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Guillemot

Increase in the level of operating profitability

Comments on H1 2022 results

For H1 2022, as a reminder, Guillemot published sales of €98.1 million, up +38% YoY. The group's two business segments, Thrustmaster and Hercules, are up sharply, with increases of +39 % and +51 % respectively. Thrustmaster has benefited from the public's growing interest in car racing, and consequently in car games. The release of the F1® 22 game boosted sales. The "Flying" segment benefited from the release of the film Top Gun Maverick, resulting in new DLC for the Microsoft Flight Simulator game, thus boosting sales of air joysticks. The Hercules brand was boosted by the depth and relevance of its portfolio.

This strong increase in business volume was also combined with an increase in the gross margin (58 % vs. 55 %), linked to a good pass-through of cost increases to prices, despite a relative decline in the euro against the dollar over the period. EBIT reached € 25.0m over the period (25.5 % of sales vs. 18.9 % in H1 21), up +88 % YoY, a historically high level despite the group's sustained expenditure on marketing and staff.

Thanks to this effective cost control, Guillemot was able to post net income (group share) of € 18.1 million (vs. € 3.7 million in H1 21), a strong increase despite the slight impact of the € 0.5 million unrealized losses on Ubisoft shares. Earnings per share were € 1.18, compared with € 0.24 in H1 21.

A challenging second semester

As it has done for more than a year now, Guillemot has demonstrated its ability to deal with logistical constraints, both in terms of components and transport, which has enabled them to post record growth levels.

Although we believe that the growth drivers of the topline remain intact (linked to a still high level of inventory, a product pipeline that should notably allow the group to better penetrate the entry-level steering wheel segment, a niche accessory market that remains dynamic), some disruptions could occur on the profitability, both operational and net.

Indeed, the group will be impacted by the significant strengthening of the dollar against the euro at the beginning of the second half of the year, as well as by a significant drop in Ubisoft's share price over the last few months.

Operational still strong: Strong Buy reiterated!

Even if operational and financial factors could disrupt the share price, we remain confident in Guillemot's ability to grow, particularly in relation to solid operations (market share gains on steering wheels in Europe and the USA this summer) and upcoming news representing important relays for the company in the second half of the year (new products, new games).

Although more evasive, management reiterates its growth ambitions, expecting YoY EBIT to rise above € 33m, a more ambitious target than its last guidance of € 30m.

We remain optimistic about the stock. We are adjusting our TP downwards to € 17.00 / share (vs. € 19.70 prev.), EPS 2022 of € 2.20 (vs. € 2.24 prev.) **Strong Buy** opinion maintained on the stock.

Guillaume ANOMAN

Equity research analyst

guillaume.anoman@inextenso-finance.fr

+33 (0)6 47 25 53 79

Recommendation	1. Strong Buy
Closing Price on October 3 2022	€ 12.08
Target Price	€ 17.00 (+40.8%)

Market data

Reuters / Bloomberg Ticker	GTCN.PA / GUI:FP
Market capitalisation (€m)	184.7
Enterprise value (€m)	179.7
Free Float (€m)	55.83 (30.2 %)
Number of shares	15 287 480
Daily volume	€ 390 534
Capital turnover rate (1 year)	31.09%
High (52 weeks)	€ 16.54
Low (52 weeks)	€ 9.65

Performances

Absolute perf.	1 month	6 months	12 months
	-12%	-13.3%	3.1%



Current shareholding structure

Free Float: 30.2 % ; Guillemot Family: 69.5%
Treasury stocks: 0.3 %

Agenda

Q3 2022 turnover to be released on October 27th, 2022

Key figures

	2020	2021	2022E	2023E	2024E
Sales (€m)	120.6	176.8	212.0	233.5	252.7
Change (%)	98.1%	46.5%	20.0%	10.1%	8.2%
EBITDA (€m)	26.1	39.7	44.5	49.3	55.0
EBIT (€m) **	23.1	33.0	36.7	37.4	42.2
Ebit margin (%)	19.1%	18.7%	17.3%	16%	16.7%
Net profit gp (€m) *	22.1	30.0	33.6	35.7	40.5
Net margin (%) *	18.3%	17.0%	15.9%	15.3%	16%
EPS *	1.45	1.96	2.20	2.34	2.65

Ratios (Excluding Valuation of Ubisoft shares)

	2020	2021	2022E	2023E	2024E
EV / Sales	0.7	1.0	0.6	0.4	0.3
EV / EBITDA	3.2	4.5	2.9	2.0	1.2
EV / EBIT	3.7	5.4	3.5	2.6	1.5
P / E *	4.6	6.2	5.5	5.2	4.6
Gearing (%)	-23%	-6%	-63%	-73%	-75%
Net debt/EBITDA	-0.7	-0.1	-1.3	-1.8	-2.2
ROCE (%)	93%	49%	70%	84%	99%

* 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

Refer to important warnings at the end of the document. For additional information on In Extenso and its internal procedures, please consult the website <https://finance.inextenso.fr/debt-equity-advisory>.

