

# MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

## DEAG Entertainment<sup>6)</sup>

Reuters: ERMGk.DE

Bloomberg: ERMK GY

Year *	Sales		Adj. IFRS- Earnings per sh.		Cash flow per share		PER	PCF	Dividend per share
	EUR m		EUR		EUR				
2009	116.7	(116.7)	0.10	(0.10)	0.21	(0.21)	19.1	9.5	0.00
2010e	132.1	(125.4)	0.17	(0.14)	0.28	(0.25)	15.8	9.4	0.00
2011e	161.2	(135.6)	0.23	(0.18)	0.36	(0.31)	11.5	7.4	0.00
2012e	182.1	(140.0)	0.30	(0.22)	0.45	(0.36)	8.9	6.0	0.00

\* Fiscal year end December – In brackets: Figures from the last publication

### Growth boost from Sony Music collaboration – new fair value EUR 3.9

- » **Strong growth prospects in the concert business:** Our expectation of the highest surge in consumption in Germany since 2001 has prompted us to significantly increase our estimates. We now expect revenues to rise by 22% to EUR 161m compared to our previous estimate of plus 8%. Our new EPS forecast for 2011 is 22% higher and for 2012 31% higher than the consensus.
- » **Successful foreign expansion and development of the German Schlager:** Via its new partner Sony we expect DEAG to acquire new artists for the classical and German Schlager segments and to tap additional foreign markets. We expect DEAG to already be generating 53% of group EBITDA from the higher-margin classical music business by 2012.
- » **Sony Music - the natural born buyer?** Faced with a marked slump in sales from the record business, pressure on Sony Music to tap new revenue sources is in our opinion picking up steadily. Sony Music already has a share interest in DEAG via two joint ventures. By acquiring the entire company, the label would gain access to the largest tour promoter in Switzerland and to the live entertainment business in Germany.
- » **Attractive valuation:** Using our revised revenue and earnings estimates, we calculate a new DCF fair value of EUR 3.9 per share compared to our previous EUR 3.0. This currently signals upside potential of 50%. Our sum-of-the-parts models also shows the shares to be attractive valued.

### We have raised our DCF based fair value to EUR 3.9 from EUR 3.0 previously.

Selected Companies	Price on 10 Feb 2011	PER		EV / EBITDA		EV / Sales 11e	Re- com.
		11e	12e	11e	12e		
DEAG Entertainment	2.66 EUR	11.5	8.9	4.5	3.6	0.27	↑
CTS Eventim	45.91 EUR	15.0	12.1	9.3	7.1	2.10	↑
Live Nation Inc	11.51 USD	–	50.0	6.7	5.7	0.54	–
<b>Median for all peer group companies</b>		<b>15.0</b>	<b>31.1</b>	<b>8.0</b>	<b>6.4</b>	<b>1.32</b>	<b>–</b>

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate  
Source: DZ BANK, I/B/E/S, FactSet

## EQUITIES

Flash  
11 Feb 2011

Buy (prev. Buy)

Closing price 10 Feb 2011

(in EUR): 2.66

Fair value: 3.90 (prev. 3.00)

Risk classification: 5

Financial ratios 2011e:

Book value per share (in EUR):	2.16
Equity ratio (in %):	34.6
Net margin (in %):	3.6
ROE (in %):	17.1
Dividend yield (in %):	0.0
Free cash flow (EUR m):	5.7
Net debt (EUR m):	-18.8

Number of shares

(million units): 12.4

Market cap

(in EUR m): 32.95

Free float (in %): 50.0

SIN: A0Z23G

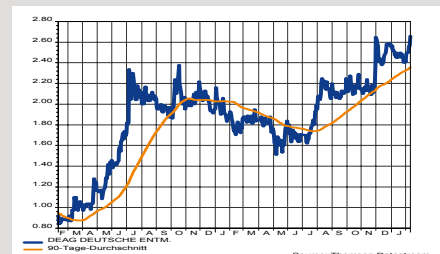
ISIN: DE000A0Z23G6

Datastream: D:ERMX

Next Newsflow:

Annual Report 2010 31.03.2011

Report Q1/2011 31.05.2011



Author: Christoph Bast, Analyst

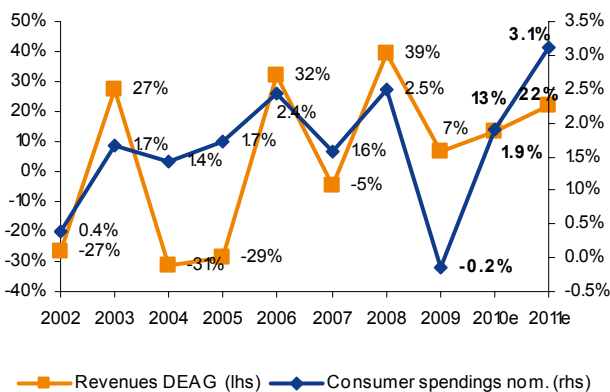
**DZ BANK**  
Bank on Germany

VERY GOOD PROSPECTS FOR THE CONCERT BUSINESS

2011 concert season will profit from rise in consumer spending

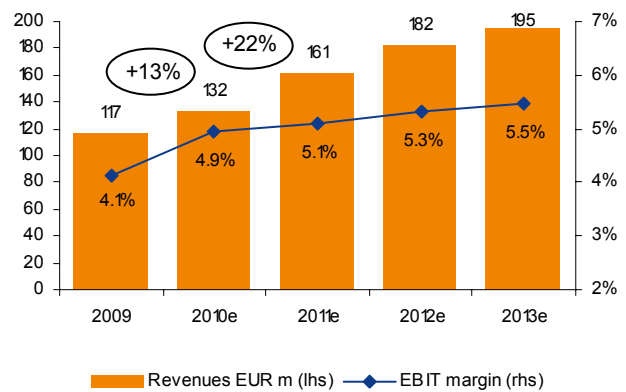
Our analysis of the consolidated revenues of DEAG Entertainment reveals a high dependence on private consumption in Germany. Based on our assumption of the strongest increase in consumption in Germany in the last ten years we expect an exceptionally good live entertainment business for DEAG. We therefore forecast that revenues in 2010 will have surged by 13% to EUR 132 million. We expect the momentum to accelerate in 2011, boosting revenues by a further estimated 22% to EUR 161 million.

