

Catalis



Catalis SE
July 2012

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Catalis at a glance



Executive Summary

Company	<ul style="list-style-type: none"> • One of the leading outsourcing providers for the media industry • Long standing track record • Two operating units: Testronic and Kuju
Business overview	<ul style="list-style-type: none"> • Testronic: Quality control of any content for any communication medium and for all devices • Kuju: Work-for-hire third party development studio for video games
Market drivers	<ul style="list-style-type: none"> • Increasing digitization of media content • Rapid expansion in number of delivery platforms • Increasing complexity of underlying technology
Success factors	<ul style="list-style-type: none"> • Demand driven, not speculative work-for-hire and outsourcing services • Short time to market • Prime locations, near important clients

Key financial figures

	2010	2011	2012e*
Revenues (kEUR)	25,793	26,415	28-30,000
YoY (%)	-19.4%	2.4%	6.0-13.6%
EBIT (kEUR)	-1,704	-3,548	0.8-1.2
EBIT margin (%)	n/a	n/a	2.7-4.3%
Net profit (kEUR)	-2,371	-7,428	↗
YoY (%)	n/a	n/a	n/a
EPS (EUR)	-0.06	-0.17	↗
Equity ratio (%)	45.6%	29.3%	↗
Net debt (kEUR)	6,969	9,547	↘
Employees (annual average)	366	350	↘
Operating cash flow (kEUR)	822	-2,158	↗
Free cash flow (kEUR)	-553	-4,870	↗

Catalis is one of the leading outsourcing providers of technology services for the development of digital content by the film, games and software industry. With 330 employees in five countries, Catalis is focused on testing and development services for the leading media companies in the world. Two business units enable Catalis to realize synergy effects in a world of increasing convergence of content.

Product portfolio



<p style="text-align: center;">Testing Revenue 2011: EUR 14.0 mn</p>	
<p>Leading provider of quality assurance services for any kind of digital media content distributed over any digital medium for all kind of devices</p>	
Business overview	<ul style="list-style-type: none"> • Testing of films, games, music, e-learning, interactive software • Distribution over the Internet, Intranet, CD, DVD, Blu-ray Disc, USB • Devices like CD-, DVD- and Blu-ray players, TV, PC, mobile equipment, game consoles, PDA
Clients	<ul style="list-style-type: none"> • Hollywood Major Studios like Warner, Paramount, Disney, Universal, • Independent film studios like Deluxe, Technicolor • Game developers like EA, Eidos • Global brand names like Bose, Philips, HP, Nokia , Motorola • Digital TV providers like Kabel Deutschland, Unitymedia

<p style="text-align: center;">Third party development of video games Revenue 2011: EUR 12.3 mn</p>	
<p>Work-for-hire video games development studio for all games consoles</p>	
Business overview	<ul style="list-style-type: none"> • PS2 and PS3, XBOX360, Wii • PC • Mobile platforms PSP, DSi/3DS • Download games
Clients	<ul style="list-style-type: none"> • Long-standing client relationships with most of the large video game publishers like EA, Microsoft, Sony, Sega and Nintendo



Catalis is a leading outsourcing provider of media testing and video games development services with excellent access to the world's leading media groups

Key operating highlights



- World leading provider of outsourcing services for content testing and quality assurance
- Among the leading players for third-party video games development (“work-for-hire”)
- Best-in-class services with more stringent tests and higher performance standards than most peers
- Covering a large part of the supply chain in the digital media and entertainment industry
- Strong domestic and international reputation as a high quality service provider
- Long-lasting customer relationships with the leading media companies in the world
- Strategic locations close to market leading media groups
- Highly flexible multi-platform organization
- Highly committed management team with long-standing industry expertise and a proven restructuring track-record



One stop solution for all services in development of video games ...



... and in testing and quality assurance for all digital media



Niches with high market entry barriers



Long-standing customer relationships



Strong client portfolio



Realization of synergy effects



Further M&A transactions possible

Key financial highlights



- Both testing and development of video games are growth markets with attractive margin opportunities
- Staff capacity utilization is the main success driver
- Strong focus on client acquisition
- Deconsolidation of loss-making DDP in 2012
- Non recurring items expected to drop substantially in 2012e
- Financial turnaround in 2012 expected
- Catalis' customer portfolio is characterized by high credit quality. Bad debt is negligible.
- Benefitting from the current weakness of the Euro
- High capital returns due to asset light business model possible



Turnaround in 2012 expected



High revenue growth possible



Formerly loss-ridden DDP without impact in 2012e



Benefitting from Euro weakness



Non-recurring items expected to drop in 2012e



No bad debt



Catalis presents a attractive equity story with compelling turnaround opportunities

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Testronic Labs



Testing
Revenue 2011: EUR 14.0 mn

Leading provider of quality assurance services for any kind of digital media content distributed over any digital medium for all kind of devices

Experience

- 10+ years experience of QA markets
- Strong customer relationships with major media companies
- No. 1 in DVD/Blu-ray testing, no. 3 in games testing

Expertise

- Highly trained staff and consultants
- Cutting edge technology for debug, process control
- Leading localization capabilities

Strategy

- Focus on fast growing digital media sector in Europe and US
- Investment in highly secure and client approved testing facilities
- Combination of high skills sets and low cost plants such as Poland