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 95 % 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.

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

Opportunities

- Strong deployment of next generation consoles (Xbox Series & PS5)
- 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
- A recession that could dampen the dynamism of the entertainment market

Valuation methods

DCF

Following the publication of the H1 2022 results we are reviewing our growth scenarios for the company in the short and medium term: 2022 sales of € 212.0 million (+20.0 % YoY) and 2023 sales of € 233.5 million (+10.1 % YoY), combined with operating profit levels of € 36.7 million in 2022 and of € 37.4 million in 2023.

After updating the WACC, the discounted free operating cash flow, with a weighted average cost of resources of 14.56%, values the share at € 22.05 per share.

Comparables

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, telephony accessories and audio/video 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, speakers, etc.).

The valuation by stock market comparables shows a value of € 11.96 per share.

Our target price, obtained by the average of the DCF and Stock Market Comparison methods, is € 17.00 per share, implying an upside of +40.8 % on the value, taking into account Guillemot's share price of € 12.08 on October 03, 2022.

Strong Buy Opinion.

Investment case

Guillemot intends to continue its growth

Conscious of its ability to grow and wishing to conquer new market shares, Guillemot has significantly increased its R&D investments, which now represent € 6.6 million on the balance sheet (+€ 1.1 million), in order to accelerate the development of its product and service ranges, on behalf of its Thrustmaster brand, as well as for its DJing products under the Hercules brand.

The growth prospects expressed by the management are no longer quantified, in particular due to the uncertainties weighing on household consumption because of the current inflationary context. However, Guillemot still expects growth both in its top line and in its EBIT. Its top line should indeed benefit from new products allowing Guillemot to reach new price segments, but also to continue its growth in its niche markets.

Guillemot thus forecasts sales of more than € 176.8 million (turnover 21) for 2022 (€ 212.0 million estimated), as well as EBIT of more than € 33 million (€ 36.7 million estimated), i.e. a higher target than the previously expressed guidance of € 30 million.

Strong Buy opinion with a target price of € 17.00

Although the macroeconomic context is not in favour of entertainment (inflation, recession which does not favour the entertainment sectors, persistent logistical tensions), we believe that Guillemot's niche positioning, as well as the relevance of its offer (and that of its future offer) combined with the commercial efforts undertaken, will enable the company to resist this challenging environment while achieving its objectives.

After updating our model, Guillemot's valuation comes out at € 17.00 per share, i.e. a potential +40.8 %. **Strong Buy** opinion reiterated.

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1 Presentation of the company and comments on the latest results

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

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

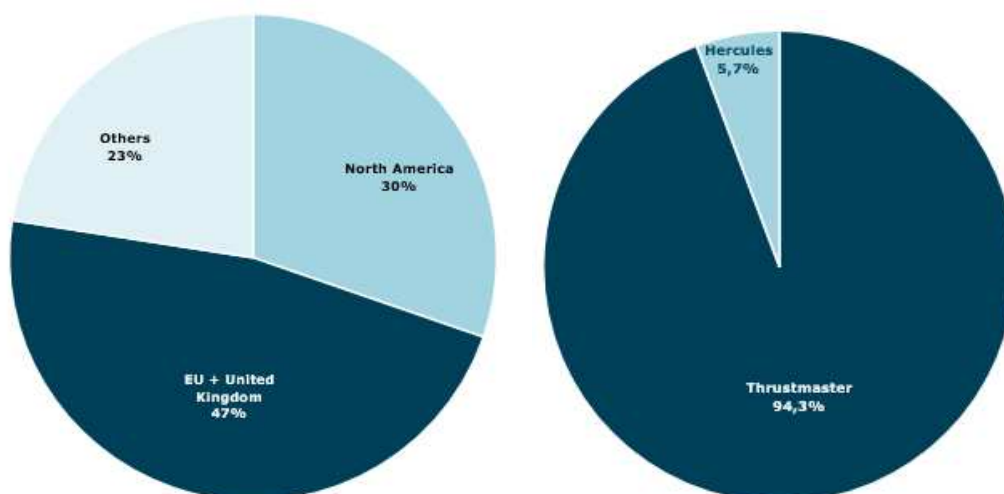
In the first half of 2022, this segment represented approximately 5.7 % of consolidated sales, despite a tangible increase in activity of +51 % over the period. As a reminder, this segment underwent a major change in its product mix a few years ago, characterised by the abandonment of sales of multimedia speakers (in favour of DJ speakers) and webcams. Today, the Research and Development teams are focusing on developing the group's DJing offering to appeal to music lovers and professionals. In this sense, the department has encouraging news, such as the partnerships signed in 2018 with the very first American distributors of music equipment (Jam Industries / American Music and Sound and Sweetwater.com for online sales), or the integration of Djuced-type software tools into its products to help users learn. By 2021, the company had integrated the *SoundCloud Go+ Streaming* service into its software, allowing users to enjoy suggestions for songs from the entire *SoundCloud Go+* catalogue.

