

Date of first publication: 27th September 2021

Guillemot

Well ahead of its 2021 guidance

Comments on H1 2021 results

For H1 2021, Guillemot published sales of € 70.5 million, up sharply by +70% compared to H1 2020, a period which had already recorded an increase in activity of more than +60%. The group's two areas of activity, Thrustmaster and Hercules, are up sharply, + 72% and + 42% respectively, with demand remaining very strong, particularly in the gaming environment.

Benefiting from a significant activity volume effect and the increase in the level of gross margin (+330 bp), the results communicated by Guillemot are excellent, with a level of current operating income reaching € 13.3 million over the period, compared to € 3.1 million in the first half of 2020. The group has obviously made operational efforts (headcount and marketing expenses) to support the strong growth of its activities, but these expenses are increasing less rapidly (+38%) than the increased activity. Thus, the current operating rate of return amounted to 18.9% in H1 2021.

The only downside to these results is the negative impact of the fall in the Ubisoft share price, leading to the recognition of an unrealized loss of - € 8.8 million in financial income (securities portfolio). Ultimately, the group net result is at € 3.7 million (vs. € 7.3 million in H1 2020).

Guillemot has all cards in hand, despite supply and logistics constraints

Beyond the strong profitability recorded during the first half of the year, Guillemot also highlights in its press release the fact that it has many assets to overcome the current challenges players in interactive leisure are facing (shortage of components and logistics issues). Thus, on the strength of a very healthy balance sheet situation, Guillemot seems to have anticipated things well with, in particular, stocks amounting to € 26.7 million at the end of June 2021, against a level of € 15.8 million at the end of June 2020. Enough to fuel the 2021 Christmas sales!

In fact, benefiting from the operational investments made over the past 18 months, Guillemot remains in a position to maintain a significant level of activity for the second half of 2021, even if the lengthening of its sales cycle has an impact on group working capital requirements.

Strong Buy opinion on the share, with management raising his earnings guidance for the full 2021 fiscal year

Building on the advance taken during the first half of 2021 with excellent results, management is raising its guidance, now expecting current operating income of over € 25 million (compared to over € 20 million previously), while maintaining its anticipation of a turnover of over € 150 million.

After updating our model, we are raising our TP which now stands at € 23.55 / share, and maintain our Strong Buy opinion on the share.

Raphaëlle POULAIN

Equity research analyst
rpoulain@genesta-finance.com
+33 (0)1 45 63 68 62

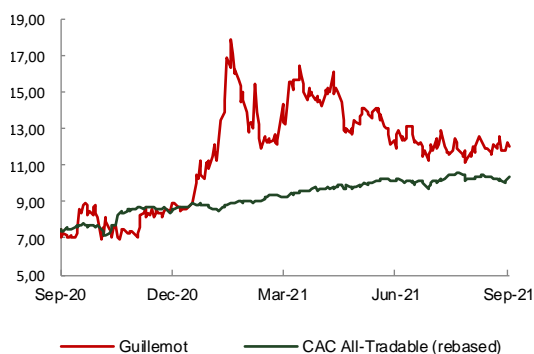
Recommendation	1. Strong Buy
Closing Price on 23 Sept. 2021	12,02 €
Target Price	€ 23,55 (+95,9%)

Market data

Reuters / Bloomberg Ticker	GTCN.PA / GUI:FP
Market capitalisation (€m)	183,76
Enterprise value (€m)	165,56
Free Float (€m)	55,86 (30,4 %)
Number of shares	15 287 480
Daily volume	€ 526 620
Capital turnover rate (1 year)	42,13%
High (52 weeks)	€ 17,90
Low (52 weeks)	€ 6,90

Performances

Absolute perf.	1 month	6 months	12 months
	+3 %	-22,9 %	+60,7 %



Current shareholding structure

Free Float : 30,4 % ; Guillemot Brothers & Family : 68,9 % ; Treasury stock : 0,7 %

Agenda

Q3 2021 Sales to be released on October 28th, 2021

Key figures

	2019	2020	2021E	2022E	2023E
Sales (€m)	60,9	120,6	162,2	187,5	210,8
Change (%)	-25,1%	98,1%	34,5%	15,6%	12,4%
EBITDA (€m)	2,0	26,1	36,5	39,5	42,7
EBIT (€m)**	-2,6	23,1	28,5	31,0	34,0
Ebit margin (%)	-4,3%	19,1%	17,6%	16,5%	16,1%
Net profit gp (€m) *	-2,4	22,1	27,4	29,8	32,3
Net margin (%) *	-3,9%	18,3%	16,9%	15,9%	15,3%
EPS *	-0,16	1,45	1,79	1,95	2,11

* Restated items for unrealized capital gains / losses on the securities portfolio

** Including, during FY 2020, a €4.1m recognition as reversal of impairment on the Thrustmaster brand

Ratios (Excluding Valuation of Ubisoft shares)

	2019	2020	2021E	2022E	2023E
EV / Sales	0,6	0,7	0,9	0,6	0,3
EV / EBITDA	17,1	3,2	4,0	2,7	1,6
EV / EBIT	ns	3,7	5,1	3,5	1,9
P / E *	ns	4,6	6,7	6,2	5,7
Gearing (%)	20%	-23%	-37%	-56%	-69%
Net deb. / EBITDA	5,1	-0,7	-1,1	-1,9	-2,8
ROCE (%)	-8%	93%	79%	86%	101%

Refer to important warnings at the end of the document. For additional information on Genesta and its internal procedures, please consult the website www.genesta-finance.com.

Company profile

A key player in the interactive entertainment devices market, with 2 brands: Hercules and Thrustmaster

With the acquisition in 1999 of the two American companies Hercules and Thrustmaster, Guillemot quickly became a benchmark international player in the interactive entertainment industry. The company is focusing its development strategy around its two strong brands: on the one hand, Hercules on the segment of DJing audio equipment and peripherals, and on the other hand, Thrustmaster, on the segment of video game accessories for PC and consoles (home and portable).

Two strong brands with markets different cycles

Within each segment of its business portfolio, Guillemot has been able to develop attractive product ranges. Thus, Hercules offers a range of niche products around digital music and DJing. Thrustmaster produces video game accessories for most platforms, mainly intended for hardcore gamers but also casual gamers through more accessible ranges. The bulk of sales today are over 93% through Thrustmaster, hence the need for Guillemot to invest in Hercules to rebalance its activities.

