

DEAG DEUTSCHE ENTERTAINMENT AG

GERMANY / ENTERTAINMENT

Primary Exchange: Frankfurt Prime Standard
Symbol: ERM ISIN: DE0005513907

RATING: Buy

PRICE TARGET: €3.05

RISK RATING: High

REACTION TO DEAG H1/07 RESULTS

COMPANY PROFILE

DEAG Deutsche Entertainment AG ranks among the top live concert organisers in Europe. The company's core business consists of organising national and international concerts and tours, as well as the exclusive access to large venues. The company provides a full range of services for music tours, including production, agency and promotion as well as publishing music under its own label of DEAG Music. DEAG is headquartered in Berlin and had a workforce of 116 as of 31 December.

KEY POINTS

Earlier today Deutsche Entertainment AG reported H1/07 figures, which were in-line with our expectations. The company reported total revenues of €2.6m for H1/07 compared with €7.4m for the same period last year. €0.7m of these revenues were generated in Q2, with Q1 exhibiting traditional weakness. EBIT for H1 came in at €2.5m, a 13.6% increase compared with EBIT of €2.2m in H1/06, which we have adjusted to account for €0.6m of extraordinary income. Again the second quarter contributed the majority of the H1/07 EBIT number (€2.0m).

In contrast to the same period last year, both of the larger business segments, Live Touring and Entertainment Services delivered positive EBIT contributions for the half year. The group's reduction of debt shows a clear impact on interest expenses and therefore on the financial result, which became slightly positive for H1. Net income increased 85.9% y-o-y to €1.4m, implying EPS of €0.06 for H1. DEAG reported a positive operating cash flow from continued operations of €3.6m and sufficient cash of €13.8m.

RECOMMENDATION

DEAG's H1/07 results are positive and show the profitability of the Live Touring and Entertainment Services businesses. A few months ago, DEAG published FY07 forecasts of €100m in revenues and €6m in EBIT. Our forecasts are slightly above this, and we continue to see them as challenging but achievable in the wake of these latest results. Taking into account the traditionally weak first quarter in this industry, the results of the second quarter give a clearer indication of DEAG's profit potential for the rest of 2007. We are confident that DEAG can meet our forecasts for the full year. As a result, we reiterate our Buy recommendation and €3.05 price target.

RISKS

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

TRADING DATA

Market Capitalisation (10.08.07)	€47.56m
Shares Outstanding	23.09m
Closing Price (10.08.07)	€2.06
52-Week Range	€1.55 / 2.24
Free Float (According to Deutsche Börse)	76%
Average Daily Share Volume (year)	75,481

STOCK OVERVIEW



FINANCIAL HISTORY & PROJECTIONS

	2005	2006	2007E	2008E
Revenue €m	62.65	82.82	102.74	113.01
Yr/Yr Growth	-28.7%	32.2%	24.1%	10.0%
Operating Profit €m	2.13	3.06	6.71	7.49
Operating margin	3.4%	3.7%	6.5%	6.6%
Net income €m	-5.46	-0.37	3.34	4.97
EPS €	-0.29	-0.01	0.14	0.21
P/E	-7.1	-206.0	14.7	9.8

COMPANY DATA (as of 30 June 2007 unless noted)

Liquid Assets (incl. Securities)	€13.85m
Current Assets	€27.12m
Intangible Assets	€27.43m
Total Assets	€64.52m
Current Liabilities	€29.26m
Total Shareholders' Equity	€23.09m

ANALYST INFORMATION

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FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
Initial Report	3 June 2004	€2.80	Strong Buy	€3.75	-	-
2...7	↓	↓	↓	↓	↓	↓
8	19 December 2006	€1.65	Buy	€3.05	€2.24	35.8%
9	25 April 2007	€2.05	Buy	€3.05	€2.13	3.9%
10	11 May 2007	€1.98	Buy	€3.05	€2.19	10.6%
11	Today	€2.06	Buy	€3.05	-	-

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.

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