

MLS MULTIMEDIA SA

[MLSr.AT]

- MLS utilizes its expertise and its R&D department to expand operations in Smartphone and Tablet markets, acquiring during the fiscal 2013 a 3% and 4-5% market share respectively. Prospects appear favorable and assuming a basis scenario, sales will more than double by the end of the fiscal 2018.



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MLS Multimedia SA

Sector : Information Technology - Software

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Company Description:

MLS Multimedia SA was established in October 1989 and listed its shares on the Athens Exchange, Greece, in May 2001. It is active in research, development and trade of Information Technology products. The Company produces and trades a product portfolio that currently includes multimedia & linguistic products, navigation systems & devices, smartphones and tablets, utilising its expertise in voice-recognition technology.

In million €	2013	2014 E	2015 E
Turnover	9.09	13.35	18.00
EBITDA	5.57	6.01	8.10
Margin %	61.3%	45.0%	45.0%
Net Income	1.17	2.52	4.09
Margin %	12.9%	18.9%	22.7%

Price (13/05/2014)	€ 4.23
Shares Outstanding	12,417,000
MktCap (in € ,000)	52,524

Beta (Reuters data)	0.3
Dividend '13	€ 0
Div. Yield	0%

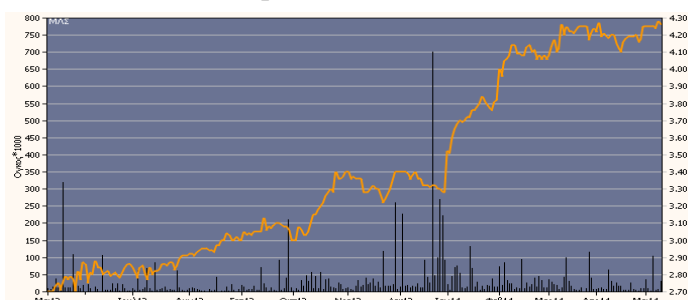
	2013	2014 E	2015 E
P/E	44.9x	20.8x	12.8x
P/BV	2.7x	2.5x	2.3x
Debt/Equity	0.0	0.1	0.1
ROE	6.3%	12.5%	18.5%

Source: Company data & VRS Projections

Key Investment Points

- ⊙ The domestic economic crisis affected Company's sales in years 2009-2012. However, the Company's expansion in Smartphone and Tablet market boosted sales by 21.6% y-o-y in fiscal 2013, and is expected to further fuel growth over the next 5 years. We believe that MLS is well positioned and has the technological expertise to reach an average annual growth rate in sales of at least 22% over the next 5 years, mostly attributed to higher market share acquisition in Smartphone and Tablet markets in Greece.
- ⊙ In fiscal 2013 MLS promoted 3 android Smartphone models gaining in a short period of time a 3% market share by the end of the year. We believe that MLS will gradually acquire about 8% market share by the end of the fiscal 2018 that will boost turnover by an additional € 12.8 million per year and EPS by at least € 0.25.
- ⊙ Since August 2013, MLS promoted 4 android Tablet models gaining in a very short period of time a 4-5% market share. We project that the Company will acquire at least 13% market share by the end of the fiscal 2018 that will boost turnover by an additional € 9.4 million per year and EPS by at least € 0.19.
- ⊙ According to our estimates for the period 2014-2018, turnover will post an average annual growth of 22%, while EBITDA margin will range close to 45% level. **By applying our forecasts for the coming 5-years in the DCF model, we derive a fair price of € 4.58 per share.**

Share Price Graph (52 Weeks) - Min: € 2.62 - Max: € 4.30



Please see important disclosure and disclaimer statements at the end of this report

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General Overview

MLS is building its reputation as the innovative Company in voice-recognition technology utilizing its expertise through its own branded Navigation Systems, Smartphones and Tablets.

- ✓ The Company is the leader in navigation systems in Greece with operations in 7 other international countries.
- ✓ In 2012 the Company launched the first Greek Android Smartphone under its own brand name, gaining in 2013 an increasing market share of 3%.
- ✓ In 2013 the Company launched the first Greek Android Tablet under its own brand gaining in a very short period of time a 4-5% market share.

Our key assumptions for the Company's growth over the projected period 2014-2018 are:

1. Sustaining market share in Navigation Systems in Greece and abroad.
2. Increasing market share in Smartphone and Tablet markets in Greece, targeting about 8% and 13% respectively.
3. Average sales of 500,000 euro per year in educational technology division, while for the period 2016-2018 we expect at least €6-7 million in total from public projects.

Important Projected Financial Figures & Valuation Ratios

	13 May '14	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Price (in €)	€ 4.23						
Market Cap (in € ,000)	52,524						
Turnover (in € ,000)		9,091	13,352	18,000	22,720	24,406	24,628
EBITDA (in € ,000)		5,571	6,006	8,095	9,845	10,680	11,089
EBITDA Margin		61.3%	45.0%	45.0%	43.3%	43.8%	45.0%
Net Profit (in € ,000)		1,171	2,521	4,089	5,374	5,891	6,081
Net Profit Margin		12.9%	18.9%	22.7%	23.7%	24.1%	24.7%
EPS (in €)		0.09	0.20	0.33	0.43	0.47	0.49
Shareholder's Equity (in € ,000)		19,462	20,989	23,216	26,106	28,893	31,249
Net Bank Debt (in € ,000)		-1,604	-1,742	-3,043	-4,967	-7,053	-8,816
EV (in € ,000)		50,920	50,782	49,481	47,557	45,471	43,708
Book Value (excl. min.) / Share		1.57x	1.69x	1.87x	2.10x	2.33x	2.52x
P/E (a.t. & m.i.)		44.85x	20.84x	12.84x	9.77x	8.92x	8.64x
P/BV		2.70x	2.50x	2.26x	2.01x	1.82x	1.68x
EV/EBITDA		9.14x	8.46x	6.11x	4.83x	4.26x	3.94x

Source: Company Financials & VRS Estimates

Investment Case

Android Smartphone Market

The Company entered the domestic Android Smartphone market in fiscal 2012 by launching the first Greek Android Smartphone combining voice recognition and artificial intelligence technologies. During the fiscal 2013 MLS managed to promote 3 new models gaining in a short period of time a 3% market share by the end of the year.

