guild Wars II"; casual games, such as "Love Beat", "Punch Monster", "Dragonica", "Point Blank", "Arpia", "Slugger" and "Popcap World", as well as browser and board games, such as "Might and Magic Heroes of Kingdoms", "Murim Jekook", "Magic King", "Myoung-in Jang-gi" and "Gloden Poker". At the end of March 2011, NCSoft had 2,402 employees.

Financials

In Q1/11, NCSoft generated net sales of KRW 139,396m (-11.4% y-o-y), whereby 89.7% stemmed from online games and 10.3% from royalties. The most important games in terms of sales were "Aion" with a share of 44.1% and "Lineage" with 27.6%. Although the gross margin went up from 77.9% to 79.3% y-o-y, the operating and net margin deteriorated (29.7% vs. 45.8% in Q1/10 and 26.2% vs. 34.8%) which was due to much higher operating costs. At the end of March 2011, NCSoft had a net gearing of -72.3% and an equity ratio of 75.9%.

NCSoft Corporation

in KRW	2008	2009	2010	2011E	2012E	2013E
EPS	1316.60	9489.40	8425.10	9782.50	16460.00	18283.00
ROE	6.2%	29.0%	20.9%	23.1%	30.0%	26.6%
P/E	233.94	32.46	36.56	31.48	18.71	16.85
P/FCF	-950.25	26.77	42.36	27.01	17.54	15.95
EV/Sales	17.64	9.64	9.42	11.03	8.01	7.58
EV/EBITDA	87.88	23.87	22.73	22.90	14.47	14.16
Dividend yield	0.5%	0.2%	0.2%	0.2%	0.2%	0.2%
P/BVPS	16.25	10.60	8.43	6.53	4.95	4.04

Source: Dr. Kalliwoda Research GmbH, company information

NCSoft Corporation

Online Games

15.08.2011

Reuters: 036570.KS
Bloomberg: 036570 KS

Last price: KRW 308,000
Market capitalis. : KRW 672.61bn
Free float: 69.1%

Chart

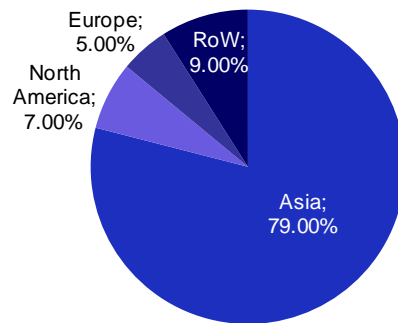
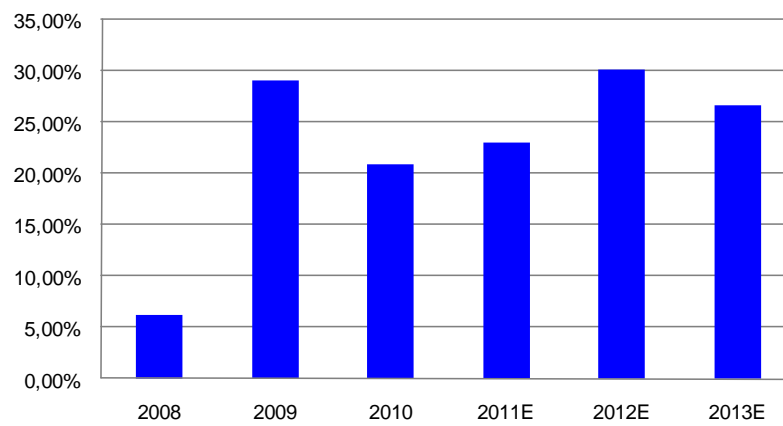


