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Guillemot

A year 2021 in full swing!

2021 : a challenging but still growing market

Due to a very high comparison basis for Guillemot (revenues +98.1 % in 2020), but also due to relatively low editorial news, 2021 is a pivotal year for the group. Guillemot has indeed met the challenges specific to its business sector to post historic 2021 results: 2021 sales up 47 % to € 176.8 M. Throughout the year, the group has been 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. Despite a weak editorial situation, particularly in the area of car games, the group has been able to continue its growth trajectory thanks to its relevant and diversified product mix.

The video game sector in 2021 was challenged by the consequences of the recent pandemic: a rather weak schedule of game releases due to the drop in productivity of publishing houses (working remotely, delay of certain major titles), and logistical tensions leading to difficulties in the supply of components necessary for players positioned in the hardware sector.

Attractive outlook for 2022

In our opinion, the year 2022, in conjunction with a greater number of editorial news items and more important deliveries, should show tangible growth in the video game sector. This growth will, according to our estimates, be driven by digital and the rapid development of cloud gaming.

Guillemot has reiterated its guidance of sales of over € 200 M and expects operating income of over € 30 M. By comparison, we expect 2022 sales of € 209.7 M and operating income of € 36.4 M.

Exceptional level of profitability in 2021

Guillemot posted an exceptional level of operating profitability, with an operating income of € 33.0 M, up 74 % YoY. The increased volume of activity has fully benefited Group's results, with gross margin over 54 % of sales, above that of 2020 (52.1 %). At the same time, operating expenses remained under control, although due to the increase in the workforce (+18 %) and therefore in personal expenses, and also due to the cost of production and goods shipping. Thanks to that, the group to posted an EBITDA of € 39.7m, reflecting an EBITDA margin of 22.4 % (21.6 % in 2020).

Despite a negative financial result (-€ 16.4 M due to an unrealized loss of €15.9 M on Ubisoft shares held in the portfolio), net income was € 13.7 M, and a dividend of €0.25 per share has been proposed.

Growth driver intact: Strong Buy reiterated!

Following this publication, we revised our growth scenarios for the coming years (EPS 2022^e at € 2.15 vs. € 2.53), taking into account the voluntarism expressed by management and the favorable outlook for the Gaming market, which remains the main driver of the stock.

We remain optimistic about the stock. We adjusted our TP to € 19.60 / share (vs. € 26.50), updating our model risk-free rate (increase in the 10-year OAT) and risk premium. Strong Buy on the stock.

Guillaume ANOMAN

Equity research analyst
guillaume.anoman@inextenso-finance.fr
+33 (0)6 47 25 53 79

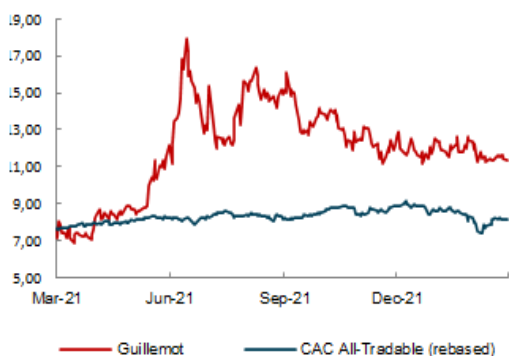
Recommendation	1. Strong Buy
Closing Price on 28 March 2022	€ 14.24
Target Price	€ 19.60 (+37.6%)

Market data

Reuters / Bloomberg Ticker	GTCN.PA / GUI:FP
Market capitalisation (€m)	217.7
Enterprise value (€m)	212.5
Free Float (€m)	65.81 (30.2 %)
Number of shares	15 287 480
Daily volume	€ 483 313
Capital turnover rate (1 year)	32.64%
High (52 weeks)	€ 16.54
Low (52 weeks)	€ 11.18

