

MLS MULTIMEDIA

Sector: Information Technology - Multimedia

Key Investment Points

- MLS has managed to become a market leader (50% market share) in the Greek multimedia sector, offering more than 100 multimedia CD-ROM titles.
- Long term growth for MLS will derive from its diversified product portfolio, seeking to utilize its expertise in new technology products related to voice and language as well as navigation.
- The innovative product MLS Navigator, is expected to capture leading market share with regard to domestic designed navigators, representing at least 40% of total Group turnover, reaching € 3 million at end 2008 (CAGR₂₀₀₄₋₂₀₀₈=18.5%)
- The Company utilizes its expertise in Multimedia development by undertaking public projects financed by European and State funds. The Company is a prime candidate for similar projects in the future, we do not however include in our projections and valuation, earnings related to such projects beyond 2007, due to the lack of information with regard to new projects after that period.
- We expect Group turnover CAGR₂₀₀₃₋₂₀₀₈ of 16.2%. However, our projections imply gross profit margin's gradual decrease, leading to EBITDA CAGR₂₀₀₃₋₂₀₀₈ of 13.7% and Net Income CAGR₂₀₀₃₋₂₀₀₈ of 16.7%. The Group retains a healthy balance sheet outlook with no debt accounts, and is fairly valued compared to its peers.
- Our DCF valuation model indicates a 12-month target price of € 2.26 for MLS stock indicating that it is currently trading on a 35.4% discount. We see the company fairly valued at € 27.1 mn in line with our expectations for its future growth prospects.

KEY FINANCIAL FIGURES & RATIOS

(in .000)	Sales	EBITDA	EAT	EPS	P/E (x)	P/BV (x)	EV / EBITDA	ROE %
2003A	4,0	3,3	1,6	0,136	12,25	1,80	5,88	15,6
2004E	5,0	3,8	2,0	0,167	10,02	1,62	5,04	17,0
2005F	6,0	4,5	2,5	0,211	7,92	1,47	4,21	19,5
2006F	6,6	5,0	2,8	0,233	7,16	1,33	3,73	19,5

Source: EUROXX Securities

Share Number (,000)	11,976.5
Capitalization (€ mn.)	20.0
Av. Daily Volume	62.000
Free Float	25%
Beta	1.2
Dividend '03	0.01
Div. Ret. '03	0.6%

Stock Statistics

Max 52 weeks	€3.92
Min 52 weeks	€1.15
Max P/E '03	28.75
Min P/E '03	8.43

Stock Return (%)

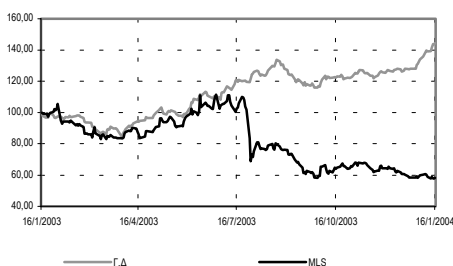
1 Μήνα	25.56%
6 Μήνες	-0.60%
12 Μήνες	-54.12%

Fair Value

Fair Value	€2.26
Return	35.4%

Source: EUROXX Securities

Share Price vs General Index
(52 εβδομάδων)



INVESTMENT CASE

Leading market share in the growing sector of multimedia

MLS Multimedia holds approximately 50% market share in the development, publication and distribution of Greek multimedia titles. The Group has already produced and distributes more than 100 multimedia CD-ROM titles including encyclopedias, educational, fairytales, historical, religious, dictionaries-language technology and general interest subjects, as well as topics concerning woman and life style, foreign languages, pre-school education and, of course, games. Multimedia turnover for MLS is expected to grow on an average of 15% in the next 5-year period, assuming a 20% annual sector's growth and MLS' strategy to sustain at least 40% market share. This revenue stream is expected to represent approximately 15% of total turnover for the Group by the end of fiscal 2006.

Introduction of new technology products in the Greek market

The Group expands operations in new technology products utilizing its R&D department seeking opportunities in fast growing and innovative fields.

1. In August 2003, the Group introduced **the MLS Navigator**, which was the first car navigation system in Greece. We expect that MLS Navigator will represent approximately 40% of Group's turnover by the end of fiscal 2006, adding about € 3.6 mn. Our projections account on the above assumptions:
 - a. The navigator system will gradually penetrate approximately 0.6% of total new car sales per year
 - b. Average new car sales of 268,000 per year
 - c. Average sale of 1000 portable navigators per year
 - d. Average selling price of € 1,700 per navigator

We do not account on our projections any potential agreement with taxi unions. Any agreement will add on the above estimation. MLS has already completed the installation of navigator systems in a taxi union in Crete, of total subsidy € 1.15 mn.