Clients

Film and Entertainment



Games Testing



Digital TV Interactive



Software & Hardware Testing / Certification



Testronic operating performance



- End of life cycles of the current console generation, replacement in less than 24 months expected
- Increased activity in digital games download
- Significant growth in mobile (iOS and Android) and in casual games (i.e. Facebook) testing expected
- Emergence of “Freemium” business model
- Strategic collaboration with a leading developer of social games, providing Testronic to hire up to 100 employees by 2013e
- New customers include digital agencies, cable operators and video-streaming service providers
- Continued growth in hardware and consultancy work with Dutch and German cable operators and various Digital TV customers
- The Blu-ray segment continued its strong growth while the installed base of Blu-ray players is increasing as prices fall
- Acceptance by influential trade bodies such as WiMedia Alliance, DEG, ESCA, Wireless Power Consortium, Connected Car Consortium



Increasing digitization of all media content



Expansion in number of delivery platforms



Increasing complexity of underlying technology



Technology driven content variety



Increasing project budgets



Proven technology leadership



Substantial increase in games testing activities

Kuju



Third party development of video games
Revenue 2011: EUR 12.3 mn

Work-for-hire video games development studio for all games consoles

Experience

- 20+ years of experience, delivered 50 titles with retail sales of USD 550 mn
- Safe pair of hands: on time and on budget
- Multi studio concept to maintain “games culture”

Expertise

- Platforms covered: Wii, PS2/3, XBOX 360, PC, PSP, DSi/3DS and download
- Diverse genres include casual, children's games, action, tactical, music/party

Strategy

- Large publishers to mitigate credit risk
- Upside royalty income possible, but not assumed
- Diverse client base includes most major world publishers



Clients



- Award winning world-leading independent developer of music, party and social games
- All gaming platforms
- Brighton, UK



- 1st and 3rd person action games
- For Xbox 360, PS3 and PC
- Brno, Czech Republic



- Character and license action titles on PS3, Wii™ and DSi/3DS
- Wealth of experience gained by working on Nintendo titles
- London, UK

Kuju operating performance



- With 1% world market share, Kuju is the second largest independent developer in the world
- Total number of work-for-hire projects is set to increase since publishers focus their internal studios on next-generation consoles
- Increase in budget size due to need for full utilization of the available technology
- Downloadable content drives investment in new games as publishers take advantage of an additional distribution platform
- Increase in the installed user base of new-generation consoles as long-term driver
- Most customers are based in US on West Coast but increasing customer base in Japan
- More and more, Kuju is named by publishing partners as their outsourcing partner



Three independent studios with high reputation in its niche



Ongoing outsourcing activities by publishers



Technology driven content variety



New console generation



Broadening client base



Increasing number of best selling games



On the way to achieve brand name status

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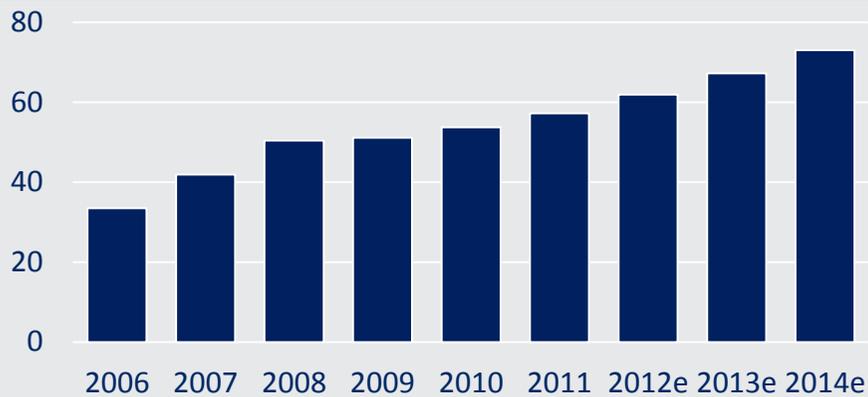
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Video games

