

MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

DEAG Entertainment⁶⁾

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				
2009	116.7	(116.7)	0.10	(0.10)	0.21	(0.21)	19.1	9.5	0.00
2010e	125.4	(121.4)	0.14	(0.13)	0.25	(0.25)	15.4	8.6	0.00
2011e	135.6	(125.6)	0.18	(0.17)	0.31	(0.30)	11.9	7.0	0.00
2012e	140.0	(130.0)	0.22	(0.20)	0.36	(0.36)	10.0	6.0	0.00

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

Q2 review: solid business result and outlook confirmed

- » **Preliminary figures confirmed:** DEAG generated an increase in sales in Q2 of 10% to EUR 33.7m and stable EBIT of EUR 1.4m. Based on an improved financial result as a result of debt reduction as well as lower minority interests, net profit increased significantly from EUR 0.5m to EUR 0.9m.
- » **Further joint venture with Sony Music:** DEAG set up a further joint venture with Sony Music at the beginning of August - Gold Entertainment GmbH. 66.6% of Manfred Hertlein GmbH, the tour and concert organiser focused on German schlager artists, was acquired in the process. DEAG is therefore further diversifying its genre offer into the less volatile and higher-margin classical/German schlager segment.
- » **2010 outlook confirmed:** The management confirmed the outlook for the 2010 financial year according to which all earnings figures are expected to increase compared to the previous year. We regard this goal as being within reach based on the stable trend in business in H1 and the well filled concert pipeline in H2.
- » **Estimates raised:** In view of the solid trend in business in Q2 we have raised our sales and earnings forecast by the contributions from the consolidation of Manfred Hertlein. For 2010 we are forecasting additional sales of EUR 4.0m and EBIT of EUR 0.1m. From 2011 Hertlein should contribute sales of EUR 12.0m and EBIT of EUR 0.5m to the DEAG group.

DEAG reported a solid Q2 which was in line with our expectations. We have raised our sales and earnings forecast by the contributions from the German Schlager joint venture with Sony Music. The new DCF-based fair value comes to EUR 3.0 after EUR 2.9.

Selected Companies	Price on 1 Sep 2010	PER		EV / EBITDA		EV / Sales 10e	Re-com.
		10e	11e	10e	11e		
DEAG Entertainment	2.18 EUR	15.4	11.9	7.0	5.9	0.39	↑
CTS Eventim	35.00 EUR	15.7	12.1	9.2	6.8	1.76	↑
Live Nation Inc	9.26 USD	-	92.6	6.8	5.8	0.53	-
Median for all peer group companies		15.7	52.4	8.0	6.3	1.15	-

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

EQUITIES

Flash
2 Sep 2010

Buy (prev. Buy)

Closing price 1 Sep 2010

(in EUR): 2.18

Fair value: 3.00 (prev. 2.90)

Risk classification: 5

Financial ratios 2010e:

Book value per share (in EUR):	1.90
Equity ratio (in %):	34.6
Net margin (in %):	3.0
ROE (in %):	13.1
Dividend yield (in %):	0.0
Free cash flow (EUR m):	1.6
Net debt (EUR m):	-14.5

Number of shares

(million units): 12.4

Market cap

(in EUR m): 27.01

Free float (in %): 50.0

SIN: A0Z23G

ISIN: DE000A0Z23G6

Datastream: D:ERMX

Next Newsflow:

Report Q3/2010: 30 November 2010



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¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

Q2 REVIEW

Preliminary quarterly figures confirmed

DEAG confirmed the figures with the publication of the first-half report. Accordingly, sales were up in Q2 by 9.8% yoy to EUR 33.7m. At EUR 1.4m EBIT remained on the prior-year level. The significant increase in sales is attributable to a greater number of concerts appealing to the masses compared to the prior-year quarter, for example by AC/DC, Black Eyed Peas, Rihanna or David Garrett. We believe the slight margin dilution of 50bp is attributable to a comparatively profitable Q2/09 as well as several less profitable events in Q2/10.

