

# 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				
2008	109.5	(109.5)	-0.25	(-0.25)	-0.07	(-0.07)	-	-	0.00
2009	116.7	(106.2)	0.10	(0.15)	0.21	(0.24)	19.1	9.5	0.00
2010e	121.4	(110.0)	0.13	(0.20)	0.25	(0.30)	14.1	7.6	0.00
2011e	125.6	(114.3)	0.17	(0.25)	0.30	(0.37)	11.3	6.2	0.00

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

### Classics and Good News bring DEAG a solid result

- » **Results 09:** DEAG confirmed preliminary figures on presentation of its Annual Report 2009. Sales increased by 6.6% to EUR 116.7m and EBITA increased by 72.5% to EUR 6.4m. The Group benefitted here from extraordinary earnings from the sale of its 49% interest in DEAG Classics to Sony Music. The loss from the Pop/Rock concert subsidiaries sold in Q1/09 in the amount of EUR 0.7m impacted on earnings so that our EPS forecast of EUR 0.15 was not achieved.
- » **Outlook:** For the fiscal year 2010, management expect a further clear increase in results despite no further positive one-off effects. For 2010, we plan a sales increase of 4.0% to EUR 121.4m and an increase in EBIT of 4.6% to EUR 5.6m. Given the increased minority interests resulting from the sale of the interest in DEAG Classics, we expect a slightly weaker EPS increase of 30% on the adjusted figure from the previous year to EUR 0.13.
- » **Operational turnaround:** Given the positive performance of Good News and the classics subsidiary Raymond Gubbay, the lost sales contribution from the sale of the Rock/Pop concert business could be more than compensated. Also, the absence of the high extraordinary depreciations which amounted to EUR 5.0m in the previous year, reduced pressure on earnings.

With the restructuring of the Group portfolio and the concentration of the higher margin classics business, we believe DEAG to be on the right path. In addition, cooperation agreements with Sony Music and Klassik Radio should ensure further positive earnings contributions in the long-term. Based on our adjusted sales and earnings forecasts, we see Fair Value unchanged at EUR 2.9.

Selected Companies	Price on 8 Apr 2010	PER		EV / EBITDA		EV / Sales 10e	Re-com.
		10e	11e	10e	11e		
DEAG Entertainment	1.88 EUR	14.1	11.3	6.5	5.7	0.37	↑
CTS Eventim	39.79 EUR	18.2	15.2	8.6	7.1	1.67	↑
Live Nation Inc	15.56 USD	183.1	45.8	9.3	6.0	0.70	-
<b>Median for all peer group companies</b>		<b>100.7</b>	<b>30.5</b>	<b>9.0</b>	<b>6.6</b>	<b>1.19</b>	<b>-</b>

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

### EQUITIES

Flash  
9 Apr 2010

Buy (prev. Buy)

Closing price 8 Apr 2010

(in EUR): 1.88

Fair value: 2.90 (prev. 2.90)

Risk classification: 5

Financial ratios 2010e:

Book value per share (in EUR):	1.89
Equity ratio (in %):	35.0
Net margin (in %):	3.0
ROE (in %):	12.8
Dividend yield (in %):	0.0
Free cash flow (EUR m):	3.3
Net debt (EUR m):	-14.9

Number of shares

(million units): 12.4

Market cap

(in EUR m): 23.29

Free float (in %): 50.0

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Datastream: D:ERMX

Next Newsflow:

21.04.2010: Munich Capital Market Conference

31.05.2010: Report Q1/2010



Author: Christoph Bast, Analyst

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Bank on Germany

<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	2008	2009	2010e	2011e	2012e	2013e
<b>Sales</b>	<b>109.5</b>	<b>116.7</b>	<b>121.4</b>	<b>125.6</b>	<b>130.0</b>	<b>134.6</b>
% against prev. year	39%	7%	4%	4%	4%	4%
Cost of goods sold	-89.8	-90.7	-91.6	-94.6	-97.6	-101.0
<b>Gross profit</b>	<b>19.7</b>	<b>26.0</b>	<b>29.7</b>	<b>31.0</b>	<b>32.4</b>	<b>33.5</b>
% against prev. year	-2%	32%	14%	4%	4%	4%
Sales costs	-13.8	-14.7	-15.2	-15.7	-16.3	-16.8
Administration costs	-10.2	-11.0	-11.4	-11.8	-12.2	-12.6
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.1	5.2	3.0	3.1	3.3	3.4
Other operating expenses	-1.0	-0.7	-0.6	-0.6	-0.7	-0.7
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>-3.1</b>	<b>4.8</b>	<b>5.6</b>	<b>6.0</b>	<b>6.5</b>	<b>6.7</b>
For information: EBIT adjusted	-0.8	4.8	5.6	6.0	6.5	6.7
% against prev. year	-114%		16%	8%	8%	4%
Interest paid / received	-1.4	-1.6	-1.0	-1.0	-0.9	-0.8
<b>Profit before tax</b>	<b>-4.6</b>	<b>3.3</b>	<b>4.6</b>	<b>5.1</b>	<b>5.6</b>	<b>5.9</b>
For information: EBT adjusted	-2.2	3.3	4.6	5.1	5.6	5.9
% against prev. year	-154%		40%	11%	10%	5%
Income taxes from continuing operations	-0.4	-0.4	-0.9	-1.0	-1.1	-1.2
Tax rate	-9%	12%	20%	20%	20%	20%
<b>Net profit from continuing operations</b>	<b>-5.0</b>	<b>2.9</b>	<b>3.7</b>	<b>4.1</b>	<b>4.5</b>	<b>4.7</b>
Net profit from discontinued operations	-5.2	-0.8	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>-10.1</b>	<b>2.1</b>	<b>3.7</b>	<b>4.1</b>	<b>4.5</b>	<b>4.7</b>
Profit or loss attributable to minority interest	-1.0	-1.6	-2.0	-2.0	-2.0	-2.0
<b>Profit or loss attributable to shareholders</b>	<b>-11.1</b>	<b>0.5</b>	<b>1.7</b>	<b>2.1</b>	<b>2.5</b>	<b>2.7</b>
thereof from continuing operations	-6.0	1.3	1.7	2.1	2.5	2.7
thereof from discontinued operations	-5.2	-0.8	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	23.965	12.388	12.388	12.388	12.388	12.388
IFRS earnings per share, diluted	-0.93	0.04	0.13	0.17	0.20	0.22
Adjusted earnings per share, diluted (contin.)	-0.25	0.10	0.13	0.17	0.20	0.22
<b>For information</b>						
Depreciation	6.9	1.6	1.4	1.7	2.0	2.3
EBITDA	3.7	6.4	7.0	7.7	8.5	9.0
EBITDA adjusted	1.4	6.1	7.0	7.7	8.5	9.0
Fiscal year end December						

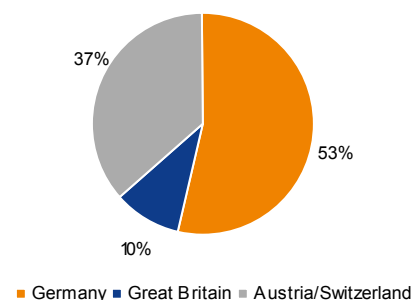
Source: DEAG Entertainment and DZ BANK estimates