- ✓ **We believe that the Company will acquire about 8% market share by the end of the fiscal 2018 that will boost turnover by an additional € 12.8 million per year and EPS by at least 0.25 euro.**

MLS utilizes its technological edge and incorporates some or all of its innovative voice recognition applications to its devices. These applications include:

- ✓ Talk&Call which enables users to verbally pronounce the contact's name in order to automatically dial it
- ✓ Talk&SMS, Users may dictate the content of their text message and the MLS smartphone automatically writes and sends it
- ✓ Talk&Post for Facebook application enables the user to upload posts by using exclusively his voice
- ✓ Talk&Email enabling the user to dictate an email while it is automatically written on the phone
- ✓ Talk&Lock enables the storage of an oral command which shall be used to verbally lock and unlock the device solely by the owner.

The Company has succeeded to be present with its Smartphone in almost all domestic distribution channels (except Vodafone stores). In addition, it has agreed with two of the three mobile providers (Cosmote and WIND) to be included in their mobile subsidy programs. The domestic market is estimated at 100,000-120,000 pieces per month or about 1.2 million per year, while the expected average growth for the next 5 years of about 1-2%.

The Company's strategy is to launch at least 6-7 new models per year all offering unique features and value added applications. The target is to gradually gain about 7-8% market share by the next 4-5 years.

We believe that Company's products are very competitive, regarding technological edge and features, with the other android Smartphones in the Greek market. MLS Smartphone advantages are:

1. Pricing, that lies at the medium level when comparing Smartphone in similar category,
2. Origin, given that MLS is the only Greek Smartphone in the market,
3. Easy voice recognition applications,
4. Complementary ‘gifts’ like MLS navigation, car holder and car charger in all MLS Smartphones,
5. Presence in almost all major distribution channels.

We have assumed that MLS will gain 1% market share per year for the next 5 years. We have also estimated stable average revenue per Smartphone of 120 euro. The following table presents our assumptions and the outcome of the expected revenue for the period 2014-2018.

	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Android Smartphone Market (sales of annual pieces)		1,200,000	1,260,000	1,300,000	1,315,000	1,330,000
MLS Market Share		3.3%	5.0%	6.0%	7.0%	8.0%
MLS estimated Smartphone sales (pieces)		39,600	63,000	78,000	92,050	106,400
Average rev/piece (euro)		120	120	120	120	120
Total Annual Revenue from Smartphone (euro)	4,469	4,752	7,560	9,360	11,046	12,768

Source: VRS Estimates

The Company is also examining a possible expansion internationally mostly in Middle-East countries. We have not included any projection to our valuation model since there is nothing certain in the near future. As soon as the Company reaches an agreement we will revise our estimates.

Android Tablet Market

MLS entered the domestic Android Tablet market in August 2013 by launching the first Greek Android Tablet combining, like MLS Smartphone, voice recognition and artificial intelligence technologies. Since August 2013 MLS managed to promote 4 models of 7'' screen gaining in a very short period of time a 4-5% market share.

- ✓ **We believe that the Company will acquire at least 13% market share by the end of the fiscal 2018 that will boost turnover by an additional € 9.4 million per year and EPS by at least 0.19 euro.**

The Greek Tablet market is fragmented with more than 20 players in, none of which owns more than 17% market share. For the fiscal 2013 the market accounted for about 300,000 tablets and is expected to reach 500,000 in 2014 and 600,000 in 2015-2018. Android Tablets, where MLS is active, represent the majority of sales in the Tablet market.

The Company's strategy is to launch at least 5-6 new android models per year targeting the 7'' and 7.85'' screens all offering unique features and value added applications (including voice recognition features). The target is to gain and retain about 13% market share by the end of the fiscal 2016.

We believe that MLS is well positioned to capture the targeted market share despite intense competition. Its advantages are:

1. Pricing, that lies on average compared to similar category tablets,
2. Origin, given that MLS is a Greek Company, however, it is not the only one in the domestic Tablet market,
3. Size, as MLS targets the part of the market with the higher demand,
4. More features including voice recognition, navigation, placing calls and sending sms, and the coincidental use of a single tablet by many different users,
5. Presence in almost all major distribution channels.

We have assumed that MLS will reach 13% market share in fiscal 2016 and retain that share for the remaining projected period. We have also estimated average revenue per Tablet of 120 euro. The following table presents our assumptions and the outcome of the expected revenue for the period 2014-2018.