GROWTH RATES (YOY): DEAG VERSUS PRIVATE CONSUMPTION



Source: DZ BANK Estimates, DEAG Entertainment

REVENUES EXPECTED TO SURGE AGAIN IN 2011



Source: DZ BANK Estimates, DEAG Entertainment

We believe our thesis to be confirmed by the strong line-up for the 2011 concert season. In the classical music segment, DEAG will be staging a David Garrett tour in 2011 consisting of 24 concerts and will also be featuring artists such as André Rieu, Anna Netrebko, Montserrat Caballé as well as classical music's new beacon of hope Vittorio Grigolo. In the rock/pop segment, DEAG will be holding 18 concerts with Peter Maffay and 25 shows with Chris de Burgh. DEAG will also be promoting concerts in Switzerland with Bon Jovi, Jamiroquai, Kylie Minogue, Rihanna, Sade, Justin Bieber and James Blunt.

SELECTED CONCERTS IN 2011: STRONG LINE-UP WITH MAFFAY, GARRETT AND DE BURGH

Classical	Shows	Rock national / German Schlager / shows	Shows	Pop/rock international	Shows
André Rieu	2	<b>Peter Maffay</b>	18	Bon Jovi	1
Anna Netrebko	3	Pur	1	<b>Chris de Burgh</b>	25
<b>David Garrett</b>	24	Mamma Mia!	9	Deep Purple	4
Montserrat Caballé	3	Marianne Rosenberg	7	Elton John	1
Vittorio Grigolo	3	Matthias Reim	1	Rihanna	1
<b>Anton &amp; Erin</b>	33	Mike Krüger	2	Jamiroquai	1
<b>Madame Butterfly</b>	16	Otto	3	Justin Biber	1
<b>Potsdam Lake Festival</b>	12	<b>Rainhard Fendrich</b>	18	Katie Melua	2
Simone Kermes	5	Roger Whittaker	1	Kylie Minouge	1

Source: DZ BANK Research, DEAG Entertainment; \*incomplete event calendar

1)-9) Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## NEW SALES POTENTIAL FROM CLASSICAL / GERMAN SCHLAGER

### Operating turnaround from reducing rock/pop segment ...

The marked drop in revenues from record sales has compelled artists to tap new earnings sources. While the genres of classical music and German pop attract an older target group, which is still acquiring music from department stores in the form of CDs and DVDs, the international rock/pop segment has been severely affected by the problem of pirate copies and illegal downloads. This has led to a massive surge in concert fees in this segment and, by extension, to a decline in profitability. We expect conditions in this segment to remain tight in the future.

**High fees in rock/pop lowering profitability**

DEAG Entertainment AG has recognised this problem by adjusting its group portfolio at the end of 2008. Our estimates show that in 2011 DEAG was already earning less than 50% of concert revenues in this segment. We expect this share to contract further in the future as new business fields are developed.

**DEAG has reduced its exposure to international rock/pop**

### ...and is expanding the classical segment with Sony as partner

In fiscal 2009 Sony Music invested a 49% share interest in the DEAG subsidiary DEAG Classics AG which bundles together the company's entire classical business. The goal of this joint venture is 1) to promote the European expansion of the concert business with existing DEAG artists and 2) to acquire new artists for the sound carrier business and concerts. To achieve this goal, Sony Music has already transferred its classical division from New York to Berlin where the headquarters of DEAG are located. Sony manages artists such as Lang Lang, Susan Boyle, Vittorio Grigolo and Simone Kermes. We expect the current artist portfolio to be widened in the future by having label distribution and concert promotion bundled together in 360 degree contracts.

**Joint venture with Sony Music in the classical segment**

The main advantage of promoting classical music over pop/rock concerts with international artists lies in both the lower fees in this segment as well as in the generally constant popularity of these performers. Once artists have made a name for themselves they are able to retain their mass attraction over a longer period of time due to the older target group. Furthermore, the cooperation between artist, management and label is generally longer term in nature, thus making future planning easier.

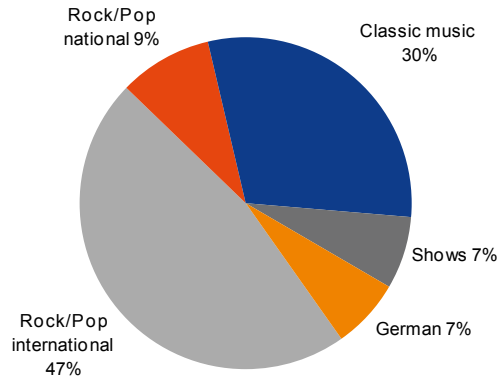
**Classical artists remain popular for longer and demand lower fees**

GfK estimates the market volume of classical music concerts in Germany at EUR 350-400 million. According to our estimates, DEAG will already generate 30% of concert revenues from classical music in 2011. This corresponds to a market share of around 15%. Management expects annual revenue growth for the joint venture of 20-30%. Given the dynamic development in the past, we consider this to be realistic. We forecast an EBITDA margin for the classical business of 10%. Thus, our estimates show that around 53% of consolidated EBITDA will be generated in 2012 in the area of classical music. Plans to expand the classical business abroad will in our view prove to be a key factor in this development. We expect business in the target countries of Austria and France to be commenced by the end of 2011. In the long term we see a possibility of the company also expanding its activities into Denmark and Spain.