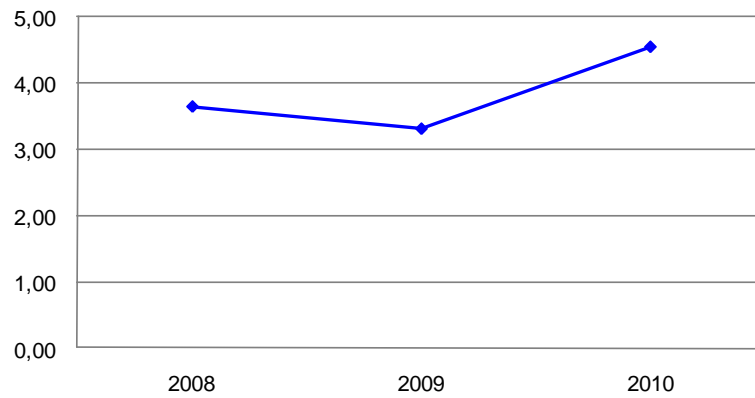
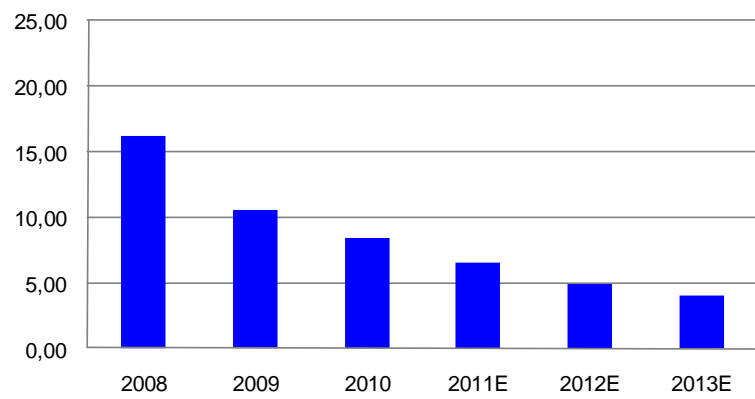
52 weeks

High: KRW 346,500
Low: KRW 189,000

Stock performance

4 weeks: -4.35%
1 year: +52.55%
3 years: +541.21%

Sales split 2010**Return on equity (ROE)**

Current ratio**P/BVPS**

Holder Name	Position	% O/S
Kim (Taek Jin)	5,406,091	24.8%
National Pension Service	1,319,806	6.1%
Mirae Asset Global Investments	971,516	4.5%
BlackRock Institutional Trust Company	347,479	1.6%
UBS Hana Asset Management	308,193	1.4%
Vanguard Group	306,908	1.4%
Samsung Asset Management	191,003	0.9%
Fidelity Management & Research Company	148,644	0.7%
BNP Paribas Asset Management	146,585	0.7%
FIL Investments (Japan)	137,481	0.6%
TIAA-CREF	121,584	0.6%
KTB Asset Management	105,398	0.5%
Shinhan BNP Paribas Asset Management	95,370	0.4%
HI Asset Management	75,441	0.4%
FIL Investment Management (Hong Kong)	63,641	0.3%
Lee (Hui Sang)	52,540	0.2%
American Century Global Investment	51,900	0.2%
Allianz Global Investors Korea	47,000	0.2%
KB Asset Management	45,334	0.2%
Midas Asset Management	41,580	0.2%
BNP Paribas Investment Partners Asia	39,406	0.2%
Prudential Asset Management	38,732	0.2%
Pioneer Investment Management	38,605	0.2%
Franklin Templeton	36,244	0.2%
BlackRock Advisors (UK)	35,901	0.2%
Pyramis Global Advisors	35,817	0.2%
Wells Capital Management	34,900	0.2%
Baring Asset Management (Asia)	34,383	0.2%
BSI S.A.	34,000	0.2%
Truston Asset Management	30,457	0.1%
Korea Investment Management	30,005	0.1%
Invesco Hong Kong	30,000	0.1%
Consus Asset Management	29,239	0.1%
ING Life Insurance	28,157	0.1%
Fidelity International (Korea)	25,000	0.1%
Caisse de Depot et Placement du Quebec	24,122	0.1%
NH-CA Asset Management	23,918	0.1%
Dimensional Fund Advisors	23,586	0.1%
CPP Investment Board	23,000	0.1%
Park (Seong Ho)	22,511	0.1%
Morgan Stanley (India)	21,596	0.1%
Pictet Asset Management	20,581	0.1%
Lazard Asset Management	19,100	0.1%
BNP Paribas Investment Partners	18,622	0.1%
No (Byeong Ho)	16,355	0.1%
Daiwa SB Investments	16,000	0.1%
Fideuram (Ireland)	16,000	0.1%
PCA Investment Trust	15,135	0.1%
ING Investment Management Korea	14,339	0.1%
Lyxor Asset Management	14,064	0.1%