- **Thrustmaster** : accessories for PCs and video game consoles, for the main home and portable consoles on the market and more specifically for Sony (PS3, PS4 and now PS5) and Microsoft (Xbox 360, Xbox One and now Xbox Series X/S) consoles. The group's main products are divided into 4 universes, namely racing simulation products, flight simulation products, controllers and audio accessories.

This division, which accounted for 94.3 % of the group's total revenues in the first half of 2022, saw very significant growth in its activity (+38 %, to € 92.5 million). Despite a high base effect and a challenging context, the brand has indeed shown strong growth thanks to a relevant strategy. The group was able to renew its offering, proposing its new Thrustmaster *T248* steering wheel for PS4/PS5/PC, as well as the *TCA Yoke Pack Boeing Edition*, an offer that was warmly welcomed by fans and critics alike. Once again, Guillemot's operational teams have successfully implemented a strategy of massive stocking and anticipation of deliveries, which has enabled the Group to record excellent figures for the first half of the year.

In addition, the group's very good positioning in the e-sport segment (partner of the Le Mans Virtual Series 2022/23, the Trackmania Cup, etc.), whose dazzling development over the last few years suggests a very interesting growth potential. This new discipline should support the sale of specific add-on product ranges (top-of-the-range steering wheel, gearstick lever, gamepad, controller), a segment in which Guillemot is a key player, in the image of its position as near leader on the American market for video game steering wheels.

Breakdown of H1 2022 sales by geographic area and by activity:



Source : Guillemot

During this half-year, Guillemot was able to increase its sales, particularly in Asia-Pacific and the United Kingdom, despite a dynamic that is less favourable than in previous periods. In detail:

- Growth of the steering wheel market in Europe of nearly 13 % (€ 69.6 million for the 5 main countries - Source: GfK, Guillemot), a zone within which Thrustmaster posted growth of +33.8 % over the period,
- Decline of the steering wheel market in the United States of nearly -15.6 % (\$ 44,8 million - Source NPD Group Inc, Guillemot), a region where Thrustmaster has only decreased by -5.6 %, or
- Growth of more than 31% in the joystick market in the USA (\$ 14.6 million - Source: GfK, Guillemot), an area in which Guillemot is number one with its Thrustmaster brand, with more than 52 % of the market share.

We note both Guillemot's ability to outperform the steering wheel market in its targeted markets, as well as Thrustmaster's clear contribution to sales in H1 2022 (94.3 %) and, consequently, the need for Guillemot to invest in Hercules products 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 (Djuiced 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 Djuiced proprietary software). Hercules also offers its DJUCED (Master) software on smartphones and tablets via Bluetooth technology, so that the user does not have to stand behind his console to mix.

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 Warthdog);
- But above all thanks to the development and marketing of the top-of-the-range T-GT II steering wheel under Sony and GranTurismo licenses, destined to become the reference in its category.

The expertise and recognized quality of Thrustmaster's products has enabled the brand to gain strong recognition among console manufacturers, with Thrustmaster having developed numerous steering wheels under PS3, PS4, PS5 and Xbox licenses (including the Xbox One and Series X/S).

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).

Today, Thrustmaster is the number two console steering wheel manufacturer in Europe and North America, with a complete range of steering wheels for the most popular gaming platforms (PC, Xbox One, the Xbox Series S/X, PS4 and PS5), with categories ranging from entry-level products 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 a quasi-leading position in the United States, being respectively number 2 and number 1 in terms of value in this zone. Thrustmaster is ideally positioned to benefit from the growth of this sector, which is demanding increasingly high-performance and high-end accessories, and this on the basis of an increasingly recurring activity.