**Plans for European expansion to Austria and France**

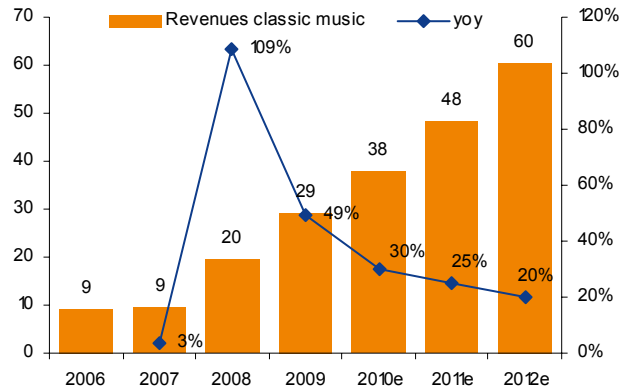
<sup>1)-9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

REVENUE BREAKDOWN DEAG BY MUSIC GENRE (2010E)



Source: DZ BANK Estimates

REVENUE FORECAST IN THE CLASSICAL BUSINESS



Source: DZ BANK Estimates

**Further joint venture with Sony in the German pop segment**

To derive new earnings potentials, DEAG and Sony Music announced the foundation of a further joint venture in August 2010, Gold Entertainment GmbH. Within the framework of this, Gold Entertainment - in which DEAG and Sony have equal share interests of 50% - was able to acquire 67% of the shares in the concert promoter Manfred Hertlein. This company has been promoting concerts locally for more than 30 years and is specialised in the genres of German pop and Schlager.

As in the classical music segment, the goal of the joint venture is to acquire new artists and to more closely bond existing artists by way of 360-degree contracts. With these contracts, Gold Entertainment manages the distribution of the label, the promotion of the concerts and the entire marketing activities from one source. According to DEAG, the Sony label Ariola is the clear market leader in this segment, backed by a strong portfolio of artists.

**SELECTED CD RELEASES OF ARIOLA 2010**

Artist	Artist
Andrea Berg	Stefan Mross
Rainhard Fendrich	Michael Wendler
Die Flippers	Patrick Lindner
Heino	Nicole
Hansi Hinterseer	Peter Maffay
Udo Jürgens	

Source: DZ BANK Research, Sony Music (Ariola)

In our opinion the advantages of the German Schlager segment are similar to those of the classical segment. GfK estimates the market volume of Schlager concerts in Germany at EUR 80-90 million. In fiscal 2009 Hertlein generated revenues of EUR 12 million. Given the successful alliance with Sony in the classical segment, we also expect strong revenue growth of 20% p.a. in the German Schlager segment.

DEAG and Sony are already planning to make further acquisitions or found new companies in the German Schlager segment via Gold Entertainment. We expect Switzerland and Austria to be target markets of particular interest. We consider the period end of 2011/ beginning of 2012 to be a realistic assumption.

**Acquisition of the promoter Manfred Hertlein**

**German pop musicians offer the same advantages as classical musicians**

**We expect 20% revenue growth p.a.**

**Already plans to expand into the German Schlager/folk segment**

<sup>1)-9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## SONY MUSIC - NATURAL BORN BUYER?

Like all other labels, Sony Music has been struggling for years with drastically falling revenues. In the period 1998 to 2007, revenues plunged from an estimated EUR 5.3 billion to EUR 1.5 billion. This corresponds to CAGR of -13%. Faced with the collapse in growth in the area of digital music we expect the label to come under pressure to seek out new earnings sources.

**Pressure on Sony Music will intensify**

### MASSIVE REVENUE LOSS AT SONY MUSIC

Sony Music	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	CAGR
Revenues (billion yen)	205	288	344	381	409	513	541	571	665	717	-13%
Revenues (million euro)	1,517	2,130	2,548	2,825	3,033	3,799	4,011	4,233	4,926	5,313	-13%
yoy (%)	-29%	-16%	-10%	-7%	-20%	-5%	-5%	-14%	-7%		

Source: DZ BANK Research, Sony Music; Music segment was reclassified as of 2008. We have refrained from continuing the data series due to inadequate comparison possibilities; Exchange rate EUR/JPY: 130

Sony has made a first step by investing in DEAG Classics. It then relocated its main offices for the classical business from New York to Berlin. Following this it invested in a share interest in Gold Entertainment as a means of gaining a foothold in the German pop segment. Sony's new video and music download portal Qriocity has also been online in Germany since January 2011. A further development is also under way in the USA with the portal Ariama which is also due to come to Europe. Here, Sony offers classical music from all 4 major labels for physical purchasing or downloading. These developments suggest to us that Sony is placing a strong strategic focus on the classical business from which DEAG should profit.

**Sony Music with strong focus on classical music**

We also believe that an acquisition of DEAG would make sense from Sony Music's viewpoint. Besides promoting classical music and German pop, DEAG also manages other promoters in Germany from the rock/pop segment. Sony could use these promoters to manage concerts with its own artists. Moreover, DEAG holds a 51% share interest in Switzerland's concert promoter Good News which generates annual revenues of an estimated EUR 40 million. We could also envisage CTS Eventim being interested in Good News, 49% of which is held by the Ringier publishers. By making such an acquisition, CTS would secure itself a competitive position in Germany that would be at least as strong as in Switzerland. At the same time the cooperation with Ringier, which holds a share interest in Eventim's ticketing activities in Switzerland, would also be strengthened.