Performances

Absolute perf.	1 month	6 months	12 months
	10%	16%	-9%



Current shareholding structure

Free Float: 30.2 % ; Guillemot Brothers & Co: 69.49%
Treasury stocks: 0.28 %

Agenda

Q1 2021 Turnover to be released on April 28th, 2022

Key figures

	2020	2021	2022E	2023E	2024E
Sales (€m)	120.6	176.8	209.7	230.9	249.8
Change (%)	98.1%	46.5%	18.7%	10.1%	8.2%
EBITDA (€m)	26.1	39.7	45.9	56.1	62.3
EBIT (€m) **	23.1	33	36.4	44.4	49.7
Ebit margin (%)	19.1%	18.7%	17.4%	19.2%	19.9%
Net profit gp (€m) †	22.1	30	32.9	42.7	48
Net margin (%) *	18.3%	17%	15.7%	18.5%	19.2%
EPS *	1.45	1.96	2.15	2.79	2.79

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

** Including, during FY 2020, a 14.1m recognition as reversal of impairment on the Thrustmaster brand

Ratios (Excluding Valuation of Ubisoft shares)

	2020	2021	2022E	2023E	2024E
EV / Sales	0.7	1.1	0.7	0.5	0.3
EV / EBITDA	3.2	5.1	3.2	2	1.1
EV / EBIT	3.7	6.1	4.1	2.5	1.4
P / E *	4.6	7.3	6.6	5.1	4.5
Gearing (%)	-23%	-21%	-77%	-90%	-88%
Net debt/EBITDA	-0.7	-0.4	-1.5	-1.9	-2.4
ROCE (%)	93%	49%	68%	100%	118%

Refer to important warnings at the end of the document. For additional information on In Extenso 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 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 (down more than 16% since last month)

Opportunities

- Strong deployment of next generation consoles (Xbox Series & PS5) combined with the release of *Gran Turismo 7*
- 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

Valuation methods

DCF

Following the publication of the 2021 results and in view of the confidence expressed by management, we are reviewing our growth scenarios for the company in the short and medium term: 2022 sales of € 209.7 million (+18.7 % YoY) and 2023 sales of € 230.9 million (+10.1 % YoY), combined with operating profit levels of € 36.4 million in 2022 and of € 44.4 million in 2023.

After updating the WACC, the discounted free operating cash flow, with a weighted average cost of resources of 13.00%, values the share at € 25.53 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 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, 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 € 13.67 per share.

Our target price, obtained by the average of the DCF and Stock Market Comparison methods, is € 19.60 per share, implying an upside of +37.6 % on the value, taking into account Guillemot's share price of € 14.24 on March 28, 2022.

Strong Buy Opinion.

Investment case

Guillemot intends to support its addressed markets

Taking into account the major accelerations underway in the video game industry, Guillemot will significantly increase its investments (€ 6.5 million invested in R&D in 2021) in order to accelerate the development of its product ranges and services, on behalf of its Thrustmaster brand, but also for its DJing products under the Hercules brand.

The growth prospects revealed by the performance recorded during the 2021 fiscal year make Guillemot's management aware of the medium-term growth potential for its two business segments.

Guillemot is thus putting forward a sales guidance of more than € 200 million for 2022, i.e. a substantial growth of nearly +13 %, considering the efforts made in 2021 on its production capacities, the multiplication of addressed distribution networks, but also a better editorial calendar.

A new operating profitability profile

During the presentation of its 2021 results, Guillemot demonstrated the operational leverage possible on its activities, with a level of ROC 2021 corresponding to more than 18.5 % of its sales.

As the Group has worked extensively on its supply and production capacities while having clearly defined its distribution strategy (relevant choice of channels), we consider that Guillemot will be able to post operating margin rates approaching 20 % in the future.

Strong Buy Opinion reiterated, with a target price of € 19,60

After updating our model, Guillemot's valuation comes out at € 19.60 per share, i.e. a potential +37.6 %. 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).