Differentiation through added value

In a very competitive industry, Guillemot manages to stand out by actively screening the market through a "Design Thinking" approach, responsiveness to execution in relation to consumer expectations as well as continuous improvement of its ranges, evolving upwards. Guillemot thus adopts an added value strategy for the end user, with an opportunistic positioning, in targeted and dynamic segments.

The group focuses its efforts on the key stages of the value chain: 1 / sustained R&D activity, to continuously integrate technological innovations into its products 2 / proven sourcing know-how in Asia; 3 / mastery of marketing and promotion processes and 4 / a solid and internationalized distribution network.

Valuation methods

DCF

Following this press release, we are mainly adjusting our short-term operating margin estimates, with in particular current 2021 operating income now expected at € 28.5 million, while taking into account occasional higher working capital requirements.

After updating the WACC, the discounted free operating cash flow, with a weighted average cost of resources of 9.56%, values the share at € 28.70 per share.

Peer group

Guillemot does not have any direct comparable in Europe, so we made up our peer group of:

- 1) Bigben Interactive: French company whose core business is the design and production of video game accessories and audio products.
- 2) Innelec Multimedia: French company specializing in the distribution of digital multimedia products (video games, audio, etc.).
- 3) Bang & Olufsen: Danish group with recognized expertise in the design of high-end audiovisual devices (headphones, portable bluetooth speakers, etc.).

It should be noted that the Netgear and GN Store Nord players were excluded from our peer group, after a new review of it (products relevance and company size).

The valuation by stock market comparables shows a value of € 18.40 per share.

Our price target, obtained by the average of the DCF and Peer group methods, comes out to € 23.55 per share, implying an upside of + 95.9% on the share taking into account the Guillemot price of € 12.02 as at 23rd September 2021. **Strong Buy Opinion.**

SWOT

Strengths

- Capitalization on two strong brands: Hercules and Thrustmaster
- Important technological innovation and R&D know-how - Control of marketing and sourcing processes, great reactivity demonstrated in particular during the Covid-19 period
- Rewarding referencing by the specialized press

Weaknesses

- Geographic mesh that can still be improved
- Apart from the valuation of Guillemot's own activity, a market valuation that may be affected by changes in the market price of the Ubisoft shares held in the portfolio (down more than 30% since the beginning of the year)

Opportunities

- Very large installed base of previous generation consoles (around 165 million PS4 and Xbox One overall - Dec. 2020)
- Growth of e-sport, which should allow a greater recurrence of the video game props activity
- Constantly growing DJing segment, driven by digital convergence
- International large growth potential, especially in emerging countries

Threats

- Cyclicity of the video game market
- Difficulties in finding a significant overall level of activity on Hercules brand products

Investment case

2021: towards a new record year

With particularly impressive results for the first half of 2021 (current operating income of € 13.3 million, compared to € 3.1 million for the first half of 2020), Guillemot has inevitably taken the lead on guidance until then expressed by the management of the group, namely to show a level of current operating income for the whole year in excess of € 20 million.

While recognizing, like all market players, the current constraints linked to shortages of components and logistical tensions, Guillemot now believes that it is in a position to post very good results over the year as a whole, taking advantage of high inventory to enable it to meet demand as well as possible, especially at the end of the year.

Thus, management is maintaining its guidance for turnover to be greater than € 150 million (i.e. growth of more than 25% compared to fiscal year 2020) while raising its current operating income targets as being higher than at € 25 million.

Strong Buy Opinion reiterated, with a price target raised to € 23.55 per share

We remain convinced by the operational efforts made by the group in recent quarters, efforts now enabling Guillemot to take on business volumes in excess of € 30 million per quarter.

After updating our model, taking into account in particular a higher gross margin, while supporting more working capital requirements, the valuation of Guillemot comes out at € 23.55 per share.

Strong Buy Opinion on the share!



Sommaire

1	Presentation of the company and comments on the latest results	4
1.1	A qualitative niche positioning.....	5
1.2	Comments on the 2021 half-year results.....	7
1.3	It's all about anticipation!	8
1.3.1	Facing the challenges of supply and logistics.....	8
1.3.2	Guillemot well-armed to face these operational constraints	9
2	Forecasts FY 2021.....	9
3	Valuation	10
3.1	Discounted cash-flow valuation	10
3.1.1	Discount rate calculation	10
3.1.2	Enterprise value calculation	11
3.1.3	Price per share calculation	11
3.2	Comparable companies valuation (Peers)	12
3.2.1	Comparables selection.....	12
3.2.2	Valuation	13
3.2.3	Size discount / premium methodology	14
4	Summary of financial statements	15
4.1	Simplified income statement	15
4.2	Balance sheet – Main items	15
4.3	Cash flows statement – Main items.....	15
4.4	Financial ratios	16
5	Important disclosures	17
5.1	Genesta Equity Research ratings and target prices definition.....	17
5.2	Detection of potential conflicts of interest.....	17
5.3	Rating and target price evolution throughout the last 12 months.....	17
5.4	Ratings distribution	17
5.5	Additional disclosures	18

1 Presentation of the company and comments on the latest results

Guillemot Corporation specializes in the design and marketing of interactive entertainment equipment and accessories for PCs and video game consoles. The activities are organized around the two flagship brands of the group:

- **Hercules:** DJing and digital music products (mixing decks for amateur and semi-professional DJs on PC and iPad / Android, DJ headphones).

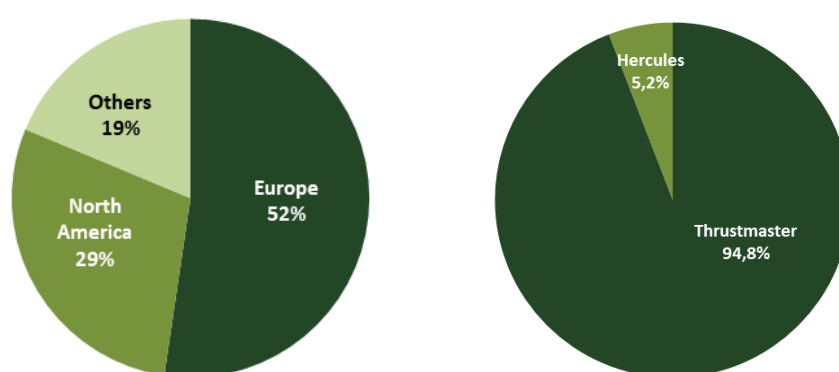
During the first half of 2021, this division represented around 5.2% of consolidated revenue, despite a tangible increase in activity of + 42% over the period (slight dilution of this part of the group's activities given of the stronger growth observed in accessories dedicated to video games). As a reminder, a few years ago, this segment underwent a strong change in its product mix, characterized by the abandonment of sales of multimedia speakers and webcams. Today, the Research and Development teams are focused on developing the group's Djing range in order to appeal to music amateurs and professionals. In this sense, the department presents encouraging news, like the very successful edition of the *DJControl Inpulse 500*, an edition including in particular the reference software brick *Serato DJ Pro*, but also the development and addition to its products of *Djuiced*-type proprietary software tools to help users in their learning.