	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Tablet Market (sales of annual pieces)		500,000	600,000	600,000	600,000	600,000
MLS Market Share		11.0%	12.0%	13.0%	13.0%	13.0%
MLS estimated tablet sales (pieces)		55,000	72,000	78,000	78,000	78,000
Average rev/piece (euro)		120	120	120	120	120
Total Annual Revenue from Tablets (euro)	1,854	6,600	8,640	9,360	9,360	9,360

Source: VRS Estimates

Navigation Systems

MLS is a pioneer in the Greek navigation market, having developed and distributed the first navigation system for vehicle owners in the Greek market in 2003. During the last 11 years, MLS managed to remain the leader in the Greek market. The Company expanded operations internationally and is currently present in 5 countries. The following table highlights the list of countries which MLS is active in.

	Partner	Population	Penetration	Year of Entrance
Turkey	Mascom	74.000.000	<5%	2011
Chile	Autonav	17.000.000	<5%	2011
Morroco	MyWay	35.000.000	<5%	2011
Saudi Arabia	Farsi Geo Tech (Zaki Farsi Group)	28.000.000	<5%	2013
Jordan	Abu Khader Group	6.000.000	<3%	2013
Nigeria	NASRDA (National Space Research & Development Agency)	170.000.000	<3%	2013

Source: Company data

The navigation market is currently at the mature stage with a trend to decrease in value, while Smartphone and Tablet have already replaced its usage. Under these market conditions the Company's target is to remain market leader in Greece and retain operations internationally selling value added navigation products and services through its navigation systems, aiming to establish a strong customer base. In addition, the Company aims to license its platform to mobile operators receiving a fee for that service.

We believe that MLS revenues from navigation market will gradually reduce to €1 mn per year from €2.6 mn in fiscal 2013 and €13.7 mn in fiscal 2009 (the max level achieved), with about 50% generated in the domestic market.

Educational Technology – Interactive Boards

MLS is a leading company in the Greek multimedia market possessing a portfolio of more than 100 titles. The Greek multimedia market however is significantly lower compared to other EU countries, a trend that is not expected to change significantly in the next 5 years. The Company invests in R&D for other educational multimedia products like the e-book seeking to capture a stake from the country's digitalization trend.

One of Company's latest achievements is the development of an interactive board. MLS aims at selling this product to the Greek public sector and to private schools, benefiting from the Ministry of Education's intention (according to announcements) to introduce interactive boards to all schools in Greece during the next 3 years. In February 2014, the European Commission approved the contribution of EUR 146,635,815 from the European Regional Development Fund for digital services to the Greek educational community, with immediate implementation (the total budget accounts for EUR 174,441,435). From that amount the interactive board part of the project is estimated at €35 million, and we believe that the Company could undertake a 20% stake at least. In November 2010 – April 2011, the Greek State installed 3,300 interactive boards in high schools of which MLS supplied 1,100 boards (or 33% of total), receiving EUR 1.6 million.

With regard to multimedia division, we have assumed annual average revenue of about €500,000 over the next 5 years, based on past track record of retail sales and small scale projects. We have also assumed that the Company will add during the period 2016-2018 additional revenues of €6-7 million in total from the interactive board public project.

Historic & Projected Turnover & Gross Profit Breakdown

	2011	2012	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Educational Technology								
Revenue	1,152	98	159	300	500	3,000	3,000	1,500
% of total Sales	15.3%	1.3%	1.8%	2.2%	2.8%	13.2%	12.3%	6.1%
Gross Profit	487	37	62	105	175	1,050	1,050	525
gross margin (%)	42.2%	37.9%	38.8%	35.0%	35.0%	35.0%	35.0%	35.0%
% of total gross profit	12.9%	1.0%	1.4%	1.7%	2.1%	10.1%	9.4%	4.6%
Navigation Systems								
Revenue	6,388	3,282	2,608	1,700	1,300	1,000	1,000	1,000
% of total Sales	84.7%	43.9%	28.7%	12.7%	7.2%	4.4%	4.1%	4.1%
Gross Profit	3,273	1,716	1,295	850	650	500	500	500
gross margin (%)	51.2%	52.3%	49.6%	50.0%	50.0%	50.0%	50.0%	50.0%
% of total gross profit	87.1%	46.6%	29.0%	13.5%	7.7%	4.8%	4.5%	4.4%
Smartphone Sales								
Revenue	0	4,094	4,469	4,752	7,560	9,360	11,046	12,768
% of total Sales	0.0%	54.8%	49.2%	35.6%	42.0%	41.2%	45.3%	51.8%
Gross Profit	0	1,927	2,215	2,233	3,553	4,399	5,192	6,001
gross margin (%)	0.0%	47.1%	49.6%	47.0%	47.0%	47.0%	47.0%	47.0%
% of total gross profit	0.0%	52.4%	49.5%	35.5%	42.1%	42.5%	46.6%	52.5%
Tablet Sales								
Revenue	0	0	1,854	6,600	8,640	9,360	9,360	9,360
% of total Sales	0.0%	0.0%	20.4%	49.4%	48.0%	41.2%	38.4%	38.0%
Gross Profit	0	0	900	3,102	4,061	4,399	4,399	4,399
gross margin (%)	0.0%	0.0%	48.6%	47.0%	47.0%	47.0%	47.0%	47.0%
% of total gross profit	0.0%	0.0%	20.1%	49.3%	48.1%	42.5%	39.5%	38.5%
Total Turnover	7,541	7,474	9,091	13,352	18,000	22,720	24,406	24,628
Gross Profit	3,760	3,680	4,472	6,290	8,439	10,348	11,141	11,425
Gross Margin %	49.9%	49.2%	49.2%	47.1%	46.9%	45.5%	45.6%	46.4%

Source: Company Historic Data & VRS Projections

Company Profile

MLS Multimedia SA was established in October 1989 in Thessalonica, Northern Greece, and listed its shares on the Athens Exchange in May 2001. In 1999, MLS was awarded the European Information Technology Grand Prize.