2. In late 2003, the Group introduced a revolutionary **translation solution** for the Internet, PCs and network infrastructures, utilizing Systran's technology. MLS targets large and medium size corporations offering significant cost savings compared to human translation services. We expect the company to capture leading market share in this sector selling approximately 200 automated translators per year on an average price of € 3,500.
3. The Group recently agreed to collaborate with 'Philips Speech Recognition Systems' in order to develop and promote **voice recognition system products** in Greek language. In December 2004, MLS will launch a speech recognition system that will allow automate document creation, for any pc user. The Company will soon introduced specialized voice recognition systems, designed for professionals with specific terminology.

4. The Company recently introduced the MLS VoiceConnect software, offering automated solutions in telephone centers. This new product utilizes the technology of voice recognition and artificial intelligent, in order to offer automated transmission of telephone calls to an artificial telephone center. MLS targets large and medium size corporations offering significant cost savings.
5. MLS has expanded operations in telephony, under the "Voice over IP" technology, seeking opportunities from a fast growing sector.

Utilizing projects from the 3rd European Support Framework

MLS is seeking opportunities from public projects related to the use of multimedia for 'education and culture', financed from the 3rd ESF and the Greek State. The Company is the leader in multimedia development in Greece, with significant know-how, becoming a prime candidate to undertake a considerable number of such projects. We expect that approximately 20% of total turnover will derive from public projects, estimating approximately € 1.2 million on average per year (or € 3.6 million in the next 3-year period).

Turnover Breakdown

	2002	2003	2004E	2005P	2006P	2007P	2008P
Commercial Activities	1,960	162	340	350	322	340	356
<i>% of sales</i>	57.4%	4.2%	7.0%	6.0%	5.0%	5.0%	5.0%
Industrial Activities	461	1,694	2,516	3,256	4,070	4,898	5,625
<i>% of sales</i>	13.5%	43.5%	51.8%	55.8%	63.2%	72.0%	79.0%
<i>MLS Navigator</i>			1,797	2,276	2,576	2,789	2,990
<i>% of sales</i>			37.0%	39.0%	40.0%	41.0%	42.0%
<i>Voice & Transl. Technology</i>			112	292	773	1,225	1,566
<i>% of sales</i>			2.3%	5.0%	12.0%	18.0%	22.0%
<i>Multimedia</i>			607	689	721	884	1,068
<i>Multimedia % of sales</i>			12.5%	11.8%	11.2%	13.0%	15.0%
Services	995	2,039	2,001	2,229	2,048	1,565	1,139
<i>% of sales</i>	29.1%	52.3%	41.2%	38.2%	31.8%	23.0%	16.0%
<i>3rd ESF Projects</i>			850	1,050	1,200	0	0
<i>Other Services</i>			1,151	1,179	848	1,565	1,139
Total Company Sales	3,416	3,895	4,858	5,836	6,439	6,803	7,120
<i>% change</i>		14.0%	24.7%	20.1%	10.3%	5.7%	4.7%
Athina Net Sales	171	119	108	116	120	150	200
Group Sales	3,587	4,014	4,966	5,952	6,559	6,953	7,320
<i>% change</i>		11.9%	23.7%	19.9%	10.2%	6.0%	5.3%

Source: EUROXX Securities Estimates

COMPANY PROFILE

MLS Multimedia was established in October 1995. From its initial operation, the Company aimed at the development and sale of multimedia products and services in the Greek market, through the utilization of advanced technology. The Company is currently the leader in the development and distribution of multimedia products and services in the Greek language. The Company's broader customer base consists of large retail chains, super markets, specialized bookstores and PC manufacturers.

MLS trades an extended range of over 100 titles, covering the majority of knowledge fields, such as encyclopedia, education, classic stories, history, religion, dictionaries, life style, foreign languages, as well as games. The Company commands a market share of 50% in the domestic multimedia market. It is noted that the life of a multimedia title in the market is quite long, thus generating stable revenues over the years for Multimedia.