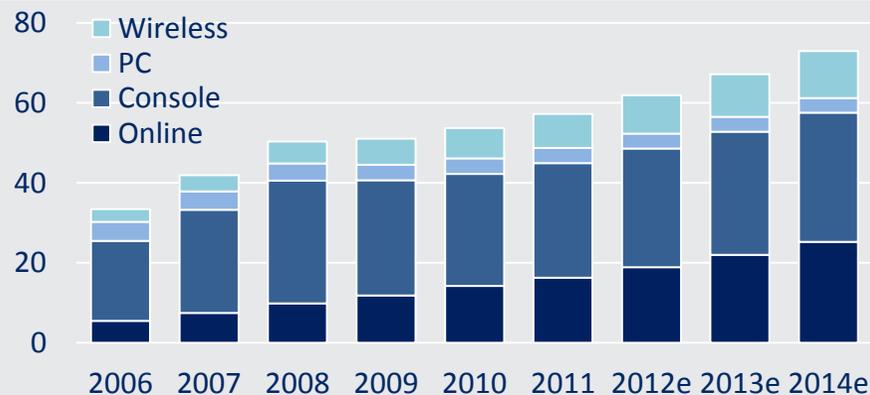
Sector	Multiplayer / Online	Retail box products	Social / browser / mobile
Game description	<ul style="list-style-type: none"> • Persistent Virtual Worlds • Mainly PC based 	<ul style="list-style-type: none"> • Wide variety of games including action, music, sports, driving, • Mainly console (PS3, XBOX 360, Wii) 	<ul style="list-style-type: none"> • Small cheap games, usually 2D • Mainly PC (or handset)
Examples	<ul style="list-style-type: none"> • World of Warcraft • Eve Online • Lineage 	<ul style="list-style-type: none"> • Call of Duty: Black Ops • Guitar Hero • Gran Turismo 	<ul style="list-style-type: none"> • Numerous simple titles • Farmville (Facebook) • Club Penguin (Browser)
Peers	<ul style="list-style-type: none"> • Activision • CCP • Microsoft • NC Soft 	<ul style="list-style-type: none"> • Activision, Electronic Arts, Ubisoft • Warner Bros, Disney • Sony, Microsoft, Nintendo • Konami , Capcom, SquareEnix 	<ul style="list-style-type: none"> • Big Point, Game Forge, Frogster, Bob mobile • Zynga, Playdom, Play Fish (Facebook)
Costs	<ul style="list-style-type: none"> • Development costs > USD 50 mn • Maintenance costs > USD 10 mn p.a. 	<ul style="list-style-type: none"> • Development costs USD 1-25 mn • No maintenance costs 	<ul style="list-style-type: none"> • Development costs > USD 0.5 mn • Maintenance to keep refreshing catalogue and support persistence
Time to market	<ul style="list-style-type: none"> • 3 years 	<ul style="list-style-type: none"> • 1-2 years 	<ul style="list-style-type: none"> • 1-4 months
Business model	<ul style="list-style-type: none"> • Sold in store USD 50 • Subscription USD 7-15 p. m. • In-game goods USD 1-2 per item 	<ul style="list-style-type: none"> • Sold in store USD 50 	<ul style="list-style-type: none"> • Often free with a charge to move to next level > USD 1 • In-game goods USD 1-2 per item
Market size 2011	<ul style="list-style-type: none"> • USD 8 bn 	<ul style="list-style-type: none"> • USD 25 bn 	<ul style="list-style-type: none"> • USD 5 bn

Video games

World market for video games (USD bn)



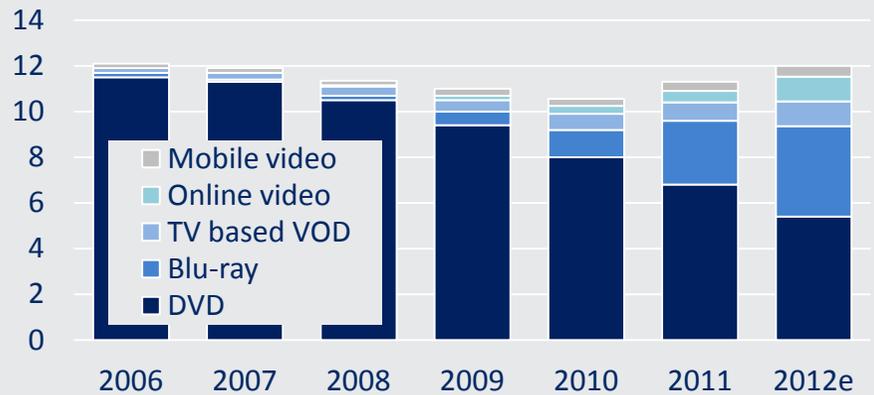
World market by platform (USD bn)



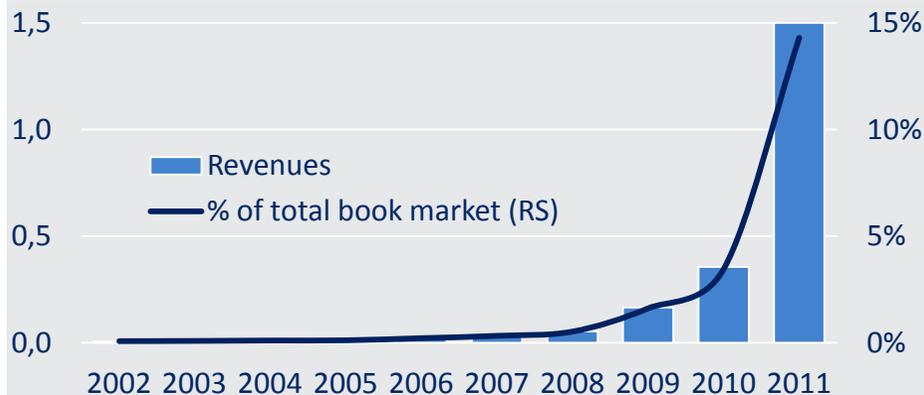
- Global market for video games is expected to grow from USD 57.2 bn in 2011 to USD 73.0 bn in 2014e
- CAGR 2011-14e is expected to be 8.4%
- With 15.6%, online games are expected to show highest compound annual growth rates 2011-14e, followed by mobile games with 11.4%
- Business models based on uploading content to networks will become the norm
- Online and mobile games should be responsible for more than 50% of the total market by 2014e
- PC based games and console games should lose share by 2014e

Quality assurance and testing

Video US retail sales (USD bn)



US E-books sales (USD bn)



- After 4 years of decline, US video market has increased in 2011 once again. Total market should increase from USD 11.3 bn in 2011 to USD 12.0 bn in 2012
- Box based video systems (DVD, Blu-ray discs) will be responsible for 78% of total US video market in 2012e
- Social games testing will increase substantially in importance
- Main drivers for e-Books declining hardware prices, increasing content variety and price discount vs. paper based books
- On average, 15 out of the top 50 book list were e-books in 2011
- In 2011, every 7th book sold in the US was an e-book