Based on an improved financial result on account of the reduction of debts but also in view of lower minority interests, which were reduced through the purchase of the remaining 24.9% of Raymond Gubbay and the increase in the stake in DEAG Music by 10% to 85%, net income rose from EUR 0.5 to 0.9m and EPS from EUR 0.04 to 0.07. Overall the quarterly result was therefore in line with our expectations.

TREND IN BUSINESS IN H1/2010

EUR m	Q1/09	Q1/10	yoy	Q2/09	Q2/10	yoy	H1/09	H1/10	yoy
Live Touring									
Revenues	14.1	13.1	-7%	11.4	12.4	9%	25.4	25.5	0%
EBIT	0.5	1.2	140%	0.4	0.1	-75%	0.9	1.3	44%
Margin (%)	3.5%	9.2%	0	3.5%	0.8%	0	3.5%	5.1%	0
Entertainment Services									
Revenues	13.7	8.5	-38%	20.4	21.9	7%	34.1	30.4	-11%
EBIT	1.5	0.9	-40%	2.0	1.7	-15%	3.5	2.6	-26%
Margin (%)	10.9%	10.6%	0%	9.8%	7.8%	0%	10.3%	8.6%	0%
Group									
Revenues	26.3	20.5	-22%	30.7	33.7	10%	57.0	54.2	-5%
EBIT	1.1	1.3	21%	1.4	1.4	-0%	2.5	2.7	8%
Margin (%)	4.0%	6.3%	0	4.7%	4.3%	0	4.4%	5.0%	0
Net income	0.2	0.3	43%	0.5	0.9	93%	0.7	1.2	77%
EPS	0.02	0.03	0.0%	0.04	0.07	0.0%	0.06	0.10	0.0%

Source: DZ BANK Research, DEAG Entertainment

Note

Liquid funds rose in H1 by 24% to EUR 26m. However, these were set against deferred sales of EUR 25m attributable to the sale of entrance tickets for events still to take place and are around 30% higher than in the previous year. We are therefore expecting a far higher volume of events in H2 than in the previous year. Overall we estimate freely available liquidity in H1 at around EUR 1m.

Outlook

The management confirmed the outlook for the 2010 financial year according to which it expects to increase all earnings figures yoy. We regard this goal as within reach owing to the stable trend in business in H1 and the well-filled concert pipeline in H2. We believe DEAG will be able to achieve an increase in sales in 2010 of 4% to EUR 121m. In addition, we are expecting a significant increase in EBIT of 16% to EUR 5.6m as well as EPS of EUR 0.13 after EUR 0.04 the previous year.

¹⁾-⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

Our assessment is based on the following assumptions:

- » DEAG has a well-filled concert pipeline in the second half of the year with tours by David Garrett and Peter Maffay as well as concerts by U2, Shakira, Sting, Santana or Linkin Park. In addition, Raymond Gubbay generates the largest share of sales in Q4 as a result of the Christmas concerts held in December.
- » David Garrett will publish a new live DVD in Q3. In addition to the direct sales contributions from this album, the sale of older CDs/DVDs (back catalogue) already published under DEAG Music will also be stimulated based on experience.
- » DEAG set up a further joint venture with Sony Music at the beginning of August - Gold Entertainment GmbH. Within the scope of this Gold Entertainment, in which DEAG and Sony Music each hold a 50% stake, acquired 66.6% of the shares of Manfred Hertlein GmbH. Manfred Hertlein has been operating as a concert and tour organiser in Germany for over 30 years and as a local event organiser in the Rhein-Main area complements DEAG's Live Music segment. In addition, Hertlein owns the rights to the TV programme Musikantenstadl. A closer link between artists and the TV platform could have a positive impact on the marketing of still unknown up-and-coming artists from Sony Music's record label (Ariola).
- » Manfred Hertlein GmbH will be fully consolidated with effect from 30.09.2010. With annual sales of EUR 12m and an estimated EBIT margin of 5% the EBIT contribution after PPA write-downs should come to EUR 0.5m per annum. We have therefore raised our sales and earnings forecasts by the contributions from the consolidation of Hertlein.