- **Thrustmaster:** accessories for PC and for video game consoles, intended for the main home and portable consoles on the market and more specifically for consoles from Sony (PS3, PS4 and now PS5) and Microsoft (Xbox 360, Xbox One and now Xbox Series X/S). The main products of the group are divided into 4 universes, namely steering wheels, joysticks, gaming headsets and gamepads.

This division, which represented 94.9% of the group's total revenues during the first half of 2021, once again experienced significant growth in its activity during this period (+ 72%, reaching € 66.8 million in H1 2021), in particular during the 1st quarter with the releases of the new PS5 and Xbox Series X/S consoles (end of 2020). Following on from a year 2020 marked by the effects of the Covid-19 crisis, effects paradoxically favorable to the entire gaming industry, Guillemot's operational teams had managed to cope with very sustained demand (the confinement of populations particularly in the United States and Europe exploding online demand for simulation products in particular - steering wheels and joysticks). During the first part of 2021, this demand remained very strong, in all the geographical areas addressed by the group.

In addition, the very good positioning of the group in the e-sport segment, whose dazzling development in recent years suggests very interesting growth potential. This new discipline should support the sale of specific add-on product ranges (high-end steering wheel, gear lever, gamepad, joystick), a segment in which Guillemot is a key player, reflecting its leadership position in the American video game steering wheel market (around 40% market share in the United States in value in 2020, in a market growing by around + 50%).

Breakdown of sales for the first half of 2021 by geographic area and by activity:



Source: Guillemot

During the first half of 2021, Guillemot was able to benefit from very buoyant markets for its flagship products:

- growth of the steering wheels market in Europe of more than 40% (€ 61.1 million for the 5 main countries - Source GfK, Guillemot), an area in which the group has market shares of nearly 30%,
- growth of the steering wheels market in the United States of more than 100% (\$ 53 million - Source NPD Group Inc, Guillemot), a region where Thrustmaster has more than 30% market share, or

- growth of nearly 80% of the joystick market in Europe (€ 13.5 million for 5 main countries - Source GfK, Guillemot), area for which Guillemot is number 1 with its Thrustmaster brand with more than 60% of market shares.

We also note the clear contribution of Thrustmaster to the total turnover of H1 2021 (94.8%) and consequently the need today for Guillemot to invest in Hercules products in order to rebalance its activities.

1.1 A qualitative niche positioning

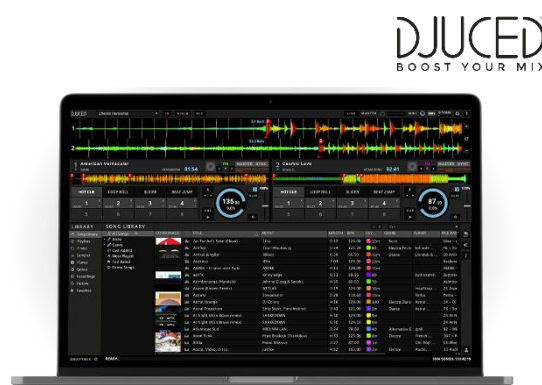
HERCULES: ERGONOMICS AND DESIGN

The Hercules brand brings together the range of multimedia products developed by the group. In this business segment, Guillemot is positioned and focuses today only on specific DJing products and digital music (Djuced software), with accessories associated with this ecosystem such as DJ speakers and headphones:

Djing products:



Digital music:



In these highly competitive audio sectors, it should be remembered that Guillemot's product mix is mainly targeted at dynamic consumption niches or high added value products. The company adopts a positioning of differentiation by use value, with products significantly different from those developed by its largest international competitors (Bose / Altec, Lansing on the audio universe). Thus, Guillemot does not necessarily seek to cover the entire consumer technological equipment industry, but endeavors to develop a coherent range articulated around specific product families on which the group knows it is able to offer differentiated added value to consumers.

Today, the group is particularly active and innovative on DJing consoles, including by integrating software tools into these products to facilitate users' learning of the musical mix (in particular the Djuced proprietary software).

While the first products developed by Guillemot mainly covered the entry and mid-range of the segments addressed, in order to penetrate competitive markets with competitive and quality offers, the company has gradually tended to adopt a strategy of increasing range as its experience curve increased. As such and in order to better target the specific expectations of consumers, the group now relies on Design Thinking, an immersive and collaborative innovation approach centered on the user experience.

Guillemot's strategy for its Hercules ranges therefore followed a two-step approach:

1st step: first, when entering a new market segment, adopting an entry-level positioning, with fairly attractive prices for quality products, with the aim of rapidly and significantly developing sales volumes and thus increase its notoriety among the general public for its new products;

2nd step: then, once this recognition has been acquired, the expansion of the group's ranges through the development of new, more successful and differentiated products, with a view to diversification and gradual upscaling, to gradually improve the profitability of each segment.

This was also the case for the DJing offer, Hercules having initially offered entry-level consoles which quickly experienced real success and enabled Hercules to improve its experience curve on this family of products. The company was thus able to work on the launch of new consoles, positioned more upscale, with more features and offering strong innovations.

In order to support the move upmarket of its consoles, Hercules has also developed DJing accessories, such as headphones and speakers dedicated to mixing.

THRUSTMASTER: AT THE CUTTING EDGE OF GAMING EXPERIENCE

The positioning adopted on the range of products developed under the Thrustmaster brand, which addresses the video game accessories market, is quite similar. Indeed, Thrustmaster developed in the late 1990s and early 2000s, primarily in the historically niche gamer segment, with a range of accessories at the cutting edge of technological innovation.

Thus, the brand has gradually won its letters of nobility with expert players:

- thanks to its partnership with *Ferrari* for the development under licenses of racing wheels;
- through its complete and high-end range of joysticks (*Hotas Warthog*);
- but above all thanks to the development and marketing of the top-of-the-range T500 RS steering wheel under licenses from Sony and *GranTurismo*, which has become the benchmark in its category.

The expertise and recognized quality of Thrustmaster products now allow the brand to enjoy strong recognition from console manufacturers, Thrustmaster having developed many wheels under PS3, then PS4 and Xbox One licenses.