**DEAG has other interesting assets to offer ... also for Eventim**

As a result of the purchase price of EUR 10-12 million paid by Sony Music in fiscal 2009 for 49% of the shares in DEAG Classics AG, the subsidiary company is valued at a total EUR 20-24 million. The current market capitalization of DEAG Entertainment AG is EUR 30 million. For this price an investor would receive the tour promotion business in Germany as well as the classical music business, the shares in Good News and the newly-founded German Schlager segment (Manfred Hertlein). DEAG also owns a 10% share interest in Ticketmaster Deutschland. Our sum of the parts model calculates a fair value for DEAG Entertainment AG of EUR 42 million. Thus we rate the shares as attractively valued.

**Sum of the parts model shows DEAG AG to be attractively valued**

<sup>1)</sup>-<sup>9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## SUM OF THE PARTS VALUATION

Company part	DEAG's share	Value (EUR m)	Valuation model
DEAG Classics AG	51%	22.4	Purchase price Sony Music
Good News Productions	52%	14.2	DCF model
Manfred Hertlein GmbH	33%	2.2	DCF model
Remainder	n.a.	3.0	DZ BANK estimates
<b>Sum of the parts</b>		<b>41.8</b>	

Source: DZ BANK Estimates

Bloomberg and Deutsche Börse show DEAG's free float at 53%. Heliad Equity Partners is the largest single shareholder with a 25.1% stake. A further 8.6% of the shares are held by CEO Peter Schwenkow. While neither of the main shareholders has signalled a willingness to sell until now, we still expect their consent to be given in the event of a friendly takeover bid coming from Sony Music.

**In the event of a public tender offer from Sony, we expect consent to be given**

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## DZ BANK ESTIMATES

In the first 9 months of 2010 DEAG proved that the strategic realignment was the right decision and that management now has its costs under control. Revenues climbed by 3% to EUR 83 million and the EBIT margin improved by 140 basis points to 4.3%. Management now expects the strongest Q4 in the company's history. We have significantly upgraded our revenue estimates to reflect the good business prospects for Q4/10 and the long-term growth possibilities which have come about as a result of Sony's investment. We have also slightly upgraded our EBIT margin in response to the stronger weighting of the classical music and German Schlager segments.

## REVENUE ESTIMATES VISIBLY RAISED

EUR m	New			Old			Δ			Δ%		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
<b>Revenues</b>	<b>132</b>	<b>161</b>	<b>182</b>	<b>125</b>	<b>136</b>	<b>140</b>	<b>7</b>	<b>26</b>	<b>42</b>	<b>5%</b>	<b>19%</b>	<b>30%</b>
Gross income	32	40	46	30	33	33	2	8	13	8%	24%	38%
Margin (%)	24%	25%	25%	24%	24%	24%	1%	1%	1%			
<b>EBITDA</b>	<b>7.9</b>	<b>9.8</b>	<b>11.5</b>	<b>7.1</b>	<b>8.0</b>	<b>8.8</b>	<b>0.8</b>	<b>1.8</b>	<b>2.7</b>	<b>12%</b>	<b>23%</b>	<b>30%</b>
Margin (%)	6%	6%	6%	6%	6%	6%	0%	0%	0%			
D&A	-1.4	-1.6	-1.8	-1.4	-1.6	-1.8	0.0	0.0	0.0	0%	0%	0%
<b>EBIT</b>	<b>6.5</b>	<b>8.2</b>	<b>9.7</b>	<b>5.7</b>	<b>6.4</b>	<b>7.0</b>	<b>0.8</b>	<b>1.8</b>	<b>2.7</b>	<b>14%</b>	<b>29%</b>	<b>38%</b>
Margin (%)	5%	5%	5%	5%	5%	5%	0%	0%	0%			
EBT	5.7	7.4	8.9	4.7	5.4	6.0	1.0	2.0	2.9	22%	38%	47%
Net income	2.1	2.9	3.7	1.8	2.3	2.7	0.3	0.6	1.0	19%	27%	38%
<b>EPS</b>	<b>0.17</b>	<b>0.23</b>	<b>0.30</b>	<b>0.14</b>	<b>0.18</b>	<b>0.22</b>	<b>0.03</b>	<b>0.05</b>	<b>0.08</b>	<b>19%</b>	<b>27%</b>	<b>38%</b>

Source: DZ BANK Estimates

## OUR EARNINGS ESTIMATES ARE SIGNIFICANTLY HIGHER THAN THE CONSENSUS\*

EUR m	DZ BANK			Consensus			Delta		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
<b>Revenues</b>	<b>132</b>	<b>161</b>	<b>182</b>	<b>123</b>	<b>134</b>	<b>143</b>	<b>7%</b>	<b>20%</b>	<b>28%</b>
EBITDA	8	10	11	8	9	9	5%	13%	22%
Margin	6%	6%	6%	6%	6%	7%	0%	0%	0%
<b>EBIT</b>	<b>7</b>	<b>8</b>	<b>10</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>1%</b>	<b>10%</b>	<b>20%</b>
Margin	5%	5%	5%	5%	6%	6%	0%	0%	0%
Net income	2	3	4	2	3	3	2%	14%	28%
<b>EPS</b>	<b>0.17</b>	<b>0.23</b>	<b>0.30</b>	<b>0.15</b>	<b>0.19</b>	<b>0.23</b>	<b>12%</b>	<b>22%</b>	<b>31%</b>

Source: DZ BANK Estimates, Datastream Consensus; N.B.: \* Consensus contains only 3 estimates

<sup>1)-9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## VALUATION

**Absolute valuation**

Our DCF model shows a fair value of EUR 4.0 per DEAG share. At upside price potential of 50% we consider the DEAG stock to be very attractively valued. Our model is based on WACC of 9.4%. Due to the market maturity of the concert promotion business, we estimate the long-term growth rate at a conservative 0%. The EBIT margin in the terminal value of 5.1% corresponds to the average margin of the fiscal years 2009-2014. We put the capex ratio at 3.8% of revenues. The share of the terminal value in the present value of the free cash flow lies at 72%.