At the same time, the Company has taken advantage of its expertise by offering specialized services regarding multimedia applications. The applications range in the areas of electronic knowledge, electronic presentations, Internet, as well as IT navigation systems. The MLS Navigator, the automatic translator and the voice recognition system are among the Company's latest products in this area.

MLS has also developed a specialized communication network covering existing – such as in electronic commerce – as well as future needs – such as in multimedia transmission services.

Apart from a leading multimedia specialist in the Greek market, MLS is also an information technology solution provider targeting the broader IT Sector in Greece. The Company has gained further ground in the sector due to the implementation of significant investments, following its listing on the Athens Stock Exchange. The provision of IT services demonstrates a significant growth potential for the Company, targeting projects in the public sector, with the ministries or state organizations comprising major customers.

SECTOR PROFILE

The Company's growth story is directly linked to the broader IT Sector in Greece, which has the multimedia market as a niche segment with above average growth potential.

The multimedia sector consists of the retail market (retail stores, etc.) and the B-2-B market, where the multimedia companies deliver tailor made products. The retail market grows by over 10% on average basis, whereas the B-2-B enjoys strong demand from areas such as the education, tourism, and various public or private projects funded by EU Structural Support Framework.

As far as the broader IT Sector is concerned, Greece is considered a lagger in "IT spending over GDP" among the other EU country members (1.40% as compared to 3.14%), whereas there are only 10 personal computers per 100 inhabitants in Greece, as compared to 28 in the EU. Consequently, the prospects of the Greek IT sector remain favorable, despite its apparent maturity, leaving ground for specialized players such as MLS to gain market shares.

Valuation based on DCF Method

- This valuation is supported by a discounted cash flow method, with a terminal value growth rate of 2.8% and WACC of 10.92%
- We have chosen to use the DCF method in order to calculate our fundamental valuation, since it better reflects the intrinsic value of the Group, future net profit growth.
- The model's assumptions reflect the ongoing profitability of the Company, its expansion program, and MLS's new products distribution. We approach this valuation estimating a constant expansion of each division's revenues. Evaluating our projections on the DCF valuation method, we end up on a fair value of € 27.1 mil. or € 2.26 per share.

VALUATION

Assumptions	2004 E	2005 F	2006 F	2007 F	2008 F	L-T Assum.
Operating Cash Flow	3.549	4.210	4.615	4.764	5.006	4.610
Less: Working Capital Changes	864	1.205	907	650	348	-243
Less: Capex	1.710	1.866	2.011	2.127	2.224	2.130
Free Cash Flow	975	1.139	1.698	1.987	2.434	2.724
Accumulated Present Value	879	1.805	3.049	4.362	5.811	
Residual Value						33.547
Present Value of Residual Value						19.981
Valuation Results						
Present Value of Future Cash Flows	5.811					
Present Value of Residual Value	19.981					
Less: Net Debt	-729					
Plus: Participations	562					
Value of firm	27.083					
Value of share	2,26					

WACC

Cost of Capital	10,82%	10,92%	10,92%	10,92%	10,92%	10,92%
Risk Free Rate	4,8%	4,8%	4,8%	4,8%	4,8%	4,8%
Beta Factor	1,2	1,2	1,2	1,2	1,2	1,2
Market risk Premium	5,1%	5,1%	5,1%	5,1%	5,1%	5,1%
Debt / Debt+Equity	1,4%	0,0%	0,0%	0,0%	0,0%	0,0%
Cost of Debt	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Tax Rate	11,00%	11,00%	11,00%	11,00%	11,00%	11,00%