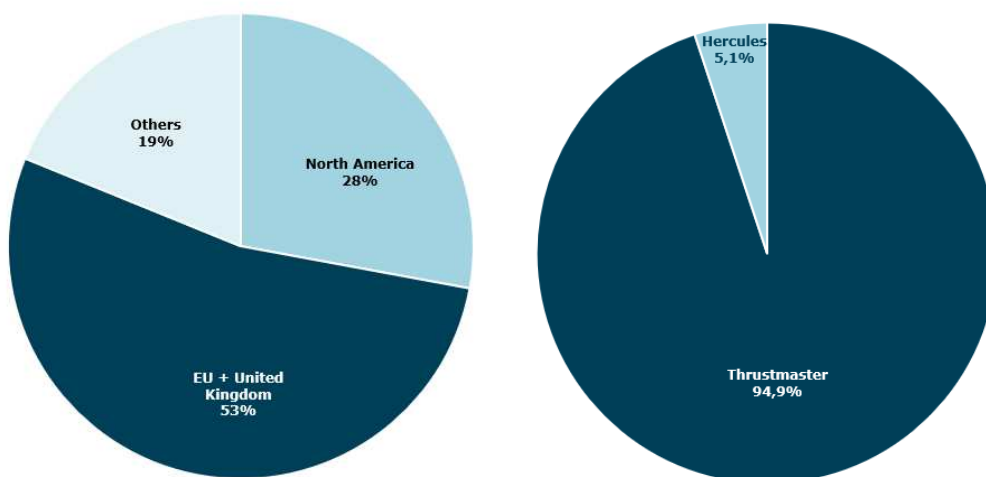
In fiscal year 2021, this segment represented approximately 5.1 % of consolidated revenues, despite a tangible increase in activity of +13 % over the period. As a reminder, this segment underwent a major change in its product mix a few years ago, with the discontinuation of sales of multimedia speakers and webcams. Today, the Research and Development teams are focused on developing the group's Djing range in order to appeal to music lovers and professionals. In this sense, the department has encouraging news, such as the partnerships signed 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.

- **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 94.9 % of the Group's total revenues in 2021, has seen very significant growth in its business (+49 %, to € 167.8 million in 2021). Despite a high base effect, the brand has achieved strong growth thanks to a relevant strategy. The group has been 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 has been warmly welcomed by fans and critics alike. Guillemot's operational teams have successfully implemented a strategy of massive stocking and pre-shipping of goods, which has enabled the group to record excellent figures for the last quarter of 2021.

In addition, the group's very good positioning in the e-sports segment, whose spectacular development in recent 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, gearshift lever, gamepad, controller), a segment in which Guillemot is a key player, in line with its position as leader in the American video game steering wheel market.

Breakdown of 2021 sales by geographic area and by activity:



Source : Guillemot

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

- Growth of the steering wheel market in Europe of nearly 33% (€ 158 million for the 5 main countries - Source: GfK, Guillemot), a zone in which the group has a market share of nearly 28%,
- Growth of the steering wheel market in the United States of nearly 78% (\$ 123 million - Source NPD Group Inc, Guillemot), a region where Thrustmaster has a market share of nearly 30%, or

- Growth of more than 31% in the joystick market in Europe (€ 28 million for 5 main countries - Source: GfK, Guillemot), an area in which Guillemot is number one with its Thrustmaster brand, with more than 60% of the market share.

We also note Thrustmaster's clear contribution to 2021 sales (94.9 %) and consequently the need 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 (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).

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).

Thrustmaster is currently the number one 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 and, in the near future, 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 (for its flagship products, steering wheels and joysticks), the group has an undisputed leadership position in the United States, with market shares in terms of value of around 30% and 70% respectively), Thrustmaster is ideally placed to take advantage of the growth of this sector, which is demanding increasingly high-performance and high-end accessories, and this on the basis of a more and more 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 2021 annual results

EXCEPTIONAL ANNUAL REVENUE OF € 176.8 MILLION IN 2021.

As a reminder, during the year 2021, Guillemot announced that it had recorded sales of € 176.8 million, a significant increase of +47 % YoY and well above our estimates (€ 162.2 million estimated). Throughout the year, the group has been able to increase its production levels and logistics capacities in order to guarantee consumer access to its products, despite a demanding global environment, both in terms of production and delivery. Despite a weak editorial situation in terms of car simulation games, the group was able to continue its growth trajectory thanks to its relevant and diversified product mix.