Guillemot has thus acquired in recent years a strong experience of game accessories for gamers, players who constitute a very demanding target audience, encouraging the company to continually invest in R&D and thus maintain a very high level of know-how. For several years now, Thrustmaster has had a diversified and high-end range of gaming accessories, truly at the forefront of technological innovation (steering wheels, controllers, joysticks, flight simulators, gaming audio headsets, etc.). More and more, the company has complete product ecosystems addressing a universe, promoting the added value brought to consumers, as is the case on Racing (steering wheels + gearboxes + pedals + displays) or on Flying (joysticks + levers + pedals).

Thrustmaster is today among the leaders in Europe and North America with a full range of wheels on the most popular gaming platforms (PC, Xbox One and PS4) and this, with categories ranging from products entry-level to very high-end products.

Thrustmaster products offer:



Thanks to its position as a key player (in its flagship products, steering wheels and joysticks, the group has an undisputed leading position in the United States, with market shares in value of around 35% and 75% respectively), Thrustmaster is ideally placed to benefit from the growth of this sector requiring more and more high-performance and high-end accessories, and this on the basis of an increasingly recurring activity.

Gamers passionate about e-sport favor high-end accessories, a niche market targeted by the Thrustmaster ranges. This new gaming trend also supports the sale of add-on products in small series (gear levers, specific steering wheels), bringing additional growth to the segment.

1.2 Comments on the 2021 half-year results

TOWARDS A NEW HISTORICAL FISCAL YEAR FOR GUILLEMOT

During H1 2021, Guillemot recorded a turnover of € 70.5 million, a very significant increase of + 70% yoy, being reminded that the activity had already increased by + 63% during the first half of 2020 compared to the same period of 2019.

In details:

- **Thrustmaster**, a major contributor to the group's activity, recorded this half-year turnover of € 66.8 million (+ 72% yoy). This performance is in particular due to an extremely dynamic 1st quarter (+ 172%), following on from the release at the end of 2020 of the new generations of PS5 and Xbox Series X / S consoles.

The period was marked by great successes on the new products launched by the group, and in particular 1 / add-ons to the *Flying* environment accompanying the success of the *Thrustmaster Civil Aviation - Airbus range* (sales supported by the worldwide success of Microsoft's *Flight Simulator 2020* game) and 2 / the worldwide extended marketing of *Eswap X Pro Controller* gamepads and its new modules concept, after the enthusiasm met in the United States with expert critics at the end of 2020. Thrustmaster also launched during the first half of 2021 the marketing of its new wheel under Ferrari license, the *Formula Wheel Add-On Ferrari SF1000 Edition*, a real replica of the Formula 1 wheel.

Beyond this product news, the group is obviously maintaining its marketing efforts, in particular by sponsoring eSport competitions.

- The **Hercules** brand generated revenue of € 3.7 million, also a tangible increase of + 42%, but on the basis of a contribution that remains more limited. In particular, the Djing activity benefited from sales of the new edition of the *DJControl Inpulse 500*, an edition including in particular the reference software *Serato DJ Pro*.

Breakdown of 2021 half-year revenue by segment, in €m

In €m	H1 2019	H1 2020	H1 2021	% change (2020 vs 2019)	% change (2021 vs 2020)
Hercules	1,9	2,6	3,7	+37%	+42%
Thrustmaster	23,6	38,9	66,8	+65%	+72%
Total	25,5	41,5	70,5	+63%	+70%

Source: Guillemot

BASED ON THESE VERY POSITIVE H1 2021 RESULTS, THE GROUP IS AHEAD OF ITS GUIDANCE OF 2021 ANNUAL RESULTS

In H1 2021, Guillemot once again saw its operating results benefit from the volume effect linked to the very strong growth in its turnover. While underlining the operational efforts made, in particular on its workforce but also in terms of sales and marketing promotions, Guillemot posted very strong growth in results, with current operating income amounting to € 13.3 million, compared to € 3.1 million during the previous financial year.

Thus, this current operating profit represents nearly 18.9% of sales for the period, compared to 7.5% of sales in H1 2020 and allows Guillemot to be ahead of its initial current profit volume target over the entire year (Guidance of current operating income above € 20 million for the year as a whole, bearing in mind that the amount of current operating income recorded during H2 2020 was € 15.9 million...).

With regard to these H1 2021 results, it should be noted that there is only one shadow in the table, namely the decline in Ubisoft shares held in the portfolio, with the recognition in the accounts of an unrealized loss of € 8.8 million. Taking this impact into account in particular, Guillemot's net income for H1 2021 was € 3.7 million.

At the balance sheet level, the company still has a very healthy financial position, with shareholders' equity amounting to € 80.2 million as of June 30, 2021. On the same date, Guillemot posted negative net debt (cash net of bank loans of € 15.1 million), without taking into account the securities portfolio on Ubisoft shares (€ 26.2 million as of June 30, 2021).

The group also highlights in its press release the fact of having well prepared the second part of the fiscal year, in particular given the tensions on the supply of components and the logistical constraints. The net inventory level stood at € 26.7 million as of June 30, 2021, compared to € 15.8 million on the same date in 2020, giving us confidence that Guillemot can once again register its level of activity at steady growth in H2 2021.

H1 2021 consolidated income statement, in €m

(€m)	H1 2020	H1 2021
Sales	41,5	70,5
<i>% change</i>	<i>62,9%</i>	<i>69,7%</i>
Purchases	15,8	39,6
<i>% of sales</i>	<i>38,0%</i>	<i>56,1%</i>
Net change in inventory and raw materials	-4,4	7,7
Gross margin	21,4	38,6
<i>% of sales</i>	<i>51,5%</i>	<i>54,8%</i>
Staff costs	5,2	5,8
<i>% of sales</i>	<i>12,4%</i>	<i>8,2%</i>
Other costs	7,7	11,5
<i>% of sales</i>	<i>18,6%</i>	<i>16,3%</i>
Taxes and duties	0,3	0,3
Other current operating income and expenses	2,3	3,9
EBITDA	5,9	17,1
<i>% of sales</i>	<i>14,2%</i>	<i>24,3%</i>
Depreciation and amortization	2,8	3,8
Current EBIT	3,1	13,3
<i>% of sales</i>	<i>7,5%</i>	<i>18,9%</i>
Other non-current operating income and expenses	0,0	0,0
EBIT	3,1	13,3
<i>% of sales</i>	<i>7,5%</i>	<i>18,9%</i>
Cost of net financial debt	-0,1	0,0
Other financial income and expenses	5,4	-9,2
Financial result	5,3	-9,3
Profit before tax of consolidated companies	8,4	4,0
Income tax	1,1	0,3
Group net profit	7,3	3,7

Continued strong growth in both business divisions:
Thrustmaster at + 72%
Hercules at + 42%

A level of Gross Margin which rose sharply to stand at close to 55% of sales

Increase in operating costs (+ 38%) to support growth, although this increase remains weaker than the growth in sales

Volume effect playing fully on the increase in profitability, a current EBIT multiplied by 4 ...