Source: Dr. Kalliwoda Research GmbH, company information, Thomson Reuters Knowledge

12 Peer group analysis

	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	ROE
	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	2010	2010	2010
Electronic Arts (USD)	1.22x	1.14x	7.92x	7.34x	12.45x	9.45x	22.14x	18.12x	-3.87%	-87.25%	-10.43%
Take-Two Interactive Software (USD)	0.75x	0.49x	18.79x	3.20x	17.25x	3.12x	28.70x	4.78x	138.00%	-28.14%	9.47%
Activision Blizzard (USD)	2.28x	2.03x	6.25x	5.66x	7.33x	6.36x	13.39x	11.90x	15.00%	-34.38%	3.95%
Ubisoft Entertainment (EUR)	0.34x	0.33x	0.90x	0.85x	7.55x	5.60x	17.50x	13.12x	31.86%	-18.05%	-7.07%
CD Projekt RED (PLN)	2.60x	3.26x	7.90x	9.35x	8.10x	9.67x	9.29x	10.55x	1.71%	22.74%	-8.54%
City Interactive (PLN)	2.39x	1.35x	7.91x	2.41x	6.63x	3.30x	6.67x	6.05x	45.55%	-26.14%	89.99%
Shanda Games (USD)	1.28x	1.14x	3.65x	3.28x	4.49x	3.99x	7.19x	6.29x	36.33%	-54.11%	37.69%
NCSOFT Corporation (KRW)	11.03x	8.01x	22.90x	14.47x	24.51x	15.22x	31.48x	18.71x	41.42%	-76.17%	23.26%
Median	1.78x	1.25x	7.91x	4.47x	7.82x	5.98x	15.44x	11.23x	34.10%	-31.26%	6.71%

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

Our peer group which comprises the most important gaming companies shows a significant undervaluation for City Interactive and Shanda Games compared to the median. On the other hand, we believe EA and NCSOFT are currently too expensive. Especially, in case of EA we believe that the high sales potential of its upcoming new releases e.g. “Battlefield 3” and “The Sims 3” has already been taken into account in the share price.

In terms of peer group valuation of gaming companies, there are in our view three points which investors should take into account: (1) P/B is not very relevant as gaming companies do not usually have high fixed assets, only software, license and human capital (2) high costs of new games and their different sales potential make earnings very volatile, and (3) online gaming companies such as Shanda and NCSOFT do usually have higher market valuations as they are far more profitable than traditional video game companies.

13 Conclusion

Apart from a general analysis of the gaming market, we have performed an analysis of the listed companies from the sector with a particular focus on stocks from Europe. We have compared the companies by performing a peer group analysis and, for the European companies, also a DCF-valuation. Our top pick for the sector in Europe which in our view is most promising over the next 12 months is City Interactive. We prefer the company for the following reasons: (1) After the recent correction, it is the cheapest video game company from our peer group (2) Net gearing of only 1.7% in Q1/11 (3) Strong release pipeline with “Alien Fear” and “Sniper 2”, and (4) Recent move into fast-growing and high-margin online and mobile games. Our price target for City Interactive is **PLN 34.85** which implies an upside of **80.1%** at current level.

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KAUFEN:	14.1.1.1 On the basis of our forecasts the stock should have a performance of at least 10% over the next 12 months.	BUY
AKKUMULIEREN:	14.1.1.2 On a basis of our forecasts the stock should have a performance of between 5% and 10% over the next 12 months.	ACCUMULATE
HALTEN:	14.1.1.3 On a basis of our forecasts the stock should have a performance of between minus 5% and plus 5% over the next 12 months.	HOLD
REDUZIEREN:	14.1.1.4 On a basis of our forecasts the stock should have a performance of between minus 5% and plus 5% over the next 12 months.	REDUCE
VERKAUFEN:	14.1.1.5 On a basis of our forecasts the stock should have an underperformance of at least minus 10% over the next 12 months.	SELL

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