In details :

- **Thrustmaster**, the major contributor to the Group's business, recorded revenues of € 167.8 million over the year (+49 % YoY), with in particular a +69% YoY growth in the last quarter of 2021 with revenues of € 62.4 million. Business was driven by the brand's two flagship segments, Racing and Flying. The brand's efforts in developing new products have indeed been rewarded. The brand's previous product lines continued on their sales trajectories, and the brand's new products were successfully launched, notably the T248 steering wheel for PS5 and the new yoke signed under *Boeing*[®] license. Finally, gamepad products (*Eswap Pro Controller* and its new concept in the form of modules) continue to be widely acclaimed by specialized critics for their quality and innovation.
- The **Hercules** brand generated revenues of € 9.0 million, up 13%, but on the basis of a more limited contribution.

Breakdown of 2021 annual revenues by segment, in € million

€m	2020	2021	% Var
Hercules	8.0	9.0	+13 %
Thrustmaster	112.6	167.8	+49 %
Total	120.6	176.8	+47 %

Source : Guillemot

EXCEPTIONAL ACTIVITY, EXCEPTIONAL RESULTS

For fiscal year 2021, Guillemot posted an exceptional level of operating profitability, with an operating profit of € 33.0 million, up +74 % YoY. The volume of activity effect has fully benefited the Group's results, with the gross margin standing at more than 54 % of sales, a level higher than in 2020 (52.1 %). At the same time, operating expenses, although having risen due to the increase in the workforce (+18 %), and therefore in salaries, but also in the cost of production and transport of goods, remained under control and enabled the group to post an EBITDA margin of 22.4 % (compared with 21.6 % in 2020), representing an EBITDA of € 39.7 million.

In contrast to 2020, the financial result for 2021 is €-16.4 million, marred by unrealized losses linked to the holding of Ubisoft shares. However, the excellent performance of the group's operational activities will enable the company to post net income of € 13.7 million (€ 30.0 million excluding the impact of Ubisoft, compared with an estimated € 32.5 million). On the basis of these excellent results, a dividend of € 0.25 per share will be proposed to the next General Meeting.

In terms of the balance sheet, the company is strengthening its financial structure, which is already very healthy, with shareholders' equity of € 90.4 million at December 31, 2021. At this same date, Guillemot has a negative net debt of € 5.2 million, without taking into account the Ubisoft shares (€ 19.1 million at December 31, 2021).

In anticipation of further logistical tensions, the Group significantly increased its inventories during the year. Thus, the change in working capital requirements reached + € 36.7 million (where inventories vary by + € 20.3 million). However, inventories, although having increased significantly, represent a level of 84.5 days of sales at December 31, 2021, which is a relatively low indicator compared to 2019 (128.3 days). As a result of this significant variation, cash flow from operations appears negative in 2021 at -€ 4.0 million.

Consolidated income statement FY 2021, in €m

(€m)	2020	2021
Sales	120,6	176,8
% change	98,1%	46,5%
Purchases	59,7	102,4
% of sales	49,5%	57,9%
Net change in inventory and raw materials	1,8	21,8
Gross margin	62,8	96,1
% of sales	52,1%	54,4%
Staff costs	11,0	12,8
% of sales	9,1%	7,3%
Other costs	17,6	31,4
% of sales	14,6%	17,7%
Taxes and duties	0,8	0,7
Other current operating income and expenses	-7,4	-11,6
EBITDA	26,1	39,7
% of sales	21,6%	22,4%
Depreciation and amortization	7,1	6,7
Current EBIT	19,0	33,0
% of sales	15,7%	18,7%
Other non-current operating income and expenses	4,1	0,0
EBIT	23,1	33,0
% of sales	19,1%	18,7%
Cost of net financial debt	-0,1	-0,1
Other financial income and expenses	7,7	-16,3
Financial result	7,5	-16,4
Profit before tax of consolidated companies	30,6	16,6
Income tax	0,7	2,9
Group net profit	29,9	13,7

Continued strong growth in both business segments: Thrustmaster at +49%, Hercules at +13%.