A income statement bottom impacted by the downward trend in Ubisoft securities held in the portfolio (unrealized loss of € 8.8 million)

Source : Guillemot

1.3 It's all about anticipation!

1.3.1 Facing the challenges of supply and logistics

After an exceptional year 2020 for the gaming industry, a year marked by the acceleration in demand during the Covid-19 period and the release of the new Playstation 5 and Xbox Series X/S consoles, the gaming industry, and even mainstream entertainment today faces two major bottlenecks:

- The **shortage of components, and in particular semiconductors**, which are essential for the automotive industry in particular, but also for consumer electronics. After the over consumption resulting from the Covid-19 period (records of computer sales in 2020 for more than 10 years, for example), on the basis of a growth in consumption which remains very strong, the global production capacities of these components are outdated and cannot keep up with the increase. Even though major investment projects have been announced and launched, particularly in Europe, due to the challenges in terms of investment amounts (several tens of billions) and the time required for these new production lines to come into action, the situation should remain very tight for consumers of this type of component, probably for several years.
- The **tension of the logistics chains, in particular between Asia and the United States + Europe**, due to the faster-than-expected recovery of the world economy and certain more specific events (blockage of the Suez Canal, Brexit, etc.). In fact, the times but also the costs of transport have increased significantly over the past 12 months, with sea transport prices per container multiplied by more than 6 for example for journeys between Shanghai and Rotterdam.

1.3.2 Guillemot well-armed to face these operational constraints

We were able to observe during the acceleration of the Group's sales, throughout the entire 2020 financial year, that the teams were now in place at the operational level and that Guillemot had taken an important step by positioning itself in a sustainable manner as a player capable of assuming an activity volume of more than € 30 million per quarter.

Today, faced with the constraints presented above, the challenge for Guillemot remains to anticipate final consumer demand, and it is in this context that the group is highlighting the strengthening of its teams, particularly in Europe: at the Trade Marketing level (to follow and support the final consumers trend), at the commercial level (to closely follow the demand of its distributor customers) and, of course, at the logistics level (to ensure delivery in line with the orders recorded).

Based on a very healthy financial situation, Guillemot has no particular difficulty in taking on an extension of its sales cycle, even if this still consumes working capital resources. In addition, the quality of the products in the group's catalog, products acclaimed by professional critics and by end customers, facilitates the implementation of price increases to offset the increase in logistics and components costs, implementation already underway as Guillemot indicates it in its last press release.

2 Forecasts FY 2021

During the conference call for the presentation of its 2021 half-year results, the management confirmed the group's objectives in terms of sales volume, with still 2021 annual turnover expected in excess of € 150 million, while emphasizing forward a new target for current operating income as now expected to exceed € 25 million (compared to higher at € 20 million previously).

As a result, we are maintaining our expectations with regard to the topline, still with a 2021 turnover level estimated at over € 160 million. From the point of view of profitability, taking into account the advance taken in the first half of 2021, with in particular a level of gross margin above our estimates, we are reviewing our model and now anticipate current operating income of € 28.5 million for 2021.

As a reminder, Guillemot recognized in 2020 fiscal year a reversal of impairment on the Thrustmaster brand in the amount of € 4.1 million, which brought the 2020 operating profit to € 23.1 million.

Beyond operating income, Guillemot's financial income is, it should be remembered, highly dependent on the evolution of the share price of the Ubisoft security held in the securities portfolio. Thus, given the uncertain nature of the evolution of the share price of this security over time, we do not take into account in our forecast model the unrealized capital gains or losses realized on this securities portfolio. However, we obviously include in the valuation of Guillemot the value of this portfolio (fair value of Ubisoft securities held in the portfolio on the date of our publication), and this when calculating our value per share.

3 Valuation

3.1 Discounted cash-flow valuation

3.1.1 Discount rate calculation

The discount rate results from the weighted average rate between the capital cost and the cost of financial debt. The cost of capital is calculated based on the CAPM model to which is added a Small Caps risk premium according to the following formula:

$$\text{Cost of capital} = R_f + \beta * (R_m - R_f) + \text{Small Caps risk premium}$$

R_f: risk free rate
(R_m-R_f): stock market risk premium

Depending on the company size, we add a Small Caps premium to the cost of capital. The Small Caps premium is calculated according to six criteria which are objectively evaluated. For each criterium, there are five increments from - - de ++. Each move upwards adds 20 basis points to the cost of capital.

Please find below the criteria table:

Criterium	Notation scale				
	++	+	=	-	--
Company governance ¹	4	3	2	1	0
Liquidity ²	[66 % ; 100 %]	[33 % ; 66 %]	[15 % ; 33 %]	[5 % ; 15 %]	[0 % ; 5 %]
Revenues size (€m)	[150 ; +∞[	[100 ; 150[	[50 ; 100[	[25 ; 50[	[0 ; 25[
Operating profitability	[25 % ; 100 %]	[15 % ; 25 %]	[8 % ; 15 %]	[3 % ; 8 %]	[0 % ; 3 %]
Gearing	] -∞ % ; -15 %]	] -15 % ; 15 %]	] 15 % ; 50 %]	] 50 % ; 80 %]	] 80 % ; +∞ %]
Clients risks ³	[0 % ; 10 %]	] 10 % ; 20 %]	] 20 % ; 30 %]	] 30 % ; 40 %]	] 40 % ; 100 %]

In the case of Guillemot, we obtain the following matrix:

	++	+	=	-	--	Small Caps Premium
Company governance						1,00%
Liquidity						0,40%
Revenues size						0,40%
Operating profitability						0,40%
Gearing						0,20%
Clients risk						0,80%
TOTAL						3,20%

Consequently, on the basis of a risk-free rate of 0.01% (3-month average of the OAT TEC 10 - source Agence France Trésor), a market risk premium of 6.50% (sources: Risk Premia and Fairness Finance, Genesta estimate), a beta of the company of 0.98 (source Damodaran), a Small Caps risk premium of 3.20% and negative net debt as of December 31, 2020, the discount rate is 9.56%.

