



2 May 2005

Germany
Entertainment**DEAG Deutsche Entertainment AG**Frankfurt Stock Exchange
Prime StandardSymbol: ERM
ISIN: DE0005513907**Rating: Strong Buy**
2005 Price Target: UR
Risk Rating: High**Initial Reaction to 2004 Numbers****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 producer, agent and promoter. The company is headquartered in Berlin.

Key Points

DEAG released its 2004 Annual Report last week. The figures were largely in line with our estimates, and on an earnings basis were vastly better than the 2003 figures.

EBIT at €4.65m was a substantial improvement over 2003 (-€7.82m) and was ahead of our projection of €3.30m. This reflects the excellent work management have done in restructuring DEAG and focusing on building sustainable profitability.

Net income at €2.88m was significantly ahead of 2003's -€4.678m and slightly below our projection of €3.38m.

These earnings figures are particularly impressive given that revenues fell y-o-y by 24% to €6.56m (First Berlin estimate: €8.96m).

The greatest challenge facing management is DEAG's working capital situation. As of 31 December 2004, the company had working capital of €1.21m, down from €2.16m at the end of 2003. This makes it difficult for DEAG to develop its business and as a result we believe the company will make some form of capital increase this year.

Recommendation

We are becoming more positive about DEAG and believe that 2005 will be a good year for the company. We will be meeting management later this week and will be looking to upgrade our financial model thereafter. Our initial thoughts are that we will be raising our valuation by more than 20% above current levels. As a result, we are maintaining our Strong Buy recommendation on DEAG.

Risks

The main risk to our price target is the company's working capital situation.

Financial History & Projections

	2003A	2004A	2005E
Revenue €m	127.33	96.56	UR
Yr/Yr Growth	-9%	-24%	UR
EBIT €m	-7.82*	4.65	UR
Net Income €m	-14.68	2.88	UR
EPS (basic) €	-1.54	0.21	UR

*After deduction of Restructuring Expenditure (€12.13m)

UR = Under Review

Company Data (as of 31 December 2004 unless otherwise noted)

Market Capitalisation (29.04.2005)	€7.91m
Shares Outstanding (29.04.2005)	13,750,050
Liquid Assets	€1.27m
Current Assets	€8.13m
Intangible Assets (incl. Goodwill)	€3.34m
Total Assets	€0.91m
Total Shareholders' Equity	€2.13m

Stock Overview

Source: Bloomberg

Closing Price (29.04.2005):	€2.03
52-Week Range:	€1.37 / 2.82
Free Float (According to Deutsche Börse):	75.6%
Average Daily Share Volume (year):	89,925

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First Berlin Recommendation & Price Target History

<u>Report No.:</u>	<u>Date of Publication</u>	<u>Previous Day Closing Price</u>	<u>Recommendation</u>	<u>Target Price</u>	<u>Interim High</u>	<u>% Change to High</u>
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	Today	€2.03	Strong Buy	UR	-	-

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Rating System

First Berlin's investment rating system is five tiered and is a function of our expectation of return (forecast price appreciation and dividend yield) over the next 12 months. Our investment ratings are 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 have a SPECULATIVE BUY recommendation for stocks which we believe have the potential to give a return of 50% or more but which also we expect to be exceptionally volatile (movement up or down of 50% or more).

Risk Rating

Our risk ratings are Low, Medium, High and Speculative and are a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

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