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Operational	
Product expansion	<ul style="list-style-type: none"> • Expansion of product development initiatives • Increase of usability • New product lines (e-books) • Expansion of studio capacities • Leverage first mover advantage in the testing and quality assurance business • Market entry in games testing
Exploiting synergies between units	<ul style="list-style-type: none"> • Intensifying collaboration between the segments • Further improve market share in games testing • Strengthening brand awareness

Financial	
Improve profitability	<ul style="list-style-type: none"> • Further reduce headcount in both business segments • Reduce overhead costs • De-consolidation of DDP loss making units • Strengthening client relationships
Improve balance sheet	<ul style="list-style-type: none"> • Reduce leverage • Restructure debt

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Q1/12 at a glance

Operational highlights

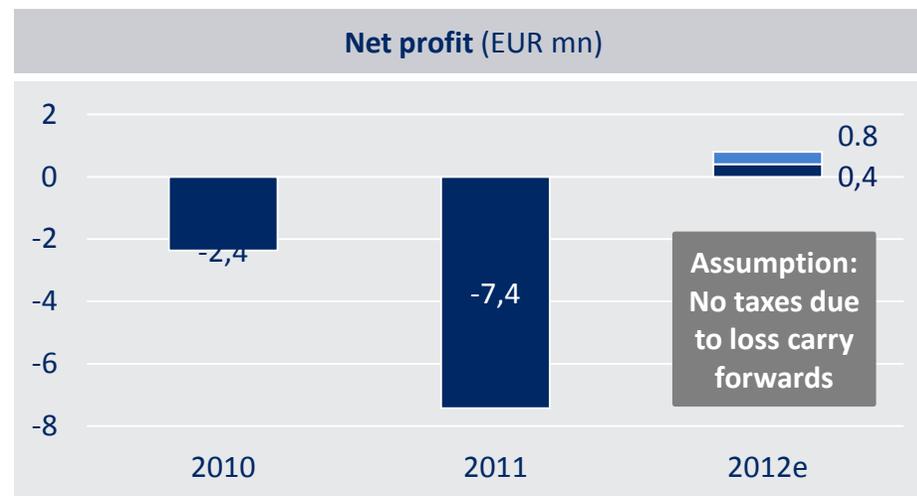