**DCF model shows DEAG shares to be fairly valued at EUR 4.0 per share**

**DCF MODEL SHOWS SHARES TO BE FAIRLY VALUED AT EUR 4.0 – UPSIDE POTENTIAL OF 60%**

EUR m	2010e	2011e	2012e	2013e	2014e	TV	CAGR 10-14e
<b>EBIT</b>	<b>6.5</b>	<b>8.2</b>	<b>9.7</b>	<b>10.7</b>	<b>10.8</b>	<b>10.0</b>	<b>13%</b>
Adjusted EBIT for DCF	6.5	8.2	9.7	10.7	10.8	10.0	
Taxes on EBIT for DCF	-1.1	-1.7	-2.1	-2.3	-2.4	-2.2	
Cash Taxes	17%	21%	22%	21%	22%	22%	
<b>NOPAT</b>	<b>5.4</b>	<b>6.5</b>	<b>7.5</b>	<b>8.4</b>	<b>8.4</b>	<b>7.8</b>	<b>11%</b>
Depreciation (Reversals)	1.4	1.6	1.8	1.8	1.8	6.5	
Investments (Proceeds from sale)	-5.4	-5.8	-6.1	-6.4	-6.4	-6.7	
Change in working capital	1.6	3.0	1.8	0.6	-0.8	-1.4	
<b>Free cash flows</b>	<b>3.0</b>	<b>5.4</b>	<b>5.0</b>	<b>4.5</b>	<b>3.0</b>	<b>6.3</b>	
<b>Present value of free cash flows</b>	<b>3.0</b>	<b>4.9</b>	<b>4.2</b>	<b>3.1</b>	<b>2.3</b>	<b>42.9</b>	
<b>Cummulated PV of FCF</b>	<b>59.3</b>						
Market value of non-operating assets	0.0	0.0	0.0	0.0	0.0	0.0	
Non current financial assets	1.5	1.5	1.5	1.5	1.5	1.5	
Current financial assets	0.4	0.4	0.4	0.4	0.4	0.4	
Liquid assets	23.5	24.7	28.3	31.4	33.8	34.8	
<b>Enterprise value</b>	<b>84.8</b>						
Interest-bearing financial liabilities	-8.2						
non interest-bearing financial liabilities	-1.3						
Non current provisions	-0.1						
Equity value incl. minority interest	75.2						
Value of minority interest	-30.0						
Equity value excl. minority interest	45.2						
Accumulation till effective valuation date	4.3						
Equity value excl. minority interest, 06/2010	49.5						
Number of shares fully diluted (m)	12.4						
<b>Equity value per share</b>	<b>4.0</b>						

DCF Assumptions	
Risk free rate:	2.8%
Market risk premium:	5.0%
Levered Beta:	1.5
TV growth:	0.0%
ø WACC:	9.4%
EBIT margin TV:	5.1%
Share of TV in PV FCF:	72%

Source: DZ BANK estimates

To take account of the moderate long-term growth of DEAG we also applied an ROE/COE model which examines the relationship between the adjusted return on equity (ROE) and the cost of equity (COE). We begin by dividing the ROE after tax minus minorities by the cost of equity (COE) and then multiply this by our expected book value of the equity capital after minorities for fiscal 2013. This model is based on the assumption that companies with a higher ROE than COE quote above the book value on the balance sheet. By applying this model we derive a fair value per share of EUR 3.8.

**ROE/COE model also shows DEAG stock to be clearly undervalued**

#### ROE/COE MODEL ALSO SIGNALS ATTRACTIVE VALUATION

ROE/COE model	2011e	2012e	2013e
Return on equity (after tax and minorities)	12.0%	13.9%	15.0%
Cost of equity	9.4%	9.4%	9.4%
Fair multiple			1.6
Book value per share 2013 DZe			2.8
<b>Fair value of equity capital per share</b>			<b>4.5</b>
Dividends	0.0	0.0	0.0
Discounted value of equity capital			3.8
Discounted value of dividends			0.0
<b>Fair value per share</b>			<b>3.8</b>

Source: DZ BANK estimates

#### Fair value raised from EUR 3.0 to EUR 3.9

On the strength of our optimistic expectations for the 2011 and 2012 concert season and the growth possibilities which we expect from Sony Music's share interest, we have significantly raised our earnings estimates for the period after fiscal 2010. We derive our new fair value from averaging the results of the DCF and ROE/COE models. We thus establish a new fair value per share of EUR 3.9 compared to the previous EUR 3.0.

**Upside potential 50% | BUY**

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## ANNEX: SUM OF THE PARTS VALUATION

Using our DCF model we derive a fair value for Good News of EUR 14.2 million and for Manfred Hertlein GmbH of EUR 2.2 million. At WACC of 9.4% and a long-term growth rate of 0% our model is based on the same parameters as those of DEAG Entertainment.

In the case of Good News Productions AG, we expect margins to show a constant development given the company's market leadership and the advanced maturity of the Swiss live entertainment business. We also see a relatively low investment requirement and estimate the capex ratio at 2.5% of sales.