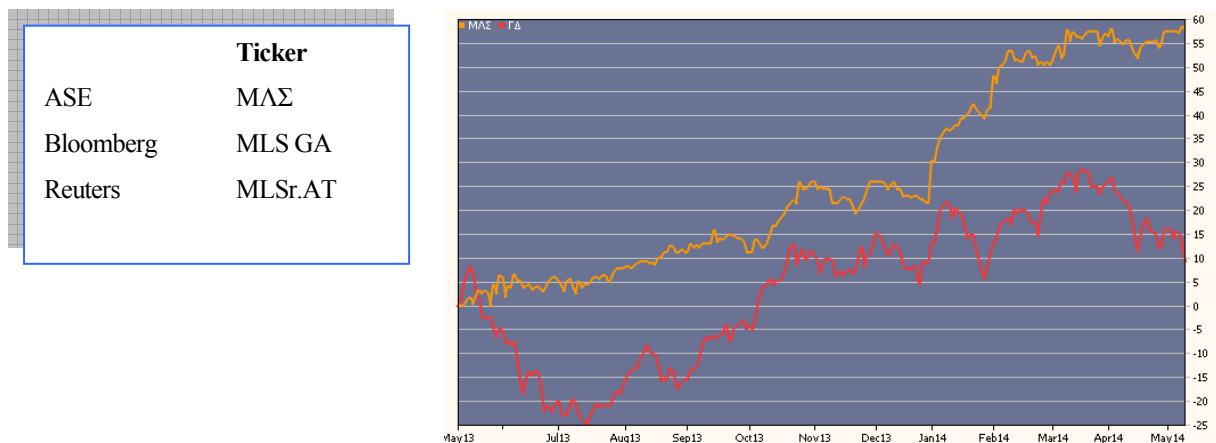
The Company is active in research, development and trade of Information Technology products. Its product portfolio currently includes multimedia & linguistic products, navigation systems & devices, Smartphones and Tablets.

Products

- MLS occupies a leading position in **educational software**. Its product portfolio includes the MLS Talk&Write Greek speech processing system, the Systran automatic translation system, the TOMI electronic encyclopedia and a host of widely popular educational titles. MLS has also developed an interactive touch board.
- In 2003, the Company developed the first automatic **navigation** device on the Greek market. In 2006 MLS brought out a device that propelled it to the forefront of global innovation and completely redrew the parameters for navigation systems, namely the MLS Destinator Talk&Drive™, the only navigation system with voice recognition at that time.
- In 2012 the Company expanded its commercial activities in the mobile phone market by launching the first Greek **Android Smartphone** combining voice recognition and artificial intelligence technologies. Today MLS offers 3 different android Smartphones in the Greek Market occupying about 3% market share.
- In 2013 the Company expanded in the tablet market by launching the first Greek **Android Tablet**. Today MLS offers 4 different android Tablets of 7” screen in the Greek Market occupying about 5% market share.

MLS creates pioneering products, while a strong commitment to R&D fuels its continuous growth and evolution. Investments in this sector, combined with an instinct for developing innovative solutions, allow MLS to supply a constant stream of advanced and useful products to the markets in which it already operates and to expand into new sectors that take technology a step further.

Share Price Performance vs. General Index (base=100)



Shareholders' Structure

Shareholder	Equity Stake
Major Shareholder, Management Team	53%
Institutional Investors & Private Funds	27%
Free Float (with each investor holding less than 5%)	20%

Source: The Company

Valuation (DCF Methodology)

We have applied the DCF methodology which is the most widely accepted approach for corporate valuation and provides a greater depth in understanding of the Company's dynamics. We note that the DCF method incorporates best the Company's growth prospects over the next 5 years.

By projecting the Company's operating profits, and then adjusting for taxes, depreciation, capital expenditures and working capital, we end up with the future free cash flows to the firm. Discounting those cash flows with the weighted average cost of capital (the interest rate that weighs both own capital and debt employed by a company), we end up with the Company's enterprise value, also known as EV that equals with equity value (or market capitalization) plus debt minus cash.

Weighted Average Cost of Capital (WACC). We have applied the following major assumptions in our model:

- **Risk Free Rate** was calculated at 6.2%, which is the average level of the 10-year Greek bond for the last 30 days, based on Bank of Greece official data.
- **Beta factor** at 0.75 based on Reuters data for the sector under which MLS is classified.
- **Market Risk Premium** was calculated at 6.5% (our own assumption).
- **Cost of debt** was set at the level of 7%, and assuming a tax rate of 26%, the net cost of debt was calculated at 5.2%.
- The level of '**debt / total invested capital**' was set at 10%.

Risk Free Rate	6.2%
Beta Factor	0.75
Market Risk Premium	6.5%
Cost of Equity	11.1%
Debt / Debt + Equity	10.0%
Cost of Debt	7.0%
Tax Rate	26.0%
WACC	10.5%

Based on the above calculations the weighted average cost of capital that we use to discount the future cash flows of the Company settles at 10.5%.