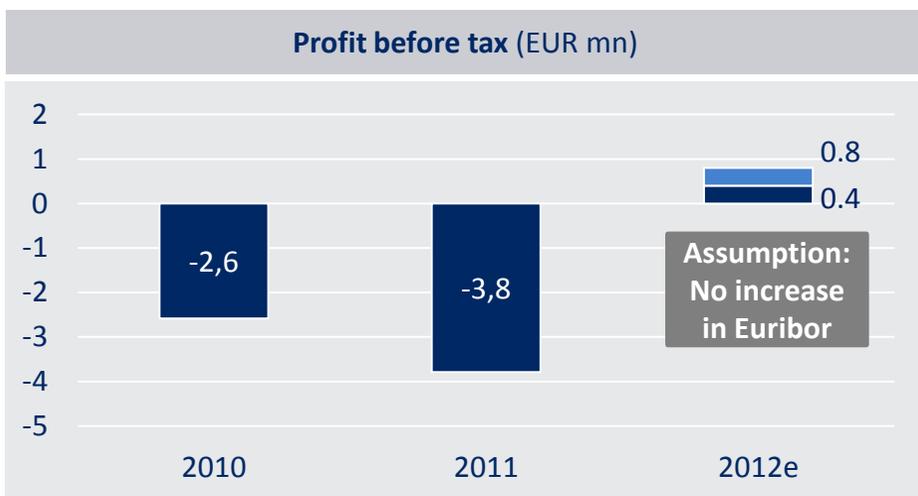
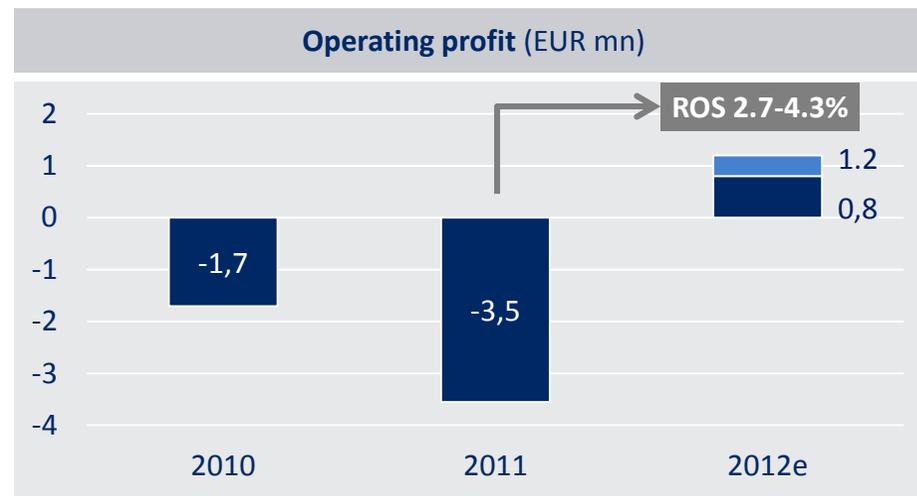
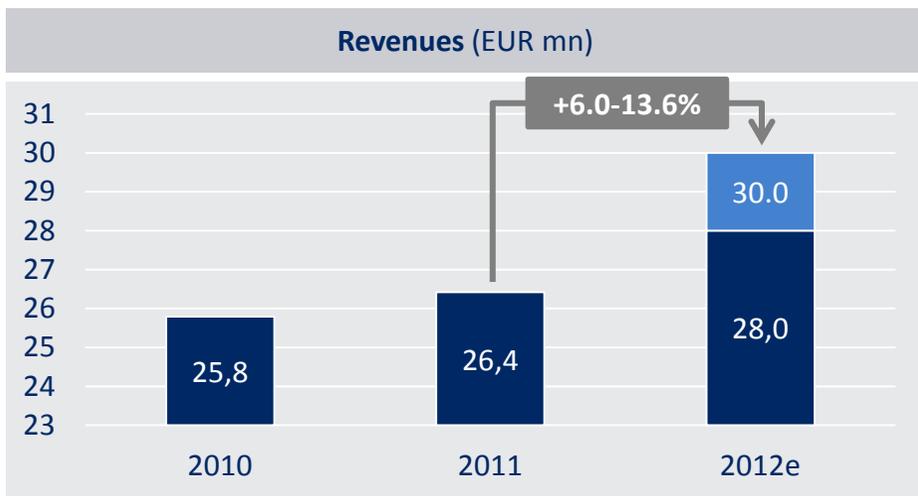
Operational highlights	
Group level	<ul style="list-style-type: none"> • Q1 traditionally the weakest quarter of the year • Strong revenue and EBITDA growth • Q2 so far significantly above 2011 in terms of revenues and profitability • Continuous reduction of headcount
Testronic	<ul style="list-style-type: none"> • Revenues EUR 3.6 mn (Q1/11: EUR 3.2 mn) • EBIT EUR 0.2 mn (Q1/11 EUR 0.1 mn) • Performance above expectations • Main driver: Hardware and games testing
Kuju	<ul style="list-style-type: none"> • Revenues EUR 3.1 mn (Q1/11: EUR 3.2 mn) • EBIT EUR 0.4 mn (Q1/11 EUR 0.3 mn) • Zoë Mode signed two new contracts with a first party console manufacturer
Others	<ul style="list-style-type: none"> • DDP remains disappointing • Strong decline in US and UK games retail sales • Rapidly evolving Chinese games market • Strong US consumer sales • UltraViolet achieved a milestone of 800,000 household accounts in the United States