An increase in gross margin level despite a challenging cost environment

Increase in other costs due to an increase in marketing and R&D expenses that are not capitalized

Volume effect playing a major role in profitability growth, operating margin up tangibly

Financial results impacted by unrealized losses related to the holding of Ubisoft shares (unrealized loss of € 15.9 million)

Source : Guillemot

1.3 A challenging but still growing market environment

Gaming growth slowed down by the consequences of the pandemic

After an extremely dynamic year in 2020, driven by consumers forced by successive confinements, the year 2021 has confirmed the upward trend of the video game market, although logically growing to a lesser extent than in 2020.

The market was challenged this year by the consequences of the recent pandemic, after having benefited from it last year. The editorial news was indeed limited due to the measures of remote work of the development teams that have decreased their productivity.

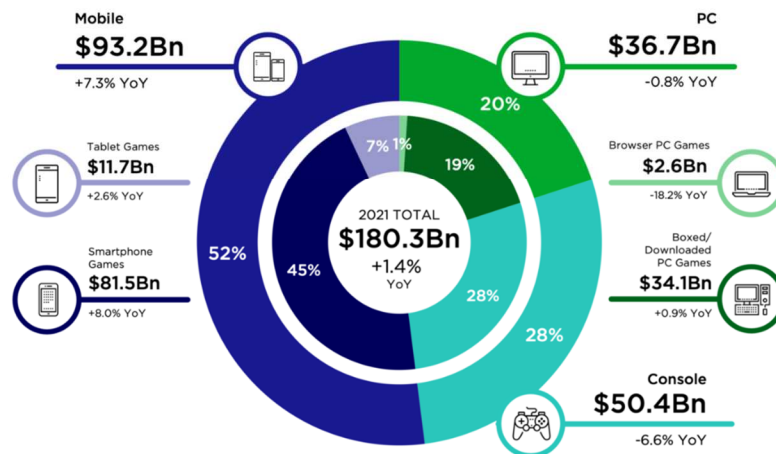
In addition to this relatively limited release schedule, the sector was also placed under pressure due to tensions in the supply chain. The new Playstation 5 and Xbox Series X/S consoles, while selling an estimated 12.5 million and 8 million units respectively in 2021, could not be produced to the level of demand that the market was expecting, as evidenced by stock-outs at each reorder. Although these tensions are expected to continue until 2023, the year 2022 should mark the beginning of an acceleration of deliveries of these new consoles, leading to a renewal of the equipment available to consumers and therefore of the corresponding accessory products.

Despite these headwinds, the global video game market has grown by an estimated +1.4% YoY, despite a high basis for comparison.



2021 Global Games Market

Per Device & Segment With Year-on-Year Growth Rates



Source : Newzoo

Despite these relatively low or even negative game sales on the media targeted by Guillemot (PC and console), the company has been able to grow, notably thanks to the release of new games on new generations and to its prestigious licensing partnerships.

In the longer term, the trend remains particularly positive, with Global Data estimating that this market will be worth \$ 272 billion in 2030, representing an average annual growth rate of around 11%.

Market data : France

In France, the SELL's annual report for 2021 shows a 1.6% increase in business activity in 2021, with total revenues of € 5.6 billion, with the console ecosystem continuing to dominate in terms of contribution over the past year, although growth was mainly driven by the PC Gaming ecosystem:



Source : SELL

Acceleration of investments at Guillemot's initiative : R&D and International

Taking into account the major accelerations underway in the video game industry (cloud gaming, esports, etc.), Guillemot intends to significantly increase its investments (€ 6.5 million invested in R&D in 2021 vs. € 5.4 million in 2020), in order to accelerate the development of its product ranges and services, on behalf of its Thrustmaster brand, as well as for its products under the Hercules brand.

The growth prospects revealed by the performance recorded during the 2021 fiscal year make Guillemot's management very confident and aware of the medium-term growth potential for its two business segments.