The following important assumptions have been made in the DCF model:

	2014 E	2015 E	2016 E	2017 E	2018 E	L-Term Assumptions
ASSUMPTIONS						
Growth Rate (Sales)	46.9%	34.8%	26.2%	7.4%	0.9%	0.5%
EBIT Margin	29.2%	32.6%	32.9%	33.2%	33.9%	33.6%
Tax Rate (effective)	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Working Capital (% of sales)	0.7%	0.4%	1.0%	0.7%	0.9%	0.9%
Capex (% of sales)	25.5%	16.9%	13.5%	12.5%	12.4%	10.0%
Cost of Capital	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Depreciation (% of sales)	15.8%	12.4%	10.5%	10.5%	11.1%	10.0%

Source: VRS Estimates

We have made the following major assumptions for the calculation of the residual value of the Company

- 0.5% growth rate for the infinite period.
- 33.6% EBIT margin based on the average level of the last 2 projected years.
- 0.9% of sales as additional needs for working capital based on the average level of the last 3 projected years.

The following table demonstrates our calculations for the fair value of the Company.

(in euro million)	2014 E	2015 E	2016 E	2017 E	2018 E	L-Term Assumptions
CASH FLOW STATEMENT						
Turnover	13.4	18.0	22.7	24.4	24.6	24.8
EBIT	3.9	5.9	7.5	8.1	8.4	8.3
Less: Adjusted Tax	0.8	1.2	1.5	1.6	1.7	1.7
Adjusted Operating Profit	3.1	4.7	6.0	6.5	6.7	6.6
Plus: Depreciation	2.1	2.2	2.4	2.6	2.7	2.5
Operating Cash Flow	5.2	6.9	8.4	9.1	9.4	9.1
Less: Change in Working Capital	0.1	0.1	0.2	0.2	0.2	0.2
Less: Capex	3.4	3.0	3.1	3.1	3.1	2.5
Cash Flow to the Firm (FCFF)	1.7	3.8	5.1	5.8	6.1	6.4
Discount Factor	0.91	0.82	0.74	0.67	0.61	0.61
Present Value of Cash Flows	1.56	3.12	3.75	3.92	3.73	
Accumulated Present Value	1.56	4.68	8.43	12.35	16.08	
Residual Value						64.4
Present Value of Residual Value						39.1

VALUATION

Enterprise Value	55.21
% Residual Value of Total	70.9%
Less: Net Debt	-1.60

Value of firm (EUR mn)	56.81
Outstanding # of shares (000)	12,417
Value of share (EUR)	4.58

Source: VRS Estimates

Based on our projections for the 5-year period 2014-2018 and applying the DCF methodology for a conservative growth scenario, the fair value of the Company accounts for 56,811,295 euro.

Based on the above valuation we calculate the following major valuation ratios for the Company.

	2013	2014 E	2015 E	2016 E
P / E	48.52x	22.54x	13.89x	10.57x
EV / EBITDA	9.91x	9.19x	6.82x	5.61x
EV / Sales	6.25x	4.25x	3.16x	2.50x

The model's assumptions presume also the following conditions:

- Sustained market shares for navigators with MLS maintaining its leading position;
- Reach the targeted market shares for Smartphones and Tablets;
- Continuous investments in new systems and / or updating of existing products;
- Ability to finance the long-term investment and R&D program.

Sensitivity Analysis

Our valuation incorporates a sensitivity analysis based on the discounted free cash flow method employing a discount rate in the range of 8.8% - 12.8% and a growth rate between 0% - 1.5%.

		WACC				
		8.5%	9.5%	10.5%	11.5%	12.5%
GROWTH	0.00%	5.11	4.88	4.41	4.03	3.72
	0.25%	5.60	4.98	4.49	4.09	3.77
	0.50%	5.74	5.09	4.58	4.16	3.82
	1.00%	6.05	5.32	4.76	4.31	3.94
	1.50%	6.41	5.59	4.96	4.47	4.07

Source: VRS Estimates

Peer Group Valuation Ratios

MLS cannot be valued under the peer group valuation method as it has considerable differences with regard to size, scope and geographic presence with the companies that form the peer group (active in Smartphone and Tablet markets).

Company Name	P/E TTM	P/Sales '13	P/BV (mrq)	P/E '14
Samsung Electronics	7.02	1.00	1.25	7.18
Nokia	121.70	1.59	3.10	24.70
BlackBerry Ltd	neg	0.57	1.06	neg
ZTE Corp	32.81	0.58	1.98	16.66
Motorola Solutions Inc	17.41	2.02	4.66	18.85

Source: Reuters & Bloomberg, data as of May 13 2014

Financial Analysis

Profit & Loss Analysis

Turnover Analysis

For the period 2009-2012 turnover was affected by the economic crisis, posting a decline of about 50%. However, the Company's expansion in Smartphone and Tablet market boosted sales by 21.6% y-o-y in fiscal 2013, and is expected to further fuel growth over the next 5 years. We believe that the Company is well positioned and has the technological expertise to reach an average annual growth rate in sales of at least 22%, mostly attributed to higher market share acquisition in Smartphone and Tablet market in Greece. Our assumptions and projections with regard to turnover have already been presented in previous section of this report.

Cost of Sales Analysis

The majority cost accounts for inventories sold, that also represents about 46.3% of total sales. As sales increase, cost of sales will gradually decrease since the remaining cost increase on a slower pace compared to sales.