Financial highlights

	Q1/11	Q1/12	YoY
Revenues (kEUR)	6,065	6,902	+13.8%
EBITDA (kEUR)	382	408	+6.1%
EBIT (kEUR)	158	98	-38.0%
EBIT margin (%)	2.6%	1.4%	-120 bps
EBT (kEUR)	80	-92	n/a
Net profit (kEUR)	80	-88	n/a
EPS (EUR)	0.00	0.00	n/a
Equity ratio (%)	29.3%	30.0%	+70 bps
Net debt (kEUR)	9,547	9,617	0.7%
Employees (annual average)	345	324	-6.1%
Operating cash flow (kEUR)	-576	-355	+38.4%
Free cash flow (kEUR)	-1,013	-463	+118.8%

With DDP no longer being loss making and a new management board with strong turnaround track record, Catalis is on its way to reach the profit guidance of EUR 0.8-1.2 mn

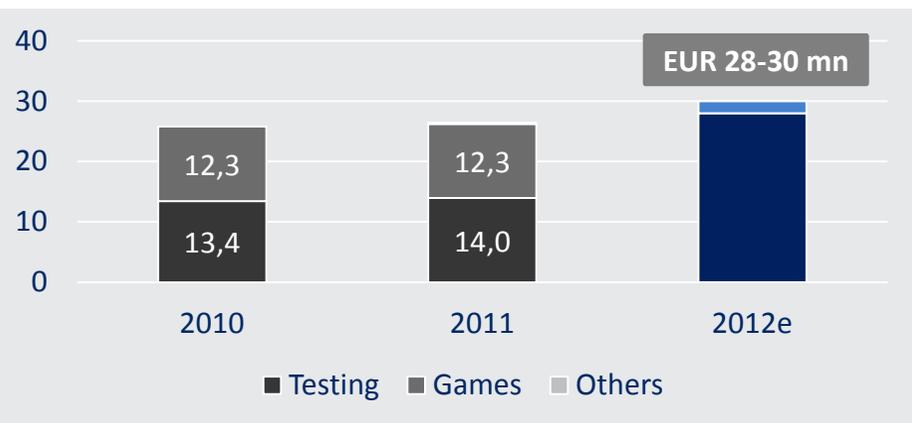
Key performance indicators, 2010-12e



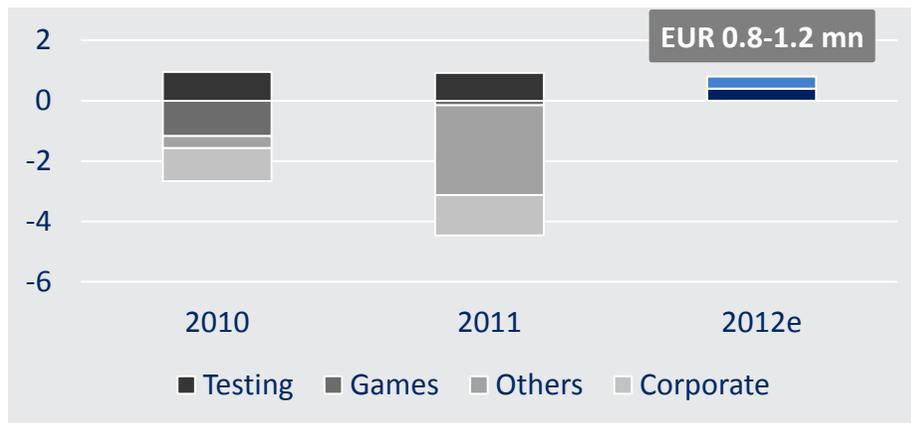
Segment information, 2010-12e



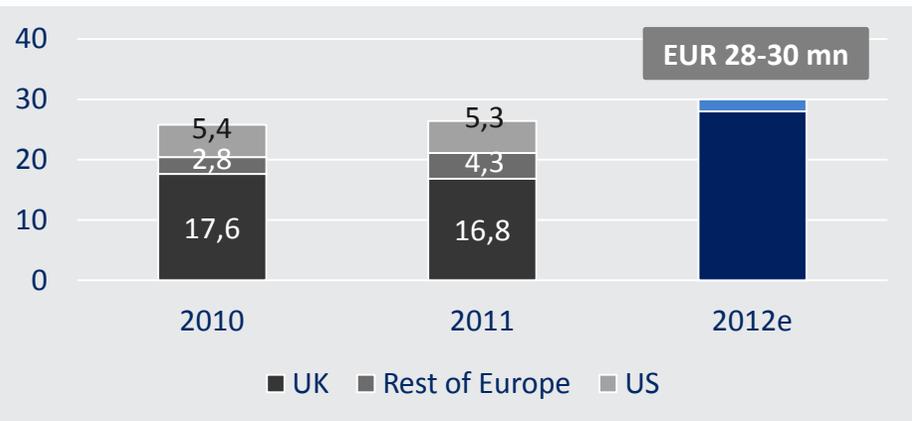
Revenue breakdown by segment (EUR mn)



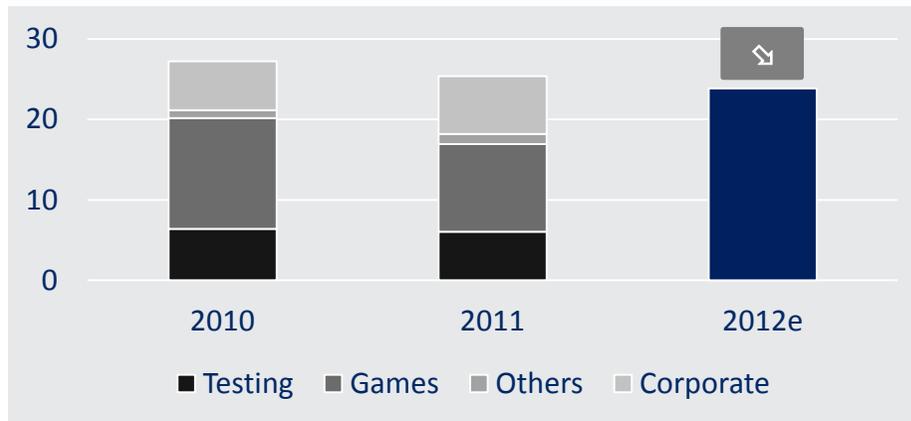
EBIT breakdown by segment (EUR mn)



Revenue breakdown by country (EUR mn)