Beyond the Product Development aspect, as already indicated in our previous publications, the Guillemot Group's strategy is also geared towards conquering new market shares, in particular by improving its geographical coverage. The regular signing of new distribution contracts and partnerships is enabling the Group to position itself in high-potential markets, such as the United States, where Guillemot holds nearly 30 % of the steering wheel market in value terms (source: NPD Group Inc, Guillemot).

In addition, the efforts made by the group in 2021 to multiply its partnerships with retailers (Amazon, Cdiscount, Box UK, etc.) in order to avoid the effects of the pandemic on physical sales networks seem to have paid off. Indeed, the reopening of stores was only gradual in the first half of 2021, a period during which the group continued its impressive growth trajectory thanks to online sales.

Lastly, the growing popularity of e-sports and its international reach provides the group with an interesting growth opportunity in view of its positioning in this promising market.

2 2022 forecasts

During the presentation of the 2021 annual results, management demonstrated a great deal of confidence for the current fiscal year, in particular by highlighting a 2022 guidance corresponding to sales of more than € 200 million, accompanied by a current operating income of more than € 30 million.

While the "Racing" and "Flying" markets remain very dynamic, Guillemot intends to accompany this growth by benefiting from the efforts made during 2021, notably in terms of production capacity and securing its supplies of critical electronic components, points on which Claude Guillemot has been reassuring.

Thus, the group should see its 2022 results improve once again, even if the rate of profitability could come under pressure due to the increase in costs linked to logistical tensions (component costs and transport costs).

In addition to R&D investments in product development, the group also intends to develop its own e-shop, which currently represents only a small part of the group's revenues and will only soon be offered to American customers. In addition, in order to continue its growth in the United States, the group relies on its strong partnerships with major retailers (Amazon in particular), but also on physical stores (Walmart, Best Buy, ...) to sell its entry-level products.

Listening to the proactive and confident speech of the company's management, on the basis of still strong growth markets, we anticipate an annual activity of € 209.7 million in 2022, with the first part of the year expected to be particularly dynamic, notably in connection with the release of the new *Gran Turismo*. In terms of profitability, we expect a gross margin rate of around 51.4 % for the full year 2022, down slightly from the exceptional level recorded in 2021.

Our 2022 operating profit forecast is above the € 30 million guidance at €36.4 million (vs. € 33.0 million in 2021).

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 0.98% (spot rate of the TEC 10 OAT - source Agence France Trésor), a market premium of 7.49% (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 13.00%.

Risk-free rate	Risk premium	Beta	Small Caps risk premium	Cost of capital	Cost of debt	Financial leverage	Tax rate	WACC
0,98%	7,49%	1,18	3,20%	11,83%	1,3%	0,00%	28,0%	13,00%

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 13,00 %, 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	209.74	230.91	249.82	264.81	278.05	291.95	306.55	321.88	334.75	344.8
EBITDA	39.68	45.85	56.07	62.33	64.82	66.77	68.77	70.83	72.96	74.42	75.9
Tax (<i>theoretical</i>)		11.08	13.84	15.44	15.98	16.35	16.77	17.24	17.76	18.12	18.51
Capital expenditures	5.44	6.29	6.93	7.49	8.17	8.33	8.58	8.75	8.97	9.2	9.43
Impact of working capital variation		-13.66	-5.78	-2	-3.94	0.03	0.44	0.29	0.77	0.64	0.5
Operating FCFs		42.14	41.08	41.39	44.61	42.05	42.98	44.54	45.46	46.46	47.47
Discounted operating FCFs		33.93	33.07	29.49	28.13	23.47	21.22	19.46	17.58	15.9	14.38

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		236.63	64.4%
11-20 years period	2.0%	84.34	22.9%
Terminal growth rate	1.5%	46.66	12.7%
Total		367.63	100.0%
Of which discounted terminal value		131.01	35.6%

Source : In Extenso Financement & Marché estimates

Thus, Guillemot enterprise value stands at € 236,63 million.