Gamers who are passionate about *e-sports* prefer high-end accessories with advanced technology (such as force feedback steering wheels), a niche market targeted by Thrustmaster's product lines. This new gaming trend is also supporting 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 H1 2022 semi-annual results

EXCEPTIONAL HALF-YEAR ACTIVITY AT € 98.1M

As a reminder, during the first half of 2022, Guillemot announced sales of € 98.1 million, a significant increase of +39 % YoY, above our estimates (€ 94.1 million). Throughout the half-year, as in the last fiscal year, the group was able to increase its production levels and logistics capacities to guarantee consumer access to its products, despite a demanding global environment, both in terms of production and delivery.

In details :

- **Thrustmaster**, the major contributor to the group's activity, recorded a turnover of € 92.5 million over the period (+38 % YoY). Business was driven by the brand's two flagship segments, *Racing* and *Flying*, and the news concerning them. Indeed, during the first quarter of 2022, the release of the new opus of the *Gran Turismo* saga strongly boosted sales, in connection with the release of the *T-GT II* steering wheel under licence from *Sony* and *Gran Turismo*. In addition to this, the brand also saw the release of its flagship *T248* steering wheel on the *Microsoft Xbox Series S/X* and *Xbox One* consoles in the same quarter. During the second quarter, the release of the *F1 22®* game also increased sales of steering wheels and add-ons. In the *Flying* segment, the release of the movie *Top Gun Maverick*, resulting in a new DLC on the *Microsoft Flight Simulator* game, also gave a boost to sales of air joysticks. Finally, the gamepad products (*eSwap Pro Controller* and its new concept in the form of modules) and the new *eSWAP Pro S Controller* continue to be widely acclaimed by specialist critics, highlighting the quality and innovation provided, in particular via the new modules offered.
- The **Hercules** brand generated revenues of € 5.6 million, up +51 % YoY, but on the basis of a more limited contribution.

Breakdown of H1 2022 revenues by segment, in € million

€m	S1 2021	S1 2022	% Var
Hercules	3.7	5.6	+51 %
Thrustmaster	66.8	92.5	+38 %
Total	70.5	98.1	+39 %

Source : Guillemot

EXCEPTIONAL ACTIVITY, EXCEPTIONAL RESULTS

For the first half of 2022, Guillemot posted an exceptional level of operating profitability, with an EBIT of € 25.0 million, up +88 % YoY. The business volume effect has fully benefited the group's results, with the gross margin standing at over 58 % of sales, a level higher than H1 2021 (54.8%). This figure is even more impressive given that, in addition to logistical tensions and global inflation, the strengthening of the dollar against the euro was not favourable to the group. At the same time, operating expenses, although having increased due to both the rise in staff and salaries (+20.9 % YoY), but also the cost of production and transport of goods, remained under control and enabled the group to post an EBITDA margin of 28.9 % (compared to 24.3 % in H1 21), representing EBITDA of € 28.4m.

In contrast to H1 21, the financial result for H1 2022 was € 0.9m, of which € -0.5 m related to the holding of Ubisoft shares, i.e. unrealized losses well below those of H1 2021 (€ -8.8m). However, the excellent performance of the group's operating activities enabled the company to post net income of € 18.1 m (€ 18.6 m excluding the impact of Ubisoft).

In terms of the balance sheet, the company is strengthening its financial structure, which is already very healthy, with shareholders' equity of € 105.7 million at June 30, 2022. At this same date, Guillemot has a negative net debt of € -29.0 million, without taking into account the Ubisoft shares (€ 18.6 million at June 30, 2022).

Over the period, Guillemot has continued its strategy of anticipating deliveries and demand, thus further increasing its inventory levels, a high level that can also be partially explained by the upcoming release of several products. Although inventories are increasing, the level of trade receivables is down drastically compared to 31 December 2021 (€ -21.6m). The change in working capital requirements thus reached € -12.1m.

The collection of trade receivables leads to a largely positive cash flow from operations in H1 2022 at €33.6m, which is higher than both operating profit and net profit from operations, demonstrating the strength of the results.

