



DEAG Deutsche Entertainment AG

Primary Exchange: Frankfurt
Prime Standard

Symbol: ERM
ISIN: DE0005513907

Rating: Buy
2006 Price Target: €5.75
Risk Rating: High

Response to Q2 Results

Company Profile

DEAG Deutsche Entertainment AG is one of the leading concert-organiser groups in Europe. The core business of DEAG consists of organising national and international concerts and tours and exclusive management of venues and variety theatres. It provides a full range of services for music tours including production, agency and promotion. The company is headquartered in Berlin.

Key Points

Although the Q2 numbers fell short of our projections, they showed a strong recovery over Q1 2005.

Revenues increased q-o-q by 197% from €7.67m in Q1/05 to €22.75m in Q2. Revenues were approximately €m (11%) short of our projection. But considering the improvement q-o-q we are encouraged that they have returned to a range we deem acceptable for this period of its recovery.

EBIT at €0.45m turned positive this quarter along with a flat net income at €0.04m, both significantly under our projections.

Net cash flow for H1 improved considerably y-o-y from -€10.89m in H1 2004 to -€1.68m in H1 2005. The company's liquid assets were at €22.08m at the end of June 2005.

Recommendation

DEAG's Q2 numbers improved strongly over Q1 results, returning to a range we deem acceptable for this period of its recovery. Q2 numbers came in below our projections and in the coming weeks we will reassess both our 2005 and 2006 projections for our full report. At present, we do not see our recommendation and valuation threatened and maintain them both.

Looking forward, the company confirmed its most profitable venue will be fully online in Q3 and it expects a positive EBIT for FY 2005.

Risks

Risks to our price target include but are not limited to: failure of the company to secure a contract with a major tour for 2006.

Financial History & Projections IAS

	2003A	2004A	2005E	2006E
Revenue €m	127.33	96.56	88.08	130.14
Yr/Yr Growth	-9%	-24%	-9%	48%
EBIT €m	-7.82*	4.65	3.86	11.70
Net Income €m	-14.68	2.88	1.76	6.32
EPS €basic	-1.54	0.21	0.12	0.42

*After deduction of Restructuring Expenditure (€2.13m)

Company Data (as of 30 June 2005 unless otherwise noted)

Market Capitalisation (12.08.05)	€1.91m
Shares Outstanding	15.124m
Liquid Assets	€22.08m
Current Assets	€41.96m
Intangible Assets (incl. Goodwill)	€4.31m
Total Assets	€44.59m
Total Shareholders' Equity	€4.59m

Stock Overview



Source: Bloomberg & First Berlin

Closing Price (12.08.05)	€2.11
52-Week Range	€2.51/1.37
Free Float (acc. to Deutsche Börse)	75.7%
Average Daily Share Volume (year)	95,166

Analyst Information

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Important disclosures are at the back of this report.

First Berlin Recommendation & Price Target History

Report No:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
1	3 June 2004	€2.80	Strong Buy	€3.75	€2.78	-0.7%
2	15 December 2004	€1.59	Strong Buy	€2.40	€2.51	57.9%
3	2 May 2005	€2.03	Strong Buy	UR	€2.42	19.2%
4	15 July 2005	€2.25	Buy	€5.75	€2.42	7.5%
5	Today	€2.11	Buy	€5.75	-	-

Source: Bloomberg & First Berlin

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I, Stephen Love certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

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First Berlin's investment rating system includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

BUY: Expected return greater than 15%
 HOLD: Expected return between 0% and 15%
 SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 30 June 2005, First Berlin's investment rating system was five tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: STRONG BUY: expected return greater than 20%, BUY: expected return greater than 10%, HOLD: fairly valued, REDUCE: expected return between -10% and 0%, SELL: expected return to depreciate by more than 15%. In addition, we had a SPECULATIVE BUY recommendation for stocks which we projected had the potential to give a return of 50% or more but which we also expected to be exceptionally volatile (movement up or down of 50% or more). Our risk ratings were Low, Medium, High and Speculative and were a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

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