Risk Free Rate	Risk premium	Beta	Small Caps risk premium	Cost of capital	Cost of debt	Financial leverage	Tax rate	WACC
0.01%	6.50%	0.98	3.20%	9.56%	1.0%	-	28.0%	9.56%

Source: Agence France Trésor, Fairness Finance, Market Risk Premia, Damodaran, Genesta estimates

¹ Company's governance is evaluated through the 4 following criterions: separation of functions between president and top management or functioning as a supervisory board and a board of directors; presence of independent members in the board of trustees or in the supervisory board; presence of censors or control board; existence of specialized committees.

² Percentage of capital exchanged in the last 12 months.

³ Sales parts represented by the 5 most important clients.

3.1.2 Enterprise value calculation

With a discount rate of 9.56%, we obtain the following free cash flow statement sequence (in €m):

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	120,60	162,16	187,50	210,79	227,65	243,59	258,20	273,70	287,38	298,88	307,84
EBITDA	26,06	36,47	39,51	42,67	44,38	45,71	47,08	48,50	49,95	50,95	51,97
Tax (<i>theoretical</i>)		9,05	9,85	10,74	11,13	11,40	11,70	12,03	12,39	12,64	12,91
Capital expenditures	3,04	4,54	4,69	5,06	5,16	5,26	5,34	5,40	5,45	5,50	5,56
Impact of working capital variation		10,49	-0,52	-3,06	2,02	0,27	0,51	0,39	0,68	0,57	0,45
Operating FCFs		12,40	25,50	29,93	26,07	28,79	29,54	30,68	31,43	32,23	33,05
Discounted operating FCFs		12,12	22,75	24,37	19,38	19,53	18,29	17,34	16,21	15,18	14,21

Source: Genesta estimates

For the period following the forecasts, we apply a terminal growth rate in two times, and obtain the following table (in €m):

	FCFs growth	Value	%
1-10 years period		179,38	49,2%
11-20 years period	2,0%	92,75	25,4%
Terminal growth rate	1,5%	92,37	25,3%
Total		364,51	100,0%
Of which discounted terminal value		185,13	50,8%

Source: Genesta estimates

Thus, Guillemot enterprise value stands at € 364,51 million.

3.1.3 Price per share calculation

The table below details the final calculation of equity value per share:

Discounted FCFs (2021-2030)	179,38
+ Discounted terminal value	185,13
+ Financial assets	24,32
+ Assets consol. on an equity basis	
- Provisions	0,05
- Net financial debt	-18,20
- Minorities	
+ Discounted tax loss carry forward	31,82
= Group equity value	438,79
Number of shares	15,29
Share valuation	28,70

Source: Genesta estimates

Financial securities correspond to the current and non-current financial assets of the company and include, in particular, the valuation of Ubisoft securities held in portfolio at their fair value for € 24.3 million (market price as of September 23rd, 2021 from € 54.78).

Ultimately, the discounted cash flow method shows a value per share of € 28.70, i.e. a potential increase in value of + 138.8% compared to the closing price of September 23rd, 2020 from € 12.02.

As additional information, the following table summarizes the DCF valuation sensitivity to changes in the discount rate and terminal growth rate (in €):

		Growth rate to infinity				
		0,5%	1,0%	1,5%	2,0%	2,5%
CAPM	8,56%	29,59	29,96	30,37	30,84	31,38
	9,06%	28,77	29,12	29,52	29,97	30,48
	9,56%	27,98	28,32	28,70	29,13	29,63
	10,06%	27,23	27,55	27,92	28,33	28,80
	10,56%	26,50	26,82	27,17	27,56	28,02

3.2 Comparable companies valuation (Peers)

3.2.1 Comparables selection

Guillemot designs and develops a range of interactive entertainment products that revolve around: 1 / audio equipment and peripherals, through its Hercules brand, and 2 / PC accessories and video game consoles through the Thrustmaster brand, which gives it a fairly unique positioning compared to competitors who are often specialized in a range of products or even a few complementary segments. Guillemot is thus located at the crossroads of several competitive environments, and, in this sense, does not have a direct comparable, both in terms of size and positioning, whether in Europe or the United States.

Our peer group is therefore made up of three companies: Bigben Interactive, Innelec Multimedia and Bang & Olufsen.

Bigben Interactive: Bigben Interactive, a French company, is one of the European leaders in the design and distribution of video game accessories (Nacon sub-assembly), and is a direct competitor of Thrustmaster on the European market. Likewise, Bigben Interactive presents so-called Audio activities, which are similar in terms of models to Guillemot's activities under its Hercules brand.

Innelec Multimedia: Innelec Multimedia is a French company specializing in the distribution of multimedia products such as video game accessories, gaming and audio accessories, and other derivative products. Present in France but also internationally, the company offers its products on many multimedia supports, allowing it to reach a wide audience.

Bang & Olufsen: The Bang & Olufsen group has recognized expertise in the design of high-end audiovisual equipment. The company markets equipment suitable for mobile phones in particular (headsets, portable bluetooth speakers, speakers, etc.).

The table below summarizes the main aggregates, in €m, of the companies making up our peer group:

	Sales 20	Sales 21	Sales 22	EBITDA 20	EBITDA 21	EBITDA 22	EBIT 20	EBIT 21	EBIT 22	Net Inc. 20	Net Inc. 21	Net Inc. 22
Bigben Interactive	292,8	313,9	368,6	63,8	80,3	95,5	31,7	44,1	55,1	14,7	27,9	30,7
Innelec Multimedia	125,6	141,6	152,7	3,2	5,0	6,0	2,1	3,6	4,6	7,1	3,6	4,4
Bang & Olufsen	352,9	421,3	471,1	27,3	44,3	56,1	2,6	16,4	25,7	-3,1	12,5	23,4

Source: Infront Analytics

	Market cap.	Net debt	Minorities	EV
Bigben Interactive	328,8	-30,4	50,0	348,3
Innelec Multimedia	27,2	-4,3	0,0	22,9
Bang & Olufsen	526,2	-52,0	0,0	474,3

Source: Infront Analytics

3.2.2 Valuation

This table summarizes the ratios of comparable companies:

	EV / Sales 21	EV / Sales 22	EV / EBITDA 21	EV / EBITDA 22	EV / EBIT 21	EV / EBIT 22	PE 21	PE 22
Bigben Interactive	1,11	0,95	4,34	3,65	7,90	6,32	11,77	10,72
Innelec Multimedia	0,16	0,15	4,59	3,82	6,37	4,99	7,57	6,19
Bang & Olufsen	1,13	1,01	10,70	8,45	na	18,45	na	na
Average	0,80	0,70	6,54	5,31	7,13	9,92	9,67	8,45
Median	1,11	0,95	4,59	3,82	7,13	6,32	9,67	8,45