Historic & Projected Cost of Sales Breakdown

(in € ,000)	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Cost of Inventories recognized as expense	3,167	5,795	8,217	10,943	11,731	11,570
y-o-y change	26.7%	83.0%	41.8%	33.2%	7.2%	-1.4%
% of Total Sales	34.8%	43.4%	45.7%	48.2%	48.1%	47.0%
Personnel payments and expenses	150.5	147.5	150.5	153.5	156.5	159.7
y-o-y change	-35.5%	-2.0%	2.0%	2.0%	2.0%	2.0%
Payments & other expenses to 3rd parties	477	468	477	487	497	507
y-o-y change	-26.4%	-2.0%	2.0%	2.0%	2.0%	2.0%
Other expenses & services	138	141	144	147	150	153
y-o-y change	-51.5%	2.0%	2.0%	2.0%	2.0%	2.0%
MLS Production Expenses	-403	-500	-500	-500	-500	-500
y-o-y change	-66.3%	24.0%	0.0%	0.0%	0.0%	0.0%
Depreciation	1,089	1,010	1,072	1,142	1,232	1,314
Total Cost of Sales	4,619	7,062	9,561	12,372	13,265	13,203
% of turnover	50.8%	52.9%	53.1%	54.5%	54.4%	53.6%
y-o-y change	21.8%	52.9%	35.4%	29.4%	7.2%	-0.5%

Source: Company Historic Data & VRS Projections

EBITDA Analysis

EBITDA margin accounted for approximately 61.3% in fiscal 2013 from 66.3% in 2012. In fiscal 2014, EBITDA margin is expected to decrease compared to previous years as MLS will make efforts to increase its market share in both Smartphone and Tablet markets resulting to lower profit margins. Our assumptions with regard to operating expenses analysis is presented in the following tables:

Historic & Projected Administrative Expenses Breakdown

(in € ,000)	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Personnel payments and expenses	60.2	63.2	65.1	65.8	66.4	67.1
y-o-y change	-33.7%	5.0%	3.0%	1.0%	1.0%	1.0%
Payments & other expenses to 3rd parties	67.7	69.7	71.8	72.5	73.2	74.0
y-o-y change	-24.7%	3.0%	3.0%	1.0%	1.0%	1.0%
Exceptional Non-Operating Expenses	8.5	6.0	5.0	2.0	1.0	1.0
y-o-y change	-75.9%	-29.0%	-16.7%	-60.0%	-50.0%	0.0%
Other expenses	59	61	63	63	64	65
y-o-y change	3.2%	3.0%	3.0%	1.0%	1.0%	1.0%
Depreciation	102	101	107	114	123	131
Administrative expenses	297	301	312	318	328	338
% of turnover	3.27%	2.25%	1.73%	1.40%	1.34%	1.37%
y-o-y change	-14.6%	1.2%	3.7%	1.9%	3.1%	3.1%

Source: Company Historic Data & VRS Projections

Historic & Projected Distribution Expenses Breakdown

(in € ,000)	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Personnel payments and expenses	40.1	42.1	43.2	44.3	45.4	46.5
y-o-y change	-33.2%	5.0%	2.5%	2.5%	2.5%	2.5%
Payments & other exp. to 3rd parties	108.1	111.3	114.1	116.9	119.9	122.9
y-o-y change	-24.2%	3.0%	2.5%	2.5%	2.5%	2.5%
Other expenses	837	1,068	1,170	1,409	1,464	1,428
y-o-y change	7.2%	27.6%	9.5%	20.4%	4.0%	-2.5%
Depreciation	71	71	75	80	86	92
Selling, distribution expenses	1,056	1,292	1,402	1,650	1,716	1,690
% of turnover	11.6%	9.7%	7.8%	7.3%	7.0%	6.9%
y-o-y change	-7.8%	22.3%	8.5%	17.6%	4.0%	-1.5%

Source: Company Historic Data & VRS Projections

Historic & Projected R&D Breakdown

(in € ,000)	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Personnel payments and expenses	250.9	253.4	255.9	257.2	258.5	259.8
y-o-y change	-33.6%	1.0%	1.0%	0.5%	0.5%	0.5%
Payments & other exp. to 3rd parties	711	718	725	711	697	683
y-o-y change	-26.9%	1.0%	1.0%	-2.0%	-2.0%	-2.0%
Other expenses	51.6	52.1	52.6	52.9	53.2	53.4
y-o-y change	-41.1%	1.0%	1.0%	0.5%	0.5%	0.5%
MLS Production Expenses	-1,009	-1,000	-1,000	-1,000	-1,000	-1,000
y-o-y change	-39.2%	-0.9%	0.0%	0.0%	0.0%	0.0%
Depreciation	930	923	979	1,043	1,125	1,201
R&D Expenses	935	946	1,013	1,064	1,133	1,196
% of turnover	10.3%	7.1%	5.6%	4.7%	4.6%	4.9%
y-o-y change	-14.0%	1.2%	7.0%	5.0%	6.5%	5.6%

Source: Company Historic Data & VRS Projections

Key Elements of Balance Sheet

CAPEX: The majority of investments refer to intangible assets in the form of product (software) development and account for employee and related expenses. For the period 2014-2018, MLS is expected to invest about € 3 mn per year for intangible assets part of which is expected to be subsidized by the Greek State and the remaining from own capital.

Working capital is expected to reduce significantly in fiscal 2014 as the Company is determined to reduce its inventories and receivables as a percent of total sales compared to the levels at the end of the fiscal 2013.