Consolidated income statement H1 2022, in €m

(€m)	H1 2021	H1 2022	
Sales	70.5	98.1	Continued strong growth in both business segments: Thrustmaster at +38%, Hercules at +51%.
<i>% change</i>	69.7%	39.3%	
Purchases	39.6	51.5	An increase in gross margin level despite a challenging cost environment
<i>% of sales</i>	56.1%	52.5%	
Net change in inventory and raw materials	7.7	10.4	Increase in other costs due to an increase in marketing (mainly linked to the development of e-commerce sales)
Gross margin	38.6	57.0	
<i>% of sales</i>	54.8%	58.1%	Volume effect playing a major role in profitability growth, operating margin up tangibly
Staff costs	5.8	7.0	
<i>% of sales</i>	8.2%	7.1%	Financial results impacted by unrealized losses related to the holding of Ubisoft shares (unrealized loss of € 0.5 million)
Other costs	11.5	14.7	
<i>% of sales</i>	16.3%	15%	
Taxes and duties	0.3	0.5	
Other current operating income and expenses	-3.9	-6.5	
EBITDA	17.1	28.4	
<i>% of sales</i>	24.3%	28.9%	
Depreciation and amortization	3.8	3.4	
Current EBIT	13.3	25.0	
<i>% of sales</i>	18.9%	25.5%	
Other non-current operating income and expenses	0.0	0.0	
EBIT	13.3	25.0	
<i>% of sales</i>	18.9%	25.5%	
Cost of net financial debt	0.0	0.0	
Other financial income and expenses	-9.2	-0.9	
Financial result	-9.3	-0.9	
Profit before tax of consolidated companies	4.0	24.1	
Income tax	0.3	6.0	
Group net profit	3.7	18.1	

Source : Guillemot

1.3 Challenges to come

An adverse macroeconomic environment for consumer discretionary spending

In recent months, due to the ultra-accommodating policies of central banks during the pandemic, but also to the war in Ukraine, the world had entered a cycle of inflation that seemed unstoppable, forcing the various central banks to play the "fireman". The latter thus implemented so-called "hawkish" policies (i.e. monetary tightening), aiming to combat inflation "at all costs" even if it meant dragging the world into a recessionary cycle. Today, economists agree that the recession will be a hot topic in 2023, especially in Europe. Indeed, the old continent is extremely

affected by the energy crisis linked to the war in Ukraine, where the persistence of this (energy) crisis will be a driver of a more or less rapid reversal of this gloomy economic environment. In an unfavourable economic cycle, the consumer discretionary sector (and therefore the video game sector) is often affected. For example, research firm Ampere Games has lowered its 2022 game sales estimates to \$ 188 billion, resulting in a -1.2 % contraction in the sector.

However, the sub-segments targeted by Guillemot tend to grow strongly, and Guillemot tends to outperform its markets, even those with a downward trend (such as in the US on steering wheels in H1 2022). We therefore remain confident in Guillemot's ability to resist and stay the course in this uncertain environment.

Ongoing logistical tensions

As mentioned in our previous notes, logistical tensions continue to weigh on console and accessory producers. In particular, this reduces the sector's potential and puts pressure on the margins of the companies involved. However, there seems to be some improvement in shipping costs, with a relatively significant drop in the cost of shipping containers. In the midst of this turbulence, Guillemot has mobilised all its expertise and resources to continue to deliver to its customers, release new products and pursue its growth roadmap.

The company's inventory levels at 30 June 2022 suggest that the company remains largely ready to be present both on the shelf and online (in line with the group's sustained efforts to establish its presence on the various marketplaces) during the important events of this end of year (Black Friday, Christmas, game releases).

2 2022 forecasts

At the 2022 half-year results presentation meeting, management, although no longer giving a precise target for turnover and current operating profit, was still confident in its ability to grow over the year, both in terms of turnover and current EBIT. As a reminder, the target previously communicated was sales of more than € 200m and current EBIT of more than € 30m. Although the guidance is becoming less clear, probably due to the tense video game market (itself impacted by the recessionary climate), we remain confident in the company's ability to grow relatively strongly.

Indeed, in terms of the topline, the company will benefit from the release of new products at the end of the fiscal year, particularly certain entry-level products. We believe that these products, due to their attractive price, will make it possible to limit the effects of the recession and galloping inflation on the sale of Thrustmaster products. In addition, the efforts made in terms of marketing and commercial presence, particularly in mass-market shops (Walmart, Best Buy, for example), will, in our opinion, play a large role in favour of entry-level products. We also believe that the more extensive line-up at the end of the year and the traditional end-of-year events will support growth in business volumes.

We therefore forecast FY 2022 sales of € 212.0m, resulting in +20 % YoY growth in the topline. Operating profitability in the last half of the year could be somewhat affected by several factors. Firstly, the strengthening of the dollar against the euro should, as for many comparable companies, have a negative impact on the gross margin. In addition, due to the rise in prices and salaries, operating expenses, although to a lesser extent than turnover, will also increase. Finally, it should also be noted that a product mix more favourable to entry-level products is expected in the second half of the year, which should impact profitability per product sold. Our 2022 operating profit forecast is € 36.7m, above management's guidance of an EBIT above € 33m (FY 2021 operating profit).