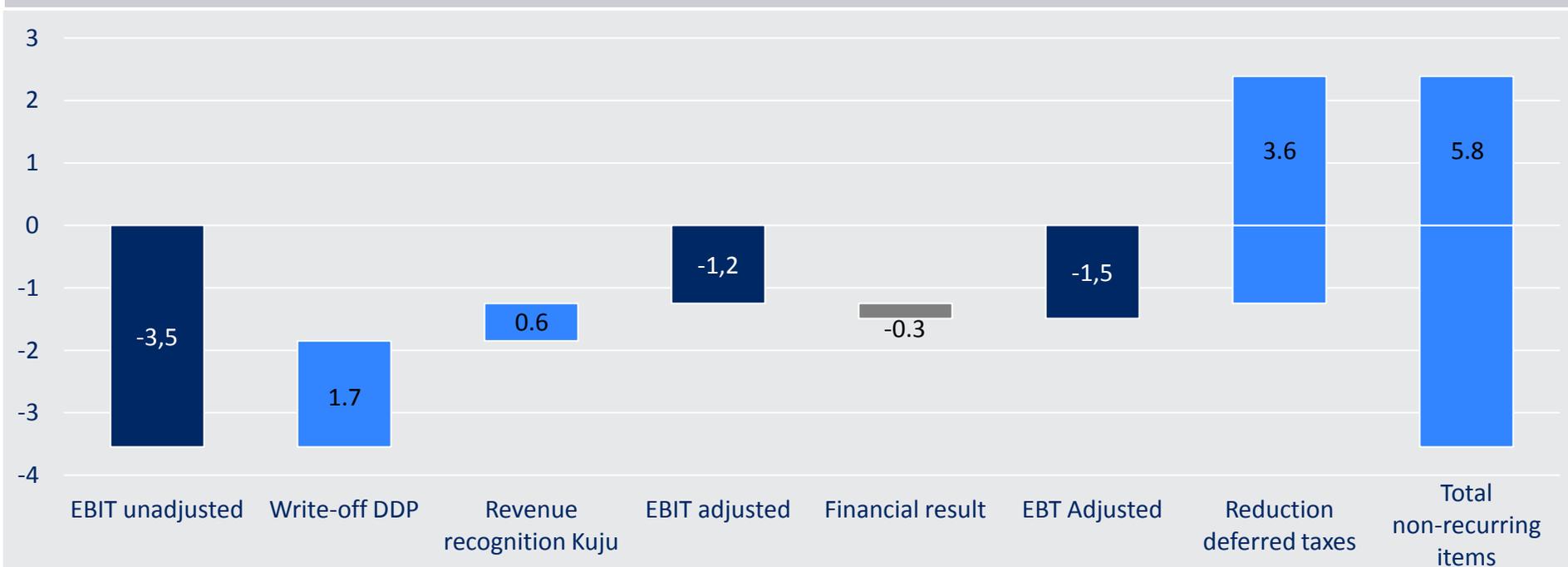


Asset breakdown by segment (EUR mn)



2011 non-recurring items

Elimination of non-recurring items (EUR mn)



Total non-recurring items for 2011 add up to EUR 5.8 mn.
Adjusted EBIT excluding write-offs and changes in revenue recognition with Kuju was EUR -1.2 mn

Research coverage



Research report as of July 4, 2012	
Price target (EUR)	0.22
Current share price (EUR)	0.09
Rating	Buy

	2011	2012e	2013e	2014e
Revenues (kEUR)	26,415	30,226	35,264	39,858
EBITDA (kEUR)	-1,095	1,905	2,609	3,269
EBIT (kEUR)	-3,548	988	2,011	2,650
EBIT margin (%)	-13.4%	3.3%	5.7%	6.6%
EBT (kEUR)	-3,791	584	1,785	2,507
Net profit (kEUR)	-7,428	564	1,745	2,267
EPS (EUR)	-0.17	0.01	0.03	0.04
Equity ratio (%)	29.3%	33.8%	39.3%	47.3%
Net debt (kEUR)	9,547	8,395	6,263	2,850
Employees (annual average)	350	330	340	350
Operating cash flow (kEUR)	-2,158	930	2,728	3,443
Free cash flow (kEUR)	-4,870	1,152	2,132	3,414

Sphene capital

09 July 2012

Catalis

Reuters: AECO DE Bloomberg: XAE GR

Testing and Development

Technology leader in testing and development services
Catalis is a leading outsourcing service provider, serving the global media industry with its 324 employees. Through its two wholly owned subsidiaries, Testronic Laboratories and Kuuju Entertainment, Catalis offers quality assurance and development services to film, video games, hardware and software companies. Its two pillars allow the company to exploit synergies and balance out opposing industry trends. Catalis thus enjoys a unique global position, especially with respect to the increasing convergence of the media, i.e. DVD/Blu-ray, video games and e-learning.

Broadly diversified customer base with top credit quality
Catalis' customer roster comprises the "who's who" of the global media industry, from Hollywood majors and selected niche studios to traditional home entertainment manufacturers to leading video games developers. Business relations have a long-term orientation, and we can see very few credit-quality risks.

New management with high turnaround expertise
The new executive director board an excellent track record in the turnaround and repositioning of enterprises. Advanced Inflight Alliance, now a global market leader for on-board entertainment thanks to this team's restructuring efforts in the past ten years, is a company whose business model is strikingly similar to that of Catalis: both enterprises are market leaders in digital media testing services and quality assurance, and both are successful video games developers. This is a favorable prerequisite for a successful turnaround.

Earnings situation likely to improve significantly
In the last fiscal year, the company posted an operating result of EUR -3.5m on revenues of EUR 26.4m. After deconsolidation of chronic loss-maker Doubletix Digital Publishing (DDP), the management's outlook for the current year anticipates a return to profitability. We are looking for an operating result of EUR 1.0m on revenues of EUR 30.2m (+14.4% YoY; EBIT margin: 3.3%).

Initiation of coverage with Buy, PT EUR 0.22
Our price target of EUR 0.22 per share has been derived from a three-stage standardized DCF model. This results in an upside of about 207% compared to the most recent closing price of EUR 0.07 per share. Realization of the price target of EUR 0.22 would put the stock's valuation at 5.6x 2013a EV/EBIT (currently 5.2x) and 7.4x 2013a P/E (currently 2.4x). We are initiating our research coverage of Catalis stock with a Buy rating.

Risks
In our opinion, risks mainly emanate from (1) a breach of financial covenants for existing bank facilities; (2) the weak operating profit performance of previous years; (3) high competitive intensity in the games development market.