## DCF VALUATION OF GOOD NEWS

Good News Productions AG	2010e	2011e	2012e	2013e	2014e	2015e	CAGR
Sales	42.8	43.7	44.6	45.5	46.4	47.3	2.0%
EBIT margin	7%	7%	7%	7%	7%	7%	
EBIT	3.0	3.1	3.1	3.2	3.2	3.3	
Tax rate	17%	21%	22%	21%	22%	22%	
Taxes	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	
NOPAT	2.5	2.4	2.4	2.5	2.5	2.6	0.6%
Capex	-1.1	-1.1	-1.1	-1.1	-1.2	-1.2	
Depreciation	0.4	0.4	0.4	0.5	0.5	1.2	
Working capital	0.3	0.5	0.3	0.1	0.0	-0.1	
<b>Free cash flows</b>	<b>2.1</b>	<b>2.3</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>2.5</b>	
Present value of free cash flows (FCF)	2.1	2.1	1.7	1.5	1.3	26.5	
Terminal value						18.5	
Accumulated present value of FCF	27.2						
<b>Share</b>	<b>52%</b>						
<b>Value of the share</b>	<b>14.2</b>						

Source: DZ BANK Estimates, Amounts in EUR m

Due to the expansion possibilities and cost synergies from the Sony partnership alliance, we expect high sales momentum and rising margins at Manfred Hertlein GmbH. We estimate the capex ratio at 4.5% of sales.

## DCF VALUATION OF MANFRED HERTLEIN GMBH

Manfred Hertlein GmbH	2010e	2011e	2012e	2013e	2014e	2015e	CAGR
Sales	10.0	12.0	13.8	15.2	15.9	16.3	10.2%
EBIT margin	4%	5%	5%	6%	6%	6%	
EBIT	0.4	0.5	0.7	0.8	1.0	1.0	
Tax rate	17%	21%	22%	21%	22%	22%	
Taxes	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	
NOPAT	0.3	0.4	0.5	0.7	0.7	0.8	17.9%
Capex	-0.8	-0.7	-0.5	-0.5	-0.5	-0.5	
Depreciation	0.1	0.1	0.1	0.2	0.2	0.5	
Working capital	0.3	0.5	0.3	0.1	0.0	-0.1	
<b>Free cash flows</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.7</b>	
Present value of the FCFs	-0.1	0.3	0.4	0.3	0.3	7.9	
Terminal value						5.5	
Total of the FCF	6.7						
<b>Share</b>	<b>33%</b>						
<b>Value of the share</b>	<b>2.2</b>						

Source: DZ BANK Estimates, Amounts in EUR m, long-term growth rate 1%

<sup>1)-9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## PROFIT AND LOSS ACCOUNT

Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>Sales</b>	<b>116.7</b>	<b>132.1</b>	<b>161.2</b>	<b>182.1</b>	<b>194.9</b>	<b>196.8</b>
% against prev. year	7%	13%	22%	13%	7%	1%
Cost of goods sold	-90.7	-99.8	-120.9	-136.2	-145.4	-146.9
<b>Gross profit</b>	<b>26.0</b>	<b>32.3</b>	<b>40.3</b>	<b>45.9</b>	<b>49.5</b>	<b>50.0</b>
% against prev. year	32%	24%	25%	14%	8%	1%
Sales costs	-14.7	-16.2	-19.8	-22.4	-24.0	-24.2
Administration costs	-11.0	-12.0	-15.2	-17.1	-18.3	-18.5
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	5.2	2.4	2.9	3.3	3.5	3.5
Other operating expenses	-0.7	0.0	0.0	0.0	0.0	0.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>4.8</b>	<b>6.5</b>	<b>8.2</b>	<b>9.7</b>	<b>10.7</b>	<b>10.8</b>
For information: EBIT adjusted	4.8	6.5	8.2	9.7	10.7	10.8
% against prev. year		35%	26%	18%	10%	1%
Interest paid / received	-1.6	-0.8	-0.8	-0.8	-0.8	-0.8
<b>Profit before tax</b>	<b>3.3</b>	<b>5.7</b>	<b>7.4</b>	<b>8.9</b>	<b>9.9</b>	<b>10.0</b>
For information: EBT adjusted	3.3	5.7	7.4	8.9	9.9	10.0
% against prev. year		75%	30%	19%	11%	1%
Income taxes from continuing operations	-0.4	-1.0	-1.6	-2.0	-2.1	-2.2
Tax rate	12%	17%	21%	22%	21%	22%
<b>Net profit from continuing operations</b>	<b>2.9</b>	<b>4.8</b>	<b>5.9</b>	<b>6.9</b>	<b>7.8</b>	<b>7.8</b>
Net profit from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2.1</b>	<b>4.8</b>	<b>5.9</b>	<b>6.9</b>	<b>7.8</b>	<b>7.8</b>
Profit or loss attributable to minority interest	-1.6	-2.7	-3.0	-3.2	-3.2	-3.2
<b>Profit or loss attributable to shareholders</b>	<b>0.5</b>	<b>2.1</b>	<b>2.9</b>	<b>3.7</b>	<b>4.6</b>	<b>4.6</b>
thereof from continuing operations	1.3	2.1	2.9	3.7	4.6	4.6
thereof from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	12.388	12.388	12.388	12.388	12.388	12.388
IFRS earnings per share, diluted	0.04	0.17	0.23	0.30	0.37	0.37
Adjusted earnings per share, diluted (contin.)	0.10	0.17	0.23	0.30	0.37	0.37
<b>For information</b>						
Depreciation	1.6	1.4	1.6	1.8	1.8	1.8
EBITDA	6.4	7.9	9.8	11.5	12.5	12.6
EBITDA adjusted	6.1	7.9	9.8	11.5	12.5	12.6
Fiscal year end December						