Source: Genesta. Infront Analytis

This table displays the implied valuations of Guillemot (in €m) according to the current valuation multiples of the comparables companies:

	Sales 21	Sales 22	EBITDA 21	EBITDA 22	EBIT 21	EBIT 22	Net Inc. 21	Net Inc. 22
Guillemot (€m)	162,16	187,50	36,47	39,51	28,51	31,01	27,41	29,81
Resulting valuation (€m)	203,93	205,70	312,92	284,00	277,77	381,92	339,36	326,38
	254,31	251,53	241,60	225,35	277,77	270,39	339,36	326,38
Average valuation (€ / share)	14,97		17,40		19,75		21,77	

Source: Genesta. Infront Analytis

It should be noted that the induced valuation of Guillemot is calculated on the basis of the multiples presented above and includes the valuation of its portfolio (Ubisoft shares held by the group) for € 24.3 million (as at September 23rd, 2021).

In addition, given the difference between the average market capitalization of the companies making up the peer group retained and that of Guillemot, we apply a size discount, based on the Eric-Eugène Grena model, presented in the methodological note below, in order to obtain a more relevant valuation of the security.

Applied to Guillemot, this method leads us to implement a slight size discount of -0.4% to the results mentioned above.

Average capitalization of comparable companies	€	294,1	m
Company capitalization (not adjusted)	€	282,4	m
Capitalization's ratio		96,0%	
Premium / Discount to apply		-0,4%	

After the application of this discount, we obtain the following valuation (€ / share):

Average valuation / share	14,91	17,33	19,67	21,69
Average	18,40			

Source: Genesta. Infront Analytis

The comparables method shows a value per share of between € 14.91 and € 21.69 per share, with an average of € 18.40, i.e. a potential increase in value of + 53.1% compared to the closing price on September 23rd, 2021 of € 12.02.

3.2.3 Size discount / premium methodology

Considering the possible gap between the peers' average market capitalization and the company's, Genesta implements a discount, or a premium, inspired by the Eric-Eugène Grena's model, in order to obtain a more relevant valuation of the company.

Works led by Eric-Eugène Grena – SFAF member, former director of BNP Paribas Equity Research and former partner at Clinvest – showed that there exists a risk to implement peers valuation approach without taking into account the existence of large gaps between the size of the valuated company and the one of its peers.

Thus, it seems important to make a correction by calculating a discount or a premium applied to the estimated company if necessary. The study, which has been made on a conclusive sample, revealed a decrease in the PE ratios regarding the peers' size and that the correction should be of the same order of extent.

The approach followed by Genesta consists in:

- 1) Calculating the ratio between the estimated company's market capitalization and the one of its peers;
- 2) Implementing, as stated by the previously calculated ratio, a discount or a premium according to the abacus defined by Eric-Eugène Grena while taking care of using a linear regression between each increment;
- 3) Applying this discount or premium to the estimated market capitalization of the valuated company and thus refining the peers estimation's relevance.

Capitalization ratio	Adjustment applied	
<2%	-40%	Discount
2%	-34%	
5%	-26%	
10%	-20%	
20%	-14%	
30%	-10%	
40%	-7%	
50%	-5%	
60%	-4%	
80%	-2%	
100%	0%	Premium
120%	2%	
140%	4%	
150%	5%	
160%	7%	
170%	10%	
180%	14%	
190%	20%	
195%	26%	
198%	34%	
>198%	40%	

4 Summary of financial statements

4.1 Simplified income statement

December 31st (€m)	2018	2019	2020	2021E	2022E	2023E
Sales	81,22	60,88	120,60	162,16	187,50	210,79
% change	1,0%	-25,1%	98,1%	34,5%	15,6%	12,4%
Gross margin	42,80	28,90	62,79	86,76	97,50	108,56
% of sales	52,7%	47,5%	52,1%	53,5%	52,0%	51,5%
Staff costs	9,35	9,78	11,00	12,80	14,60	15,20
% of sales	11,5%	16,1%	9,1%	7,9%	7,8%	7,2%
Other costs	15,73	13,15	17,55	25,13	28,12	31,62
% of sales	19,4%	21,6%	14,6%	15,5%	15,0%	15,0%
EBITDA	11,59	1,97	26,06	36,47	39,51	42,67
% change	16,5%	-83,0%	ns	40,0%	8,3%	8,0%
% of sales	14,3%	3,2%	21,6%	22,5%	21,1%	20,2%
EBIT	6,89	-2,59	23,08	28,51	31,01	34,02
% change	16,4%	ns	ns	23,5%	8,8%	9,7%
% of sales	8,5%	ns	19,1%	17,6%	16,5%	16,1%
Financial result	-0,13	-0,38	-0,27	-0,20	-0,20	0,00
Earnings before tax	6,76	-7,23	22,81	28,31	30,81	34,02
Income tax (after use of tax loss carry forwards)	-2,20	-0,81	0,70	0,90	1,00	1,50
Net income	12,15	-6,41	29,78	27,41	29,81	32,32
% change	-30,6%	ns	ns	-7,9%	8,7%	8,4%
% of sales	15,0%	ns	24,7%	16,9%	15,9%	15,3%
Minorities	0,00	0,00	0,00	0,00	0,00	0,00
Restated group net income	8,95	-2,46	22,12	27,41	29,81	32,32
% of sales	11,0%	ns	18,3%	16,9%	15,9%	15,3%

Continued increase in activity, with demand remaining very strong. Guillemot is able to meet demand, despite the tensions observed (components and logistics).

Net results largely profitable, benefiting from recovered operating profitability and the regular use of historical loss carry forwards.

4.2 Balance sheet – Main items

December 31st (€m)	2018	2019	2020	2021E	2022E	2023E
Intangible assets	11,12	11,40	15,43	15,43	15,43	15,43
Goodwill	0,00	0,00	0,00	0,00	0,00	0,00
Tangible assets	2,61	4,60	4,50	5,25	5,45	5,80
Financial fixed assets	0,39	0,27	0,45	0,39	0,39	0,00
Working Capital Requirements (WCR)	20,21	15,19	3,58	14,08	13,56	10,50
% of sales	24,9%	25,0%	3,0%	8,7%	7,2%	5,0%
Gross financial debts	11,87	16,03	10,87	10,03	7,03	5,00
Cash	4,01	5,85	29,02	49,35	83,50	122,47
Net debts (excluding Ubisoft portfolio)	7,86	10,18	-18,15	-39,32	-76,46	-117,47

Increased working capital requirements, due to the lengthening of sales cycles (storage of components and finished products).