Rating: Buy Risk: High
Price: EUR 0.09
Price target: EUR 0.22

WKN/BIC: 927090/NL000230325
Industry: ...
Transparency level: General Standard
Weighted number of shares: 53.9m
Market cap: EUR 4.1m
Daily trading volume: 38,000
Publication: H12012; End of August 2012

EUR mn Q1/12	2010	2011	2012e	2013e
Revenue	26.4	30.4	35.3	39.9
EBITDA	-1.1	1.9	2.6	3.3
EBIT	-3.5	1.0	2.0	2.7
EBT	-3.8	0.6	1.8	2.5
EAT	-7.4	0.6	1.7	2.3

% of revenues	2010	2011	2012e	2013e
EBITDA	-4%	6%	7%	8%
EBIT	-13%	3%	6%	7%
EBT	-14%	2%	5%	6%
EAT	-28%	2%	5%	6%

Per share/EUR	2010	2011	2012e	2013e
EPS	-0.17	0.01	0.03	0.04
Dividend	0.00	0.00	0.00	0.00
BuyP1	0.41	0.22	0.18	0.22
OPF1	0.02	-0.05	0.02	0.05

%	2010	2011	2012e	2013e
Equity ratio	29%	34%	39%	47%
Debt/mg	2.9x	2.9x	2.4x	2.0x

P/E	2010	2011	2012e	2013e
P/E	9.6	9.5	7.3	7.4
EV/EBIT	0.85	0.72	0.41	0.29
EV/EBT	0.9	0.4	0.27	0.2
P/BV1	0.6	0.9	0.4	0.3

EUR mn	2010	2012e	2013e
Outcomes - Revenues	26,415	30,226	35,264
Outcomes - EBIT	-3,548	988	2,011



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Please note the additional information and the disclaimer on the last pages of this publication.

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Management team



Executive directors

Dominic Wheatley



- Comprehensive experience in the entertainment software business
- Member of the Management Board of Catalis SE since early 2008
- Co-founder of Domark Ltd., a software entertainment developer and publisher for the home computer market, which later merged with Eidos plc (Tomb Raider)
- Founder and Chief Executive of Bright Things plc
- Chairman of Kuju plc Studios

Otto Dauer



- Member of the Management Board since 2011
- Managing director of Stringendo GmbH, Munich
- More than 10 years CEO of Advanced Inflight Alliance AG, the only listed company operating in the inflight entertainment sector
- Responsible for restructuring AIA and the revenue increase from EUR 1 mn to EUR 100+ mn
- Non-executive chairman of London-based Inflight Productions Ltd. and non-executive director of Canada-based DTI Software Inc., leading producer of computer games for inflight entertainment services

Peter Biewald



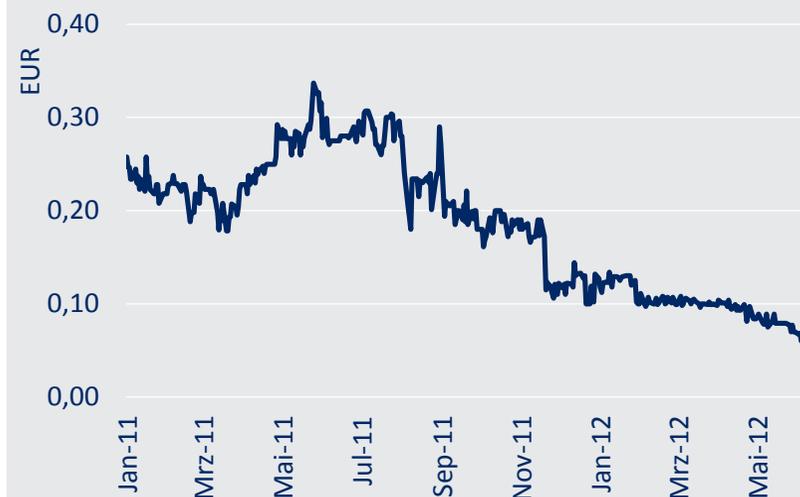
- Member of the Management Board since 2011
- Variety of senior financial roles at Deutsche Bank, EON Group AG and Siemens AG
- 2008-2011 CFO at Advanced Inflight Alliance AG
- Responsible for restructuring and financial turnaround of the company, managing the integration of several acquired companies

Share price information

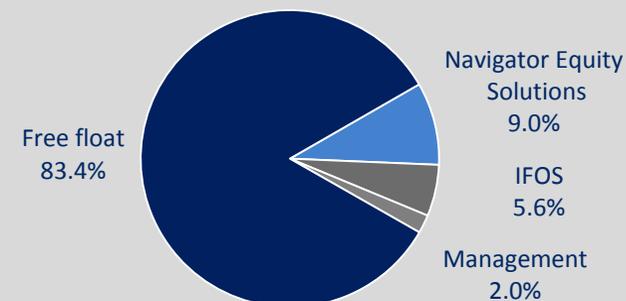


Catalis SE	
Total number of shares	58,871,720
Last share price	EUR 0.08
Market cap.	EUR 4.7 mn
Share class	Ordinary bearer shares
Par value	EUR 0.10
ISIN / WKN / ticker symbol	NL0000233625 / 927093 / XAE
Trading markets	Frankfurt Stock Exchange
Market segment	General standard / Regulated market
Designated sponsor	M. M. Warburg & Co.
Analyst coverage	Sphene Capital

Share price performance



Shareholder structure



Outlook and guidance 2012

Revenues	<ul style="list-style-type: none">• EUR 28-30 mn,• Equivalent with 6.0-13.6% annual growth
EBIT	<ul style="list-style-type: none">• EUR 0.8-1.2 mn• Up from EUR -1.8 mn in 2011

2012 Financial calendar



Event	Date
Salutaris Round Table	18 July 2012
H1 report	End of August 2012
DVFA Small Cap Conference	27-29 August 2012
9M report	End of November 2012
2012 report	April 2013
Annual shareholder meeting	June 2013

Contact



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