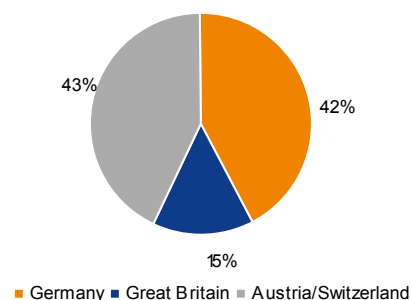
Source: DEAG Entertainment and DZ BANK estimates

**RATIOS**

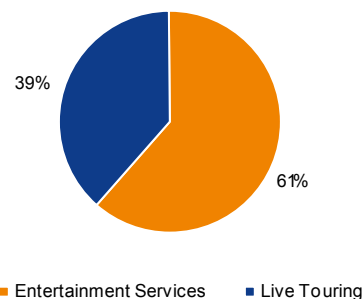
Euro	2009	2010e	2011e	2012e	2013e
<b>Profit and loss ratios</b>					
Sales (m)	116.7	132.1	161.2	182.1	194.9
EBITDA margin	5.2%	6.0%	6.1%	6.3%	6.4%
EBIT margin	4.1%	4.9%	5.1%	5.3%	5.5%
Net margin	2.5%	3.6%	3.6%	3.8%	4.0%
Investment ratio	0.3%	4.1%	3.6%	3.3%	3.3%
R&D as % of sales					
Admin and sales costs as % of sales	22.0%	21.3%	21.7%	21.7%	21.7%
Net other operating costs as % of sales	-3.9%	-1.8%	-1.8%	-1.8%	-1.8%
Net financial income as % of sales	-1.3%	-0.6%	-0.5%	-0.4%	-0.4%
Interest cover	3.7	8.2	10.3	12.1	13.6
Average sales growth next five years	11.0%				
Average earnings growth next five years	57.5%				
<b>Profitability ratios</b>					
ROE	11.1%	16.1%	17.1%	17.3%	16.8%
ROCE	40.7%	45.7%	53.5%	54.0%	48.8%
<b>Productivity ratios</b>					
Sales per employee ('000)	250.41		962.34	1055.93	1104.24
EBIT per employee ('000)	10.36		49.15	56.09	60.47
<b>Balance sheet ratios</b>					
Equity ratio	33.4%	34.4%	34.6%	36.0%	38.3%
Long term debt and equity / Fixed assets	93.3%	92.9%	94.8%	98.0%	101.6%
Liquidity (quick ratio)	79.9%	79.2%	80.3%	82.5%	85.1%
Receivables as % of sales	7.6%	8.0%	8.5%	9.0%	9.5%
Investment (net of GW) / Depreciation		388.6%	360.0%	338.9%	352.8%
Working capital as % of sales	-19.4%	-18.4%	-16.9%	-16.0%	-15.2%
Film assets (m)	0.0	0.0	0.0	0.0	0.0
Net debt (m)	-14.0	-15.2	-18.8	-21.9	-24.3
Net debt complete (m)	-15.9	-17.1	-20.6	-23.7	-26.2
<b>Figures per share</b>					
Earnings per share, diluted	0.10	0.17	0.23	0.30	0.37
Diluted cash earnings per share	0.21	0.28	0.36	0.45	0.52
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	1.90	1.99	2.28	2.53	2.73
Net debt per share, diluted	-1.13	-1.23	-1.51	-1.76	-1.96
<b>Valuation ratios</b>					
Enterprise value / Sales	0.3	0.4	0.3	0.2	0.2
Enterprise value / EBITDA	5.7	6.0	4.5	3.6	3.1
Enterprise value / EBIT	7.3	7.3	5.4	4.2	3.6
EV/Sales to sales growth	0.02	0.03	0.02	0.02	0.02
PEG ratio - common shares		0.28			
Fiscal year end December					

Source: DEAG Entertainment, DZ BANK estimates

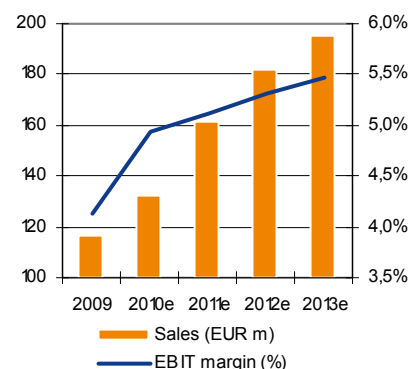
**SALES BY REGION 2009**



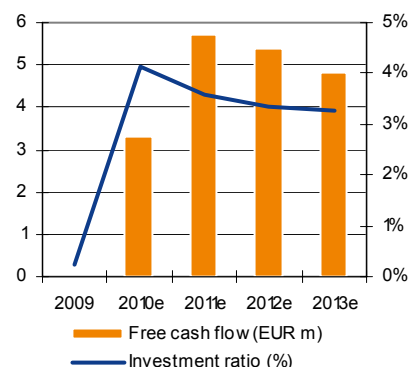
**SALES BY BUSINESS SEGMENT 2009**



**SALES AND MARGIN DEVELOPMENT**



**FREE CASH FLOW AND INVESTMENT RATIO**



<sup>1)</sup> - <sup>9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## BALANCE SHEET