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

3 Valuation

3.1 DCF

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 Cap risk premium according to the following formula:

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

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 governance¹	4	3	2	1	0
Liquidity²	[66 % ; 100 %]	[33 % ; 66 %]	[15 % ; 33 %]	[5 % ; 15 %]	[0 % ; 5 %]
Revenues size (Cm)	[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 risks³	[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, based on a risk-free rate of 2.54 % (spot rate of the TEC 10 OAT - source Agence France Trésor), a market premium of 7.50 % (sources : Risk Premia and Fairness Finance, In Extenso estimate), a company beta of 1.18 (source Damodaran), a Small Caps risk premium of 3.20 % and a negative net financial debt at December 31, 2021 (absence of financial leverage), the discount rate amounts to 14.56 %.

Risk-free rate	Risk premium	Beta	Small Caps risk premium	Cost of capital	Cost of debt	Financial leverage	Tax rate	WACC
2,54%	7,50%	1,18	3,20%	14,56%	1,8%	0,00%	26,0%	14,56%

Source: Agence France Trésor, Fairness Finance, Market Risk Premia, Damodaran, In Extenso 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.

Enterprise value calculation

With a discount rate of 14,56 %, we obtain the following free cash flow statement sequence (in €m):

	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenues	176.76	212.04	233.47	252.66	267.82	281.21	295.27	310.04	325.54	338.56	348.72
EBITDA	39.68	44.53	49.26	54.99	57.19	58.91	60.67	62.49	64.37	65.66	66.97
Tax (<i>theoretical</i>)		10.69	11.91	13.36	13.81	14.12	14.47	14.88	15.33	15.63	15.97
Capital expenditures	5.44	6.36	7.00	7.58	8.26	8.43	8.68	8.85	9.08	9.30	9.53
Impact of working capital variation		-13.66	-5.78	-2.00	-3.77	0.03	0.44	0.30	0.78	0.65	0.51
Operating FCFs		41.14	36.12	36.05	38.88	36.33	37.08	38.46	39.19	40.07	40.95
Discounted operating FCFs		36.44	32.00	27.88	26.25	21.40	19.07	17.27	15.36	13.71	12.23

Source : In Extenso Financement & Marché 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		221.59	69.4%
11-20 years period	2.0%	63.94	20.0%
Terminal growth rate	1.5%	33.84	10.6%
Total		319.37	100.0%
Of which discounted terminal value		97.78	30.6%

Source : In Extenso Financement & Marché estimates

Thus, Guillemot enterprise value stands at € 221,59 million.

Price per share calculation

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

Discounted FCFs (2022-2031)	221.59
+ Discounted terminal value	97.78
+ Financial assets	12.76
+ Assets consol. on an equity basis	0.00
- Provisions	0.06
- Net financial debt	-5.16
- Minorities	0.00
+ Discounted tax loss carry forward	0.00
= Group equity value	337.07
Number of shares	15.29
Share valuation	22.05

Financial securities correspond to the company's current and non-current financial assets and include, in particular, the valuation of the Ubisoft shares held in the VMP portfolio at their fair value of € 12.8 million (stock market price at October 03, 2022 of € 28.75).

Ultimately, the discounted free cash-flow method shows a value per share of € 22.05, i.e. a potential appreciation in value of +82.5 % compared with the closing price of € 12.08 on October 03, 2022.

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	8,8%	28.63	28.76	28.91	29.06	29.24
	9,3%	27.92	28.05	28.19	28.34	28.50
	14,6%	21.87	21.96	22.05	22.15	22.26
	10,3%	26.58	26.70	26.83	26.97	27.12
	10,8%	25.95	26.07	26.19	26.33	26.47

3.2 Comparable companies valuation (Peers)

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 22	Sales 23	EBITDA 22	EBITDA 23	EBIT 22	EBIT 23	Net Inc. 22	Net Inc. 23
Bigben Interactive SA	400.0	425.3	90.7	102.3	55.9	64.8	32.0	37.0
Innelec Multimedia SA	141.5	150.1	4.2	4.5	2.5	2.7	1.4	2.0
Bang & Olufsen A/S	363.5	382.2	14.9	25.0	-7.4	2.0	-9.5	-0.6

Source : FactSet

	Market cap.	Net debt	Minorities	EV
Bigben Interactive SA	192.3	65.6	50.0	308.0
Innelec Multimedia SA	14.5	-9.6	0	4.9
Bang & Olufsen A/S	150.2	-14.1	0	136.1

Source : FactSet

Valuation

This table summarizes the ratios of comparable companies:

	EV / Sales 22	EV / Sales 23	EV / EBITDA 22	EV / EBITDA 23	EV / EBIT 22	EV / EBIT 23	PE 22	PE 23
Bigben Interactive SA	0.77	0.72	3.40	3.01	5.51	4.76	6.02	5.20
Innelec Multimedia SA	0.03	0.03	1.18	1.09	1.97	1.82	10.24	7.44
Bang & Olufsen A/S	0.37	0.36	9.13	5.45	na	na	na	na
Average	0.39	0.37	4.57	3.18	3.74	3.29	8.13	6.32
Median	0.37	0.36	3.40	3.01	3.74	3.29	8.13	6.32

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

	Sales 22	Sales 23	EBITDA 22	EBITDA 23	EBIT 22	EBIT 23	Net Inc. 22	Net Inc. 23
Guillemot (€m)	209.74	230.91	45.85	56.07	36.42	44.35	32.94	42.65
Resulting valuation (€m)	101.11	104.39	221.17	174.64	154.89	140.79	291.17	243.44
Average valuation (€ / share)	6.6		11.95		9.67		17.49	

It should be noted that the valuation of Guillemot is calculated on the basis of the multiples presented above and includes the valuation of the VMP portfolio (Ubisoft shares held by the group for € 12.8 million at the October 3, 2022 price).

In addition, given the difference between the average market capitalization of the companies in the sample of comparables 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 stock.

Applied to Guillemot, this method leads us to apply a size premium of 4.7 % to the results mentioned above.

Average capitalization of comparable companies	€	119,0	m
Company capitalization (not adjusted)	€	174,7	m
Capitalization's ratio		146,8%	
Premium / Discount to apply		4,7%	

After applying the premium, we obtain the following valuations:

Average valuation / share	6,91	12,51	10,12	18,30
Average	11,96			

The comparables method shows a value per share of between € 6.91 and € 18.30, with an average of € 11.96, i.e. a potential depreciation in value of -1.0 % compared with the closing price of € 12.08 on 03 October 2022.

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 valued 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 valued 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)	2020	2021	2022E	2023E	2024E
Sales	120.62	176.76	212.04	233.47	252.66
% change	98.1%	46.5%	20.0%	10.1%	8.2%
Gross margin	62.81	96.15	116.25	123.74	133.91
% of sales	52.1%	54.4%	54.8%	53.0%	53.0%
Staff costs	11.00	12.83	15.97	18.00	18.00
% of sales	9.1%	7.3%	7.5%	7.7%	7.1%
Other costs	17.55	31.37	40.29	39.00	42.00
% of sales	14.6%	17.7%	19.0%	16.7%	16.6%
EBITDA	26.07	39.68	44.53	49.26	54.99
% change	ns	52.2%	12.2%	10.6%	11.6%
% of sales	21.6%	22.4%	21.0%	21.1%	21.8%
EBIT	23.08	33.00	36.68	37.41	42.17
% change	ns	43.0%	11.1%	2.0%	12.7%
% of sales	19.1%	18.7%	17.3%	16.0%	16.7%
Financial result	-0.27	-0.11	-0.05	0.00	0.00
Earnings before tax	22.81	32.89	36.63	37.41	42.17
Income tax (after use of tax loss carry forwards)	0.70	2.89	3.00	1.50	1.50
Net income	29.78	13.71	30.63	35.71	40.47
% change	ns	-54.0%	123.4%	16.6%	13.3%
% of sales	24.7%	7.8%	14.4%	15.3%	16.0%
Minorities	0.00	0.00	0.00	0.00	0.00
Restated group net income	22.12	30.00	33.63	35.71	40.47
% of sales	18.3%	17.0%	15.9%	15.3%	16.0%

Continued increase in activity, as demand remains strong and Guillemot's ability to address its markets is growing, thanks in particular to its commercial efforts.

An operating margin under pressure from an inflationary and uncertain environment

Net income benefiting from a controlled and growing operating income

4.2 Balance sheet – Main items

December 31st (€m)	2020	2021	2022E	2023E	2024E
Intangible assets	15.43	16.18	16.18	16.18	16.18
Goodwill	0.00	0.00	0.00	0.00	0.00
Tangible assets	4.50	5.18	5.45	5.80	5.80
Financial fixed assets	0.45	0.47	0.47	0.47	0.47
Working Capital Requirements (WCR)	3.58	39.93	26.28	20.50	18.50
% of sales	3.0%	22.6%	12.4%	8.8%	7.3%
Gross financial debts	10.87	6.87	3.87	3.80	3.80
Cash	29.02	12.03	60.80	92.13	124.84
Net debts (excluding Ubisoft portfolio)	-18.15	-5.16	-56.93	-88.33	-121.04