Price per share calculation

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

Discounted FCFs (2022-2031)	236.63
+ Discounted terminal value	131.01
+ Financial assets	17.53
+ Assets consol. on an equity basis	0
- Provisions	0.06
- Net financial debt	-5.16
- Minorities	0
+ Discounted tax loss carry forward	0
= Group equity value	390.27
Number of shares	15.29
Share valuation	25.53

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 € 17.5 million (stock market price at March 28, 2022 of € 39.50).

Ultimately, the discounted free cash-flow method shows a value per share of € 25.53, i.e. a potential appreciation in value of +79.3 % compared with the closing price of € 14.24 on March 28, 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%
WACC	8,8%	32.07	32.26	32.46	32.69	32.93
	9,3%	31.13	31.31	31.51	31.72	31.96
	13,0%	25.26	25.39	25.53	25.68	25.85
	10,3%	29.37	29.54	29.72	29.92	30.13
	10,8%	28.55	28.71	28.88	29.07	29.27

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	411,0	424,7	104,6	110,4	60,0	62,0	35,8	40,1
Innelec Multimedia SA	145,3	153,3	5,8	6,7	4,3	5,1	na	na
Bang & Olufsen A/S	462,0	513,7	52,1	73,5	25,5	44,2	23,0	32,9

Source : Infront Analytics

	Market cap.	Net debt	Minorities	EV
Bigben Interactive SA	287,2	-30,4	50,0	306,8
Innelec Multimedia SA	15,2	-4,3	0,0	10,9
Bang & Olufsen A/S	311,4	-52,0	0,0	259,4

Source : Infront Analytics

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	0,75	0,72	2,93	2,78	5,11	4,95	8,03	7,17
Innelec Multimedia SA	0,08	0,07	1,89	1,64	2,52	2,14	na	na
Bang & Olufsen A/S	0,56	0,51	4,97	3,53	10,19	5,87	na	na
Average	0,46	0,43	3,26	2,65	5,94	4,32	8,03	7,17
Median	0,56	0,51	2,93	2,78	5,11	4,95	8,03	7,17

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)	119,40	122,65	172,37	171,31	238,94	214,17	287,32	328,55
	140,47	139,31	157,17	178,49	208,88	242,14	287,32	328,55
Average valuation (€ / share)	8,53		11,11		14,79		20,14	

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 € 17.5 million at the March 28, 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 0.2% to the results mentioned above.

Average capitalization of comparable companies	€	204,6	m
Company capitalization (not adjusted)	€	208,6	m
Capitalization's ratio		101,9%	
Premium / Discount to apply		0,2%	

After applying the premium, we obtain the following valuations:

Average valuation / share	8,55	11,13	14,81	20,18
Average	13,67			

The comparables method shows a value per share of between € 8.55 and € 20.18, with an average of € 13.67, i.e. a potential depreciation in value of -4.18 % compared with the closing price of € 14.24 on 28 March 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	2021E	2022E	2023E	2024E
Sales	120.62	176.76	209.74	230.91	249.82
% change	98.1%	46.5%	18.7%	10.1%	8.2%
Gross margin	62.81	96.15	104.97	120.07	129.91
% of sales	52.1%	54.4%	50%	52%	52%
Staff costs	11	12.83	15.73	18	18
% of sales	9.1%	7.3%	7.5%	7.8%	7.2%
Other costs	17.55	31.37	37.54	39.00	42.00
% of sales	14.6%	17.7%	17.9%	16.9%	16.8%
EBITDA	26.07	39.68	45.85	56.07	62.33
% change	ns	52.2%	15.6%	22.3%	11.2%
% of sales	21.6%	22.4%	21.9%	24.3%	24.9%
EBIT	23.08	33	36.42	44.35	49.65
% change	ns	43%	10.4%	21.8%	11.9%
% of sales	19.1%	18.7%	17.4%	19.2%	19.9%
Financial result	-0.27	-0.11	-0.15	0.00	0.00
Earnings before tax	22.81	32.89	36.27	44.35	49.65
Income tax (after use of tax loss carry forwards)	0.7	2.89	3.33	1.50	1.50
Net income	29.78	13.71	29.94	42.65	47.95
% change	ns	-54.0%	118.4%	42.5%	12.4%
% of sales	24.7%	7.8%	14.3%	18.5%	19.2%
Minorities	0	0	0	0	0
Restated group net income	22.12	30.0	32.94	42.65	47.95
% of sales	18.3%	17.0%	15.7%	18.5%	19.2%