4.3 Cash flows statement – Main items

December 31st (€m)	2018	2019	2020	2021E	2022E	2023E
Cashflow	14,05	2,10	25,10	35,37	38,31	40,97
Capital expenditures	3,09	3,02	4,58	4,54	4,69	5,06
% of sales	3,8%	5,0%	3,8%	2,8%	2,5%	2,4%
Impact of working capital requirements variation	12,38	-5,02	-11,61	10,50	-0,52	-3,06
Operating free cashflow	-1,41	4,11	32,12	20,33	34,14	38,98

Very strong increase in cash generation, due to increase in profitability, especially from 2022 after the normalization of the WCR effect (inventories).

4.4 Financial ratios

December 31st (€m)	2018	2019	2020	2021E	2022E	2023E
EPS (exclud. Ubisoft shares valuation change impact)	0,59	-0,16	1,45	1,79	1,95	2,11
% change	153,8%	ns	ns	23,9%	8,7%	8,4%
Market capitalization	50,45	36,99	102,73	183,76	183,76	183,76
Enterprise value	58,31	47,18	84,57	144,44	107,29	66,28
P/E restated	5,63	ns	4,64	6,70	6,16	5,68
P/Cashflow	3,59	17,62	4,09	5,20	4,80	4,48
Market to Book	0,87	0,73	1,29	1,72	1,34	1,09
EV / Sales	0,72	0,77	0,70	0,89	0,57	0,31
EV / EBITDA	5,03	ns	3,25	3,96	2,72	1,55
EV / EBIT	8,46	ns	3,66	5,07	3,46	1,95
EBITDA / Sales	14,3%	3,2%	21,6%	22,5%	21,1%	20,2%
EBIT / Sales	8,5%	ns	19,1%	17,6%	16,5%	16,1%
Net income / Sales	15,0%	ns	24,7%	16,9%	15,9%	15,3%
Gearing	13,5%	20,2%	-22,8%	-36,7%	-55,8%	-69,4%
Capital employed	34,33	31,46	23,95	35,15	34,83	32,12
Return on CE (includ. use of tax loss carry forwards)	26,5%	ns	93,4%	78,6%	86,2%	101,3%
Return on Equity	20,9%	ns	37,4%	25,6%	21,8%	19,1%

5 Important disclosures

5.1 Genesta Equity Research ratings and target prices definition

Genesta Equity Research stock market recommendations reflect the absolute change expected in the share price from a six to twelve-months perspective (in local currencies).

1. Strong buy	The absolute share price performance is expected to be at least +25 %
2. Buy	The absolute share price performance is expected to be comprised between +10 % and +25 %
3. Neutral	The absolute share price performance is expected to be comprised between +10 % et -10 %
4. Sell	The absolute share price underperformance is expected to be comprised between -10 % et -25 %
5. Strong Sell	The absolute share price underperformance is expected to be at least -25 %

Details of valuation methods used by Genesta Equity Research in target price calculations are available at www.genesta-finance.com.

5.2 Detection of potential conflicts of interest

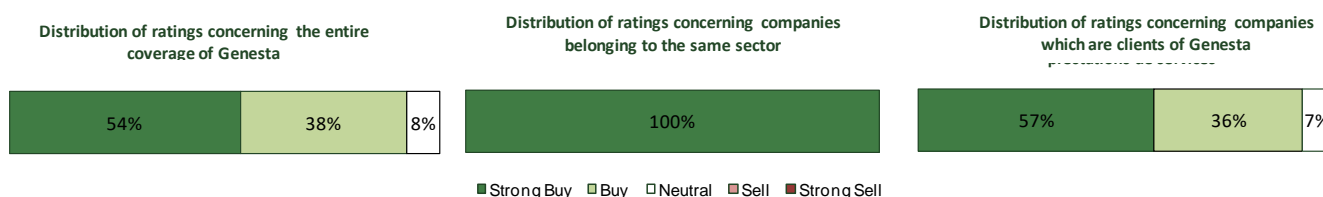
The analyst. Genesta or any of its employees is a shareholder of the issuer	The issuer subject of this report is a shareholder of Genesta	Other financial interest between Genesta and the issuer	Genesta is a market maker or liquidity provider in financial instruments issued by this issuer	Genesta has received compensation for the production of this research report	Genesta has received compensation for another service than the production of this research report	This research report was sent to the issuer before its publication
No	No	No	No	Yes	No	No

As a consultant in Independent Equity Research as defined by the AMF within its 'Règlement Général', Genesta refers to the administrative and organizational terms defined by this organisation for its internal functioning, in particular in compliance with the best practices regarding the management of conflicts of interests. Genesta strict internal procedures define aspects which are applied to its Equity Research activity. Additional information may be obtained upon written request to Genesta as to these operating rules.

5.3 Rating and target price evolution throughout the last 12 months

Date of 1 st publication	Rating	Target Price
September 27 th 2021	Semi-Annual Research Strong Buy	€ 23.55
August 2 nd 2021	Equity Flash Strong Buy	€ 20.30
May 3 rd 2021	Equity Flash Strong Buy	€ 21.25
March 29 th 2021	Annual Research Strong Buy	€ 18.80
February 1 st 2021	Equity Flash Buy	€ 12.45
November 2 nd 2020	Equity Flash Neutral	€ 8.80

5.4 Ratings distribution





5.5 Additional disclosures

The information herein is not complete and therefore cannot be considered as contractual.

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Only investors with sufficient knowledge and experience in financial and business matters to evaluate the relevant merits and risks should consider an investment in any issuer or market discussed herein. Neither Genesta nor any officer or employee of Genesta accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but Genesta makes no representation as to its accuracy or completeness and it should not be relied upon as such. All opinions and estimates herein reflect the judgment of Genesta on the date of this report and are subject to change without notice.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Genesta to any registration or licensing requirement within such jurisdiction. In particular, in the United Kingdom, Genesta further advises that this Research is solely intended to be delivered persons who qualify as defined in Rule 11 (3) du 'Financial Services Act 1986 (Investment Advertisement) (Exemption) order 1997'. The distribution of this research report in the United States or its distribution to any citizen of the United States is forbidden.

Genesta may have concluded a contract with the issuer subject of this report in order to produce one or several research reports which were previously sent to the issuer. However, Genesta may produce research reports concerning this issuer in an independent way.

Copyright 2010 Genesta. All rights reserved.