Working capital requirements gradually decreasing as a result of reduced logistical pressures over the next few years

4.3 Cash flows statement – Main items

December 31st (€m)	2020	2021	2022E	2023E	2024E
Cashflow	25.11	36.68	41.48	47.56	53.29
Capital expenditures	3.55	5.44	6.36	7.00	7.58
% of sales	2.9%	3.1%	3.0%	3.0%	3.0%
Impact of working capital requirements variation	-11.61	36.35	-13.66	-5.78	-2.00
Operating free cashflow	33.18	-5.11	48.77	46.33	47.71

Net cash flow benefiting from the profitability of investments made by the group

Restated net income (group share) data presented excluding capital gains or losses on Ubisoft shares held.

4.4 Financial ratios

December 31st (€m)	2020	2021	2022E	2023E	2024E
EPS (exclud. Ubisoft shares impact)	1.45	1.96	2.20	2.34	2.65
% change	ns	35.6%	12.1%	6.2%	13.3%
Market capitalization	102.73	184.67	184.67	184.67	184.67
Enterprise value	84.57	179.51	127.74	96.34	63.63
P/E restated	4.64	6.16	5.49	5.17	4.56
P/Cashflow	4.09	5.03	4.45	3.88	3.47
Market to Book	1.29	2.32	2.04	1.53	1.14
EV / Sales	0.70	1.02	0.60	0.41	0.25
EV / EBITDA	3.24	4.52	2.87	1.96	1.16
EV / EBIT	3.66	5.44	3.48	2.58	1.51
EBITDA / Sales	21.6%	22.4%	21.0%	21.1%	21.8%
EBIT / Sales	19.1%	18.7%	17.3%	16.0%	16.7%
Net income / Sales	24.7%	7.8%	14.4%	15.3%	16.0%
Gearing	-22.8%	-6.5%	-63.0%	-73.0%	-74.9%
Capital employed	23.95	61.76	48.37	42.95	40.95
Return on CE (includ. use of tax loss carry forwards)	93.4%	48.8%	69.6%	83.6%	99.3%
Return on Equity	37.4%	17.2%	33.9%	29.5%	25.1%

5 Important disclosures

5.1 In Extenso Financement & Marché ratings and target prices definition

In Extenso Financement & Marché 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 % and -10 %
4. Sell	The absolute share price performance is expected to be comprised between -10 % and -25 %
5. Strong Sell	The absolute share price performance is expected to be at least -25 %

Details of valuation methods used by In Extenso Financement & Marché in target price calculations are available at www.genesta-finance.com.

5.2 Detection of potential conflicts of interest

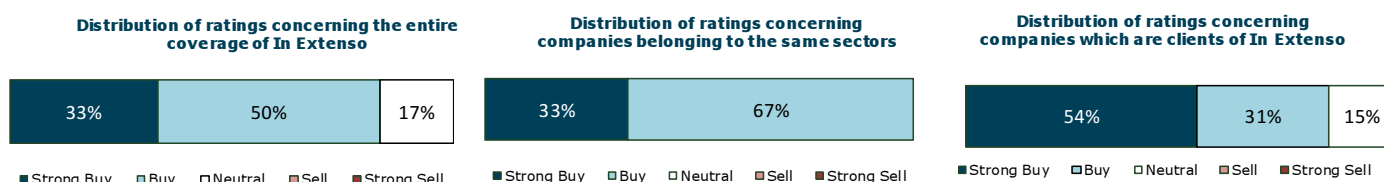
The analyst, In Extenso or any of its employees is a shareholder of the issuer	The issuer subject of this report is a shareholder of In Extenso	Other financial interest between In Extenso and the issuer	In Extenso is a market maker or liquidity provider in financial instruments issued by the issuer	In Extenso has received compensation for the production of this research report	In Extenso 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

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5.3 Rating and target price evolution throughout the last 12 months

Date	Opinion	Objectif de cours
October 4 th 2022	Semi-annual Research Strong Buy	€ 17.00
August 1 st 2022	Equity Flash Strong Buy	€ 19.70
July 5 th 2022	Sectoral study Strong Buy	€ 19.65
May 2 nd 2022	Equity Flash Strong Buy	€ 19.30
March 30 th 2022	Annual Research Strong Buy	€ 19.60
January 31 st 2022	Equity Flash Strong Buy	€ 26.50
November 2 nd 2021	Equity Flash Strong Buy	€ 24.50

5.4 Ratings distribution



5.5 Additional disclosures

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

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