The following tables present the most important financial ratios with regard to working capital, company's leverage and profitability:

Historic & Projected Balance Sheet Ratios

	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Stock Days	370	290	240	220	210	210
Debtors Days	252	200	170	140	135	135
Creditors Days	302	300	290	285	280	270
Total Liab. / Total Equity	0.48	0.63	0.65	0.66	0.62	0.56
Bank Loans/ Total Equity	0.05	0.10	0.09	0.08	0.07	0.06
Current Ratio	1.77	1.51	1.54	1.60	1.71	1.84
Quick Ratio - Acid Ratio	1.27	1.09	1.12	1.17	1.28	1.40

Source: Company Historic Data & VRS Projections

Historic & Projected P&L Ratios

	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Profit Margins						
Gross Margin	49.2%	47.1%	46.9%	45.5%	45.6%	46.4%
EBITDA Margin	61.3%	45.0%	45.0%	43.3%	43.8%	45.0%
EBIT Margin	26.9%	29.2%	32.6%	32.9%	33.2%	33.9%
Pre-tax profit margin	14.1%	23.6%	28.4%	29.6%	30.2%	30.9%
Net Profit margin	12.9%	18.9%	22.7%	23.7%	24.1%	24.7%
Cost Absorption & Sources						
Cost of sales on sales	50.8%	52.9%	53.1%	54.5%	54.4%	53.6%
Administrative cost on sales	3.3%	2.3%	1.7%	1.4%	1.3%	1.4%
Distribution cost on sales	11.6%	9.7%	7.8%	7.3%	7.0%	6.9%
R&D Expenses on Sales	10.3%	7.1%	5.6%	4.7%	4.6%	4.9%

Source: Company Historic Data & VRS Projections

HISTORIC & PROJECTED PROFIT & LOSS ACCOUNT

(in ,000 €)	2012	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Turnover	7,474	9,091	13,352	18,000	22,720	24,406	24,628
y-o-y Change %	-0.9%	21.6%	46.9%	34.8%	26.2%	7.4%	0.9%
Cost of Sales	3,794	4,619	7,062	9,561	12,372	13,265	13,203
% of Turnover	50.8%	50.8%	52.9%	53.1%	54.5%	54.4%	53.6%
y-o-y Change %	0.3%	21.8%	52.9%	35.4%	29.4%	7.2%	-0.5%
Total Gross Operating Results	3,680	4,472	6,290	8,439	10,348	11,141	11,425
Gross Operating Margin	49.2%	49.2%	47.1%	46.9%	45.5%	45.6%	46.4%
y-o-y Change %	-2.1%	21.5%	40.7%	34.2%	22.6%	7.7%	2.6%
Other operating income	110	266	150	150	150	150	150
Operating Expenses	2,581	2,289	2,540	2,727	3,031	3,177	3,224
% of Turnover	34.5%	25.2%	19.0%	15.2%	13.3%	13.0%	13.1%
y-o-y Change %	-1.2%	-11.3%	11.0%	7.4%	11.1%	4.8%	1.5%
EBITDA	4,958	5,571	6,006	8,095	9,845	10,680	11,089
EBITDA Margin	66.3%	61.3%	45.0%	45.0%	43.3%	43.8%	45.0%
y-o-y Change %	21.9%	12.4%	7.8%	34.8%	21.6%	8.5%	3.8%
Depreciation	3,748	3,122	2,105	2,233	2,378	2,566	2,738
% of Turnover	50.1%	34.3%	15.8%	12.4%	10.5%	10.5%	11.1%
EBIT	1,210	2,449	3,901	5,862	7,467	8,114	8,351
% of Turnover	16.2%	26.9%	29.2%	32.6%	32.9%	33.2%	33.9%
y-o-y Change %	-16.3%	102.5%	59.2%	50.3%	27.4%	8.7%	2.9%
Net Financial Results	-250	-1,170	-750	-750	-750	-750	-750
Net Results Before Taxes	959	1,279	3,151	5,112	6,717	7,364	7,601
EBT Margin	12.8%	14.1%	23.6%	28.4%	29.6%	30.2%	30.9%
y-o-y Change %	-29.6%	33.4%	146.3%	62.2%	31.4%	9.6%	3.2%
Income Tax	16	108	630	1,022	1,343	1,473	1,520
Effective Tax Rate	1.7%	8.5%	20.0%	20.0%	20.0%	20.0%	20.0%
Net Results (a.t.)	943	1,171	2,521	4,089	5,374	5,891	6,081
Net Margin	12.6%	12.9%	18.9%	22.7%	23.7%	24.1%	24.7%
y-o-y Change %	-29.3%	24.2%	115.3%	62.2%	31.4%	9.6%	3.2%