Source: EUROXX Securities Estimates

Balance Sheet

(in .000 €)	2003A	2004E	2005F	2006F	2007F	2008F	CAGR 2003-2008
Formation Expenses	258	132	76	0	0	0	
Net Fixed Assets	3.798	3.998	4.189	4.419	4.644	4.855	6,3%
Participations etc.	562	600	600	600	600	600	1,7%
Total Fixed Assets	4.360	4.598	4.789	5.019	5.244	5.455	5,8%
<i>y-o-y change</i>		5,5%	4,1%	4,8%	4,5%	4,0%	
Inventories	2.846	3.500	4.130	4.584	4.951	5.298	16,8%
<i>y-o-y change</i>		23,0%	18,0%	11,0%	8,0%	7,0%	
Trade Debtors	3.548	3.903	4.372	4.765	5.051	5.253	10,3%
<i>y-o-y change</i>		0,0%	0,0%	0,0%	0,0%	0,0%	
Other Receivables	921	1.093	1.279	1.405	1.467	1.537	13,6%
Cash & equivalents	887	1.054	1.105	1.545	2.032	2.628	31,2%
Total Current Assets	8.202	9.550	10.886	12.300	13.502	14.716	15,7%
<i>y-o-y change</i>		16,4%	14,0%	13,0%	9,8%	9,0%	
Transitory Accounts	324	400	420	432	449	461	9,2%
TOTAL ASSETS	13.145	14.680	16.171	17.750	19.194	20.632	11,9%
Share Capital	3.593	3.593	3.593	3.593	3.593	3.593	0,0%
Reserves & Retained Earnings	4.839	6.050	7.321	8.739	10.075	11.195	23,3%
Cons. Diff. - Minority interests	-237	-258	-262	-266	-260	-260	2,4%
Other Shareholders' Accounts	2.916	2.943	2.942	2.941	2.940	2.938	0,2%
Total Shareholders' Funds	11.111	12.329	13.594	15.007	16.347	17.466	12,0%
<i>y-o-y change</i>		11,0%	10,3%	10,4%	8,9%	6,8%	
Provisions	26	30	35	38	40	42	13,0%
LT Debt	0	0	0	0	0	0	
<i>y-o-y change</i>		-	-	-	-	-	
ST Bank Debt	157	0	0	0	0	0	
Trade Creditors	886	1.180	1.300	1.403	1.500	1.800	19,4%
Other ST Liabilities	815	1.091	1.192	1.252	1.257	1.273	11,8%
Total Current Liabilities	1.859	2.271	2.492	2.655	2.757	3.073	13,4%
<i>y-o-y change</i>		22,2%	9,7%	6,5%	3,8%	11,5%	
Transitory Accounts	149	50	50	50	50	50	-23,9%
TOTAL LIABILITIES	13.144	14.680	16.171	17.750	19.194	20.632	11,9%

P&L ACCOUNTS

(in .000 €)	2003A	2004E	2005F	2006F	2007F	2008F	CAGR 2003-2008
Net Sales	4.014	4.966	5.952	6.559	6.953	7.320	16,2%
<i>y-o-y change</i>		23,7%	19,9%	10,2%	6,0%	5,3%	
COGS	1.138	1.735	2.067	2.294	2.484	2.649	23,5%
Gross Profit	2.876	3.231	3.884	4.265	4.470	4.671	12,9%
<i>y-o-y change</i>		12,4%	20,2%	9,8%	4,8%	4,5%	
Other income	17	50	70	70	70	70	42,5%
Operating Expenses	1.017	1.090	1.162	1.197	1.230	1.244	5,2%
EBITDA	3.298	3.790	4.524	4.995	5.211	5.510	13,7%
EBITDA Margin	82,15%	76,31%	76,01%	76,16%	74,95%	75,28%	
<i>y-o-y change</i>		14,9%	19,4%	10,4%	4,3%	5,7%	
EBIT	1.875	2.191	2.793	3.138	3.310	3.497	16,9%
EBIT Margin	46,72%	44,13%	46,92%	47,85%	47,60%	47,77%	
<i>y-o-y change</i>		16,8%	27,4%	12,4%	5,5%	5,7%	
Financials net	-36	-20	5	20	30	42	
Exceptionals net	-32	40	37	35	30	28	
Depreciation	1.422	1.598	1.732	1.857	1.902	2.013	9,1%
<i>y-o-y change</i>		12,4%	8,3%	7,2%	2,4%	5,9%	
EBT	1.807	2.212	2.835	3.193	3.370	3.567	18,5%
EBT Margin	45,01%	44,53%	47,63%	48,68%	48,46%	48,73%	
Taxes	188	243	326	399	472	535	29,9%
EAT	1.619	1.968	2.509	2.794	2.898	3.032	17,0%
Minorities	-14	-28	-16	1	1	1	
Consolidated EAT	1.633	1.996	2.525	2.793	2.897	3.031	16,7%
EAT Margin	40,69%	40,20%	42,42%	42,58%	41,66%	41,41%	
<i>y-o-y change</i>		22,2%	26,5%	10,6%	3,7%	4,6%	
EPS	0,136	0,167	0,211	0,233	0,242	0,253	16,7%

Source: EUROXX Securities Estimates

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