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

Operating margin up, although pressured by an inflationary environment

Net income benefiting from controlled and growing operating profitability

4.2 Balance sheet – Main items

December 31st (€m)	2020	2021E	2022E	2023E	2024E
Intangible assets	15.43	16.18	16.18	16.18	16.18
Goodwill	0	0	0	0	0
Tangible assets	4.5	5.18	5.45	5.8	5.8
Financial fixed assets	0.45	0.47	0.47	0.47	0.47
Working Capital Requirements (WCR)	3.58	39.93	26.28	20.5	18.5
% of sales	3.0%	22.6%	12.5%	8.9%	7.4%
Gross financial debts	10.87	6.87	3.87	3.80	3.80
Cash	29.02	12.03	61.77	99.99	140.12
Net debts (excluding Ubisoft portfolio)	-18.15	-5.16	-57.90	-96.19	-136.32

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	2021E	2022E	2023E	2024E
Cashflow	25.11	36.68	42.38	54.37	60.63
Capital expenditures	3.55	5.44	6.29	6.93	7.49
% 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	49.74	53.22	55.13

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

<i>December 31st (€m)</i>	2020	2021E	2022E	2023E	2024E
EPS (exclud. Ubisoft shares impact)	1.45	1.96	2.15	2.79	3.14
<i>% change</i>	<i>ns</i>	35.6%	9.8%	29.5%	12.4%
Market capitalization	102.73	217.69	217.69	217.69	217.69
Enterprise value	84.57	212.53	159.79	121.51	81.38
P/E restated	4.64	7.26	6.61	5.1	4.54
P/Cashflow	4.09	5.94	5.14	4.00	3.59
Market to Book	1.29	2.73	2.41	1.81	1.29
EV / Sales	0.70	1.20	0.76	0.53	0.33
EV / EBITDA	3.24	5.36	3.48	2.17	1.31
EV / EBIT	3.66	6.44	4.39	2.74	1.64
EBITDA / Sales	21.6%	22.4%	21.9%	24.3%	24.9%
EBIT / Sales	19.1%	18.7%	17.4%	19.2%	19.9%
Net income / Sales	24.7%	7.8%	14.3%	18.5%	19.2%
Gearing	-22.8%	-6.5%	-64.0%	-79.9%	-81.0%
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%	68.4%	99.8%	117.6%
Return on Equity	37.4%	17.2%	33.1%	35.4%	28.5%

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

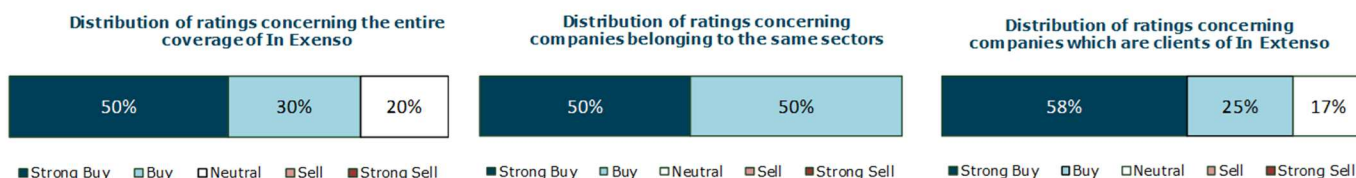
The analyst, In Extenso or any of its employees is a shareholder of the issuer	The issuer subject of this report is a shareholder of In Extenso	Other financial interest between In Extenso and the issuer	In Extenso is a market maker or liquidity provider in financial instruments issued by the issuer	In 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
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
September 27 th 2021	Semi-annual Research Achat Fort	€ 23.55
August 2 nd 2021	Equity Flash Strong Buy	€ 20.30
May 3 rd 2021	Equity Flash Strong Buy	€ 21.25

5.4 Ratings distribution



5.5 Additional disclosures

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