**RATIOS**

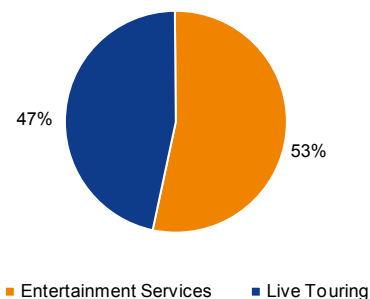
Euro	2008	2009	2010e	2011e	2012e
<b>Profit and loss ratios</b>					
Sales (m)	109.5	116.7	121.4	125.6	130.0
EBITDA margin	1.2%	5.2%	5.8%	6.1%	6.5%
EBIT margin	-0.7%	4.1%	4.6%	4.8%	5.0%
Net margin	-1.8%	2.5%	3.0%	3.2%	3.4%
Investment ratio	0.0%	0.3%	3.0%	2.9%	2.8%
R&D as % of sales					
Admin and sales costs as % of sales	21.9%	22.0%	21.9%	21.9%	21.9%
Net other operating costs as % of sales	-1.1%	-3.9%	-2.0%	-2.0%	-2.0%
Net financial income as % of sales	-1.3%	-1.3%	-0.8%	-0.8%	-0.7%
Interest cover		3.7	5.5	6.3	7.3
Average sales growth next five years	4.2%	3.6%			
Average earnings growth next five years		43.9%			
<b>Profitability ratios</b>					
ROE	-8.1%	11.1%	12.8%	12.9%	13.0%
ROCE	-5.0%	40.7%	41.4%	40.6%	40.8%
<b>Productivity ratios</b>					
Sales per employee ('000)		250.33		749.87	753.62
EBIT per employee ('000)		10.36		35.99	37.68
<b>Balance sheet ratios</b>					
Equity ratio	29.3%	33.4%	35.0%	36.8%	38.6%
Long term debt and equity / Fixed assets	83.2%	93.3%	94.4%	96.9%	100.5%
Liquidity (quick ratio)	70.6%	79.9%	80.0%	81.8%	84.8%
Receivables as % of sales	6.1%	7.6%	7.5%	7.5%	7.5%
Investment (net of GW) / Depreciation			258.6%	216.1%	186.9%
Working capital as % of sales	-22.8%	-19.4%	-19.1%	-19.0%	-18.8%
Film assets (m)	0.0	0.0	0.0	0.0	0.0
Net debt (m)	-8.6	-14.0	-14.9	-16.4	-18.5
Net debt complete (m)	-11.2	-15.9	-16.8	-18.3	-20.4
<b>Figures per share</b>					
Earnings per share, diluted	-0.25	0.10	0.13	0.17	0.20
Diluted cash earnings per share	-0.07	0.21	0.25	0.30	0.36
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	1.84	1.90	1.94	2.04	2.19
Net debt per share, diluted	-0.71	-1.13	-1.20	-1.32	-1.49
<b>Valuation ratios</b>					
Enterprise value / Sales	0.0	0.1	0.4	0.3	0.3
Enterprise value / EBITDA	3.7	2.3	6.5	5.7	4.9
Enterprise value / EBIT		3.0	8.1	7.3	6.4
EV/Sales to sales growth	0.00	0.03	0.10	0.10	0.09
PEG ratio - common shares			0.32		
Fiscal year end December					