Source: Company Historic Data & VRS Projections

HISTORIC & PROJECTED BALANCE SHEET

	2012	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Assets							
Total Intangible Assets	32,119	18,545	21,545	24,545	27,545	30,545	33,545
Accumulated depreciation	21,446	8,028	10,032	12,106	14,320	16,716	19,280
Total Net Intangible Assets	10,673	10,517	11,513	12,439	13,225	13,829	14,265
Tangible Assets	3,034	1,920	3,030	3,070	3,130	3,190	3,250
Accumulated depreciation	1,788	354	454	614	778	948	1,122
Total Net Tangible Assets	1,246	1,567	2,576	2,457	2,352	2,243	2,128
Financial & Other L-Term Assets	211	152	149	146	143	140	137
Total Fixed Assets	12,130	12,236	14,238	15,042	15,720	16,212	16,531
% Total Assets	51.29%	42.43%	41.58%	39.22%	36.22%	34.64%	33.84%
Inventories	2,863	4,685	5,611	6,287	7,457	7,632	7,596
Debtors	4,582	6,277	7,316	8,384	8,715	9,027	9,109
Other Receivables	3,032	3,016	3,338	3,600	4,544	4,881	4,802
Cash in bank and at hand	1,045	2,620	3,742	5,043	6,967	9,053	10,816
Total Current Assets	11,522	16,599	20,007	23,313	27,683	30,593	32,324
% Total Assets	48.71%	57.57%	58.42%	60.78%	63.78%	65.36%	66.16%
Total Assets	23,652	28,835	34,245	38,355	43,403	46,805	48,854
Equity & Liabilities							
Share capital	4,594	4,594	4,594	4,594	4,594	4,594	4,594
Share premium account	23	23	23	23	23	23	23
Reserves & Profit Carried Forward	13,053	14,844	16,372	18,598	21,489	24,276	26,631
Minority Rights	0	0	0	0	0	0	0
Total Capital & Reserves	17,671	19,462	20,989	23,216	26,106	28,893	31,249
% Total Equity & Liabilities	74.71%	67.50%	61.29%	60.53%	60.15%	61.73%	63.96%
L-Term Bank Loans	0	0	0	0	0	0	0
Provisions for Staff Retirement	90	86	86	87	87	87	88
Government Grants	0	0	700	650	600	550	500
Total L-Term Liabilities	90	86	786	737	687	637	588
Suppliers	2,547	3,827	5,804	7,596	9,660	10,176	9,766
Banks	0	1,016	2,000	2,000	2,000	2,000	2,000
Taxes-duties	0	0	0	0	0	0	0
Sundry debtors	3,345	4,443	4,665	4,805	4,950	5,098	5,251
Total Current Liabilities	5,892	9,287	12,469	14,402	16,610	17,274	17,017
Total Liabilities	5,981	9,373	13,256	15,138	17,297	17,912	17,605
% Total Equity & Liabilities	25.29%	32.50%	38.71%	39.47%	39.85%	38.27%	36.04%
Total Equity & Liabilities	23,652	28,835	34,245	38,355	43,403	46,805	48,854

Source: Company Historic Data & VRS Projections

HISTORIC & PROJECTED CASH FLOW

(in € ,000)	2012	2013	2014 E	2015 E	2016 E	2017 E	2018 E
Profit after tax	943	1,171	2,521	4,089	5,374	5,891	6,081
Plus: Change of Depreciation	3,748	3,122	2,105	2,233	2,378	2,566	2,738
Gross Cash Flow	4,695	-13,681	4,625	6,323	7,752	8,457	8,819
<u>Change in:</u>							
(-) Trade Debtors	-365	1,695	1,039	1,067	331	312	82
(-) Inventory	28	1,823	925	676	1,170	175	-36
(-) Other Receivables	390	-16	322	262	944	337	-79
(+) Trade Creditors	-1,923	1,280	1,977	1,792	2,064	516	-410
(+) Liabilities for taxes	0	0	0	0	0	0	0
(+) Other Short - term liabilities	-432	1,099	222	140	144	148	153
Change in Working Capital	-2,407	-1,123	-88	-73	-237	-160	-224
Operating Cash Flow	2,288	-14,804	4,538	6,250	7,515	8,297	8,595
<u>Change in:</u>							
(-) Intangible Assets	3,210	-13,574	3,000	3,000	3,000	3,000	3,000
(-) Tangible Assets	18	-1,113	1,110	40	60	60	60
(-) Other long - term receivables	5	-59	-3	-3	-3	-3	-3
(+) Other Long - term liabilities	-21	-4	700	-50	-50	-50	-50
(+) Cons. diff./ Minority Interests	0	0	0	0	0	0	0
Cash Flow from Investment	-3,254	14,743	-3,406	-3,087	-3,107	-3,107	-3,107
Net Cash Flow Before Financing Activities	-966	-61	1,131	3,163	4,408	5,190	5,488
Increase in Share Capital	0	0	0	0	0	0	0
Increase in Share Premium Account	0	0	0	0	0	0	0
Net Change in Reserves	186	1,614	0	0	0	0	0
Change in Long - Term Debt	0	0	0	0	0	0	0
Change in Short - Term Debt	0	1,016	984	0	0	0	0
Dividends	745	993	993	1,863	2,483	3,104	3,725
Minority Interests on Profit	0	0	0	0	0	0	0
Net Cash Flow from Financing	-559	1,636	-10	-1,863	-2,483	-3,104	-3,725
Cash at Beginning	2,570	1,045	2,620	3,742	5,043	6,967	9,053
Change in Cash	-1,525	1,575	1,122	1,300	1,925	2,086	1,763
Cash at End	1,045	2,620	3,742	5,043	6,967	9,053	10,816

Source: Company Historic Data & VRS Projections

Notes

Notes

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VRS Makes a Statement about Real Estate Market Risk

The real estate market is to a large extent cyclical and faces risks at a number of levels. Among others, the following factors tend to affect the demand and the ability of tenants to pay rent:

- Macroeconomic environment
- Level of supply
- Interest rates

Furthermore, the following factors are mainly, but not exclusively, accountable for the course of property values:

- Macroeconomic environment
- Corporate Earnings
- Interest rates
- Financing mechanisms offered
- Returns on other types of assets
- Legal and tax legislation

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DISCLOSURE CHECKLIST

Covered Company	Reuters	Price Close	Date of Price Close	Disclosure
MLS	MLSr.AT	€ 4.23	13 May 2014	2, 4, 6

1. VRS has acted as financial consultant for the covered company within the past 24 months.
2. VRS has sent the research report to the covered company, prior to publication or dissemination, for factual verification.
3. VRS has changed the contents of the initially sent report, with respect to: no change has been made.
4. VRS has received compensation from the covered company for the preparation of this research report.
5. VRS produces research reports for this company on systematic basis.
6. VRS produces research reports for this company on demand basis.
7. VRS has produced a research report for this company within the past 12 months.

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