IFRS - Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>ASSETS</b>						
<b>Non current assets</b>	<b>36.1</b>	<b>40.1</b>	<b>44.3</b>	<b>48.6</b>	<b>53.1</b>	<b>57.7</b>
Intangible assets	25.4	29.4	33.5	37.7	42.2	46.8
thereof goodwill	18.9	19.4	19.4	19.4	19.4	19.4
Long-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	9.1	9.1	9.1	9.1	9.0	9.0
Financial assets	1.6	1.6	1.6	1.6	1.6	1.6
Other long-term assets	0.0	0.0	0.1	0.2	0.4	0.4
<b>Current assets</b>	<b>41.8</b>	<b>45.9</b>	<b>54.8</b>	<b>62.2</b>	<b>67.8</b>	<b>70.0</b>
Inventories	6.5	7.3	8.9	10.1	10.8	10.9
Short-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	8.9	10.6	13.7	16.4	18.5	19.7
Financial assets	0.4	0.4	0.4	0.4	0.4	0.4
Other receivables and short-term assets	2.5	2.9	3.5	4.0	4.2	4.3
Liquid assets	23.5	24.7	28.3	31.4	33.8	34.8
Assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>77.9</b>	<b>86.0</b>	<b>99.1</b>	<b>110.8</b>	<b>120.9</b>	<b>127.8</b>
<b>LIABILITIES</b>						
<b>Shareholders' equity</b>	<b>26.0</b>	<b>29.6</b>	<b>34.3</b>	<b>39.9</b>	<b>46.3</b>	<b>52.6</b>
Share capital	12.4	12.4	12.4	12.4	12.4	12.4
Reserves	10.4	12.5	15.3	19.0	23.6	28.2
Other equity	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Minority interest	4.2	5.7	7.5	9.4	11.2	12.9
Treasury stock	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non current liabilities</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>
Provisions for pensions	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.1	0.1	0.1	0.1	0.1	0.1
Financial liabilities	5.8	5.8	5.8	5.8	5.8	5.8
Other payables	1.8	1.8	1.8	1.8	1.8	1.8
<b>Current liabilities</b>	<b>44.2</b>	<b>48.7</b>	<b>57.1</b>	<b>63.2</b>	<b>66.9</b>	<b>67.5</b>
Trade payables	10.2	11.6	14.1	16.0	17.1	17.2
Other provisions	6.9	7.0	7.0	7.1	7.1	7.2
Financial liabilities	3.7	3.7	3.7	3.7	3.7	3.7
Other liabilities	23.4	26.5	32.3	36.5	39.0	39.4
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' equity and liabilities</b>	<b>77.9</b>	<b>86.0</b>	<b>99.1</b>	<b>110.8</b>	<b>120.9</b>	<b>127.8</b>
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

<sup>1) - 9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

**SUMMARY**

Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>Profit and loss account</b>						
Sales	116.7	132.1	161.2	182.1	194.9	196.8
Cost of goods sold	-90.7	-99.8	-120.9	-136.2	-145.4	-146.9
Gross profit	26.0	32.3	40.3	45.9	49.5	50.0
Sales costs	-14.7	-16.2	-19.8	-22.4	-24.0	-24.2
Administration costs	-11.0	-12.0	-15.2	-17.1	-18.3	-18.5
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expenses	4.5	2.4	2.9	3.3	3.5	3.5
Operating profit (EBIT)	4.8	6.5	8.2	9.7	10.7	10.8
Interest paid / received	-1.6	-0.8	-0.8	-0.8	-0.8	-0.8
Profit before tax	3.3	5.7	7.4	8.9	9.9	10.0
Income taxes from continuing operations	-0.4	-1.0	-1.6	-2.0	-2.1	-2.2
Net profit from continuing operations	2.9	4.8	5.9	6.9	7.8	7.8
Net profit from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
Net profit	2.1	4.8	5.9	6.9	7.8	7.8
Profit or loss attributable to minority interest	-1.6	-2.7	-3.0	-3.2	-3.2	-3.2
Profit or loss attributable to shareholders	0.5	2.1	2.9	3.7	4.6	4.6
<b>Balance sheet</b>						
Non current assets	36.1	40.1	44.3	48.6	53.1	57.7
thereof goodwill	18.9	19.4	19.4	19.4	19.4	19.4
Current assets	41.8	45.9	54.8	62.2	67.8	70.0
thereof liquid assets	23.5	24.7	28.3	31.4	33.8	34.8
Shareholders' equity	26.0	29.6	34.3	39.9	46.3	52.6
Non current liabilities	7.7	7.7	7.7	7.7	7.7	7.7
Current liabilities	44.2	48.7	57.1	63.2	66.9	67.5
Shareholders' equity and liabilities	77.9	86.0	99.1	110.8	120.9	127.8
<b>Cash flow statement</b>						
Operating CF (cont.)	1.2	8.6	11.3	11.3	11.0	9.6
Operating CF (discont.)	-0.8					
Investing CF (cont.)	-0.1	-5.3	-5.6	-5.9	-6.2	-6.2
Investing CF (discont.)	-0.2					
Free cash flow (cont.)	1.0	3.3	5.7	5.4	4.8	3.4
Free cash flow (discont.)	-1.0					
Financing CF (cont.)	1.2	-2.1	-2.1	-2.3	-2.4	-2.5
Financing CF (discont.)	-0.1					
Increase/decrease of cash	1.1	1.2	3.6	3.1	2.5	0.9
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

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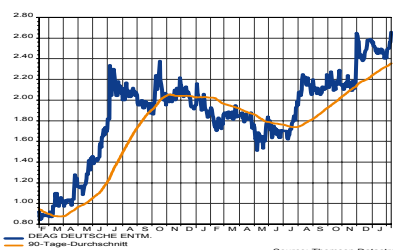
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**RATING HISTORY**

Recommendation	Date	Price
Buy	8 Jul 2009	2.40 EUR
Hold	2 Dec 2008	0.74 EUR
Buy	27 May 2008	2.92 EUR

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