Source: DEAG Entertainment, DZ BANK estimates

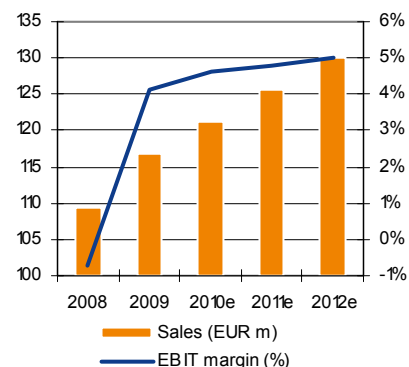
**SALES BY REGION**



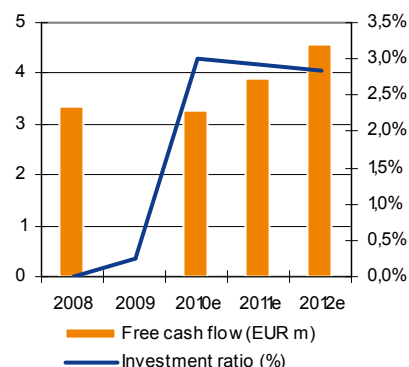
**SALES BY BUSINESS SEGMENT**



**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	2008	2009	2010e	2011e	2012e	2013e
<b>ASSETS</b>						
<b>Non current assets</b>	<b>42.7</b>	<b>36.1</b>	<b>38.3</b>	<b>40.3</b>	<b>42.0</b>	<b>43.5</b>
Intangible assets	31.0	25.4	27.5	29.2	30.8	32.0
thereof goodwill	23.9	18.9	18.9	18.9	18.9	18.9
Long-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	9.1	9.1	9.2	9.3	9.5	9.5
Financial assets	2.2	1.6	1.6	1.6	1.6	1.6
Other long-term assets	0.4	0.0	0.0	0.1	0.2	0.4
<b>Current assets</b>	<b>39.3</b>	<b>41.8</b>	<b>43.2</b>	<b>45.0</b>	<b>47.5</b>	<b>50.4</b>
Inventories	6.5	6.5	6.9	7.2	7.4	7.7
Short-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	6.6	8.9	9.1	9.4	9.8	10.1
Financial assets	0.6	0.4	0.4	0.4	0.4	0.4
Other receivables and short-term assets	2.4	2.5	2.7	2.8	2.9	3.0
Liquid assets	22.1	23.5	24.1	25.3	27.1	29.3
Assets available for sale	1.0	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>82.0</b>	<b>77.9</b>	<b>81.5</b>	<b>85.3</b>	<b>89.5</b>	<b>93.9</b>
<b>LIABILITIES</b>						
<b>Shareholders' equity</b>	<b>24.0</b>	<b>26.0</b>	<b>28.5</b>	<b>31.4</b>	<b>34.5</b>	<b>37.9</b>
Share capital	24.8	12.4	12.4	12.4	12.4	12.4
Reserves	-2.5	10.4	12.0	14.1	16.6	19.3
Other equity	-1.8	-1.0	-1.0	-1.0	-1.0	-1.0
Minority interest	3.6	4.2	5.0	5.8	6.5	7.1
Treasury stock	0.0	0.0	0.0	0.0	0.0	0.0
<b>Non current liabilities</b>	<b>11.5</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	9.4	5.8	5.8	5.8	5.8	5.8
Other payables	2.0	1.8	1.8	1.8	1.8	1.8
<b>Current liabilities</b>	<b>46.5</b>	<b>44.2</b>	<b>45.3</b>	<b>46.3</b>	<b>47.3</b>	<b>48.4</b>
Trade receivables	7.5	10.2	10.6	11.0	11.4	11.8
Other provisions	7.4	6.9	7.0	7.0	7.1	7.2
Financial liabilities	4.1	3.7	3.4	3.1	2.8	2.5
Other liabilities	25.6	23.4	24.3	25.2	26.0	26.9
Liabilities assoc. with assets held for sale	1.8	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' equity and liabilities</b>	<b>82.0</b>	<b>77.9</b>	<b>81.5</b>	<b>85.3</b>	<b>89.5</b>	<b>93.9</b>
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

**SUMMARY**

Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>Profit and loss account</b>						
Sales	116.7	121.4	125.6	130.0	134.6	139.3
Cost of goods sold	-90.7	-91.6	-94.6	-97.6	-101.0	-104.6
Gross profit	26.0	29.7	31.0	32.4	33.5	34.7
Sales costs	-14.7	-15.2	-15.7	-16.3	-16.8	-17.4
Administration costs	-11.0	-11.4	-11.8	-12.2	-12.6	-13.1
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expenses	4.5	2.4	2.5	2.6	2.7	2.8
Operating profit (EBIT)	4.8	5.6	6.0	6.5	6.7	7.0
Interest paid / received	-1.6	-1.0	-1.0	-0.9	-0.8	-0.8
Profit before tax	3.3	4.6	5.1	5.6	5.9	6.2
Income taxes from continuing operations	-0.4	-0.9	-1.0	-1.1	-1.2	-1.2
Net profit from continuing operations	2.9	3.7	4.1	4.5	4.7	4.9
Net profit from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
Net profit	2.1	3.7	4.1	4.5	4.7	4.9
Profit or loss attributable to minority interest	-1.6	-2.0	-2.0	-2.0	-2.0	-2.0
Profit or loss attributable to shareholders	0.5	1.7	2.1	2.5	2.7	2.9
<b>Balance sheet</b>						
Non current assets	36.1	38.3	40.3	42.0	43.5	44.5
thereof goodwill	18.9	18.9	18.9	18.9	18.9	18.9
Current assets	41.8	43.2	45.0	47.5	50.4	48.0
thereof liquid assets	23.5	24.1	25.3	27.1	29.3	26.1
Shareholders' equity	26.0	28.5	31.4	34.5	37.9	35.1
Non current liabilities	7.7	7.7	7.7	7.7	7.7	7.7
Current liabilities	44.2	45.3	46.3	47.3	48.4	49.7
Shareholders' equity and liabilities	77.9	81.5	85.3	89.5	93.9	92.5
<b>Cash flow statement</b>						
Operating CF (cont.)	1.2	6.7	7.3	8.0	8.5	8.9
Operating CF (discont.)	-0.8					
Investing CF (cont.)	-0.1	-3.4	-3.4	-3.4	-3.5	-3.3
Investing CF (discont.)	-0.2					
Free cash flow (cont.)	1.0	3.3	3.9	4.6	5.0	5.6
Free cash flow (discont.)	-1.0					
Financing CF (cont.)	1.2	-2.7	-2.7	-2.8	-2.8	-8.8
Financing CF (discont.)	-0.1					
Increase/decrease of cash	1.1	0.6	1.2	1.8	2.2	-3.2
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.

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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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