FIRST BERLIN
Equity Research

DEAG DEUTSCHE ENTERTAINMENT AG

GERMANY / ENTERTAINMENT

Primary Exchange: Frankfurt
Symbol: ERM

Prime Standard
ISIN: DE0005513907

RATING: Buy
PRICE TARGET: €4.20
RISK RATING: High

H1 2006 RESULTS

COMPANY PROFILE

DEAG Deutsche Entertainment AG ranks among the top live concert organiser groups in Europe. Its core business consists of organising national and international concerts and tours, as well as the exclusive management of large venues. The company provides the full range of services for music tours, including production, agency and promotion. DEAG is headquartered in Berlin and as of 31 December 2005, had a workforce of 76.

KEY POINTS

DEAG published Q2/06 numbers yesterday. On the basis of continued operations, revenues increased 27% y-o-y to €25.6m, bringing the H1/06 total to €37.4m. The large number of rock concerts organised to date and the turnover from the 2006 FIFA World Cup were major drivers behind the revenue growth. In addition, the Zurich based Hallenstadion continued to strongly support the company's top-line. In recent conversations with DEAG management, they stated their confidence in achieving their revenue guidance of up to €100m.

Q2 EBIT came in above our expectations, reaching some €2.8m up from €0.45m a year before. This equates to a 10.9% EBIT margin and marks an exceptional improvement compared to last year (2.0%). H1/06 EBIT came in at €3.0m. This equals 46.9% of our full year estimate of €6.4m.

RECOMMENDATION

Though margins are strong, we were slightly disappointed by the Q2 revenues as we expected DEAG to generate more than 40% of FY06 estimated revenues in the first half of the year. Looking forward, however, we believe the company will achieve its targets as we see significant top-line growth potential. We expect the main growth driver will be the Classics division, which only began its heavy 2006 concert schedule at the beginning of Q3. In addition, EPS will be further driven by reduced interest spending due to an improved balance sheet (e.g. dissolution of the share pension deal with Swiss publisher Ringier AG and the convertible bond which is due in November).

The stock has begun to recover from its recent €1.41 low (30 June). We expect it will see further appreciation once investors regain confidence in the current growth story. We therefore reiterate our Buy rating and price target of €4.20.

RISKS

Risks to our price target include but are not limited to: cancellation of currently signed contracts or concert events.

TRADING DATA

Market Capitalisation (31.07.06)	€34.34m
Shares Outstanding	18.56m
Closing price (31.07.06)	€1.85
52-Week Range	€1.41 / 2.97
Free Float (According to Deutsche Börse)	75.65%
Average Daily Share Volume (year)	116,428

STOCK OVERVIEW

Source: Bloomberg & First Berlin

FINANCIAL HISTORY & PROJECTIONS

	2004A	2005A	2006E	2007E
Revenue €m	87.8	62.7	112.8	126.9
Yr/Yr Growth	-31.0%	-28.7%	80%	12.5%
EBIT €m	6.4	2.1	6.4	7.4
EBIT Margin	7.2%	3.4%	5.7%	5.8%
Net Income €m	2.9	-3.8	3.9	5.4
EPS € (basic)	0.21	-0.20	0.21	0.29

COMPANY DATA (as of 31 Mar 2006 unless otherwise noted)

Cash & Cash Equivalents	€27.4m
Current Assets	€58.8m
Intangible Assets (incl. Goodwill)	€34.6m
Total Assets	€112.8m
Current Liabilities	€65.3m
Total Shareholders' Equity	€39.1m

ANALYST INFORMATION

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FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of Publication	Previous Day Closing Price	Recommen-dation	Target Price	Interim High	% Change to High
Initial Report	3 June 2004	€2.80	Strong Buy	€3.75	€2.78	-0.7%
2...3	-	-	-	-	-	-
4	15 July 2005	€2.25	Buy	€5.75	€2.42	7.5%
5	15 August 2005	€2.11	Buy	€5.75	€2.98	41.2%
6	24 November 2005	€2.11	Buy	€4.30	€2.74	29.9%
7	16 June 2006	€1.49	Buy	€4.20	€1.85	24.2%
8	Today	€1.85	Buy	€4.20	-	-

Source: Bloomberg & First Berlin

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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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