Summary and recommendation

DEAG presented a solid trend in business in Q2 which was in line with our expectations. We are confident that DEAG can benefit from the growing diversification of its genre portfolio into the less volatile segments classical and German schlager. With Sony Music DEAG has found an attractive partner for building up new artists and implementing the 360-degree approach. Based on our increased sales and earnings forecast the new DCF-based fair value comes to EUR 3.0 after EUR 2.9 previously. We therefore recommend buying the shares.

DZ BANK VERSUS CONSENSUS

EUR m	DZ BANK			Consensus			Delta		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Revenues	125	136	140	123	134	143	2%	1%	-2%
EBITDA	7	8	9	8	9	9	-6%	-8%	-6%
Margin	6%	6%	6%	6%	6%	7%	0%	-1%	0%
EBIT	6	6	7	6	7	8	-12%	-14%	-13%
Margin	5%	5%	5%	5%	6%	6%	-1%	-1%	-1%
Net income	2	2	3	2	3	3	-14%	-10%	-7%
EPS	0.14	0.18	0.22	0.15	0.19	0.23	-6%	-4%	-5%

Source: DZ BANK estimates, Datastream

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CHANGES IN THE FINANCIAL MODEL

EUR m	New			Old			Δ			Δ%		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Revenues	125	136	140	121	126	130	4	10	10	3%	8%	8%
Gross income	30	33	33	30	31	32	0	2	1	1%	5%	3%
Margin (%)	24%	24%	24%	25%	25%	25%	-1%	-1%	-1%	-	-	-
EBITDA	7.1	8.0	8.8	7.0	7.7	8.5	0.1	0.3	0.3	2%	4%	4%
Margin (%)	6%	6%	6%	6%	6%	7%	0%	0%	0%	-	-	-
D&A	1.4	1.6	1.8	1.4	1.7	2.0	0.0	-0.1	-0.2	-1%	-6%	-9%
EBIT	5.7	6.4	7.0	5.6	6.0	6.5	0.1	0.4	0.5	2%	6%	8%
Margin (%)	5%	5%	5%	5%	5%	5%	0%	0%	0%	-	-	-
EBT	4.7	5.4	6.0	4.6	5.1	5.6	0.1	0.3	0.4	3%	6%	7%
Net income	1.8	2.3	2.7	1.7	2.1	2.5	0.1	0.2	0.2	6%	10%	9%
EPS	0.14	0.18	0.22	0.13	0.17	0.20	0.01	0.02	0.02	6%	10%	9%
Change WC	1.1	1.4	0.6	0.6	0.6	0.6	0.5	0.8	0.0	88%	126%	-1%
Capex	-4.6	-3.7	-3.7	-3.6	-3.7	-3.7	-1.0	0.0	0.0	27%	0%	0%
Capex/Sales	4%	3%	3%	3%	3%	3%	1%	0%	0%	-	-	-
FCF	2.4	4.4	4.2	2.8	3.5	4.1	-0.4	0.9	0.1	-14%	27%	2%
FCF conversion	34%	55%	48%	41%	45%	49%	-6%	10%	-1%	-	-	-

Source: DZ BANK estimates

PROFIT AND LOSS ACCOUNT

Euro m	2009	2010e	2011e	2012e	2013e	2014e
Sales	116.7	125.4	135.6	140.0	144.6	149.3
% against prev. year	7%	7%	8%	3%	3%	3%
Cost of goods sold	-90.7	-95.5	-103.0	-106.8	-110.5	-114.2
Gross profit	26.0	29.9	32.6	33.2	34.2	35.1
% against prev. year	32%	15%	9%	2%	3%	3%
Sales costs	-14.7	-15.2	-16.4	-16.7	-17.4	-17.8
Administration costs	-11.0	-11.4	-12.3	-12.5	-12.6	-13.0
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	5.2	2.4	2.6	2.9	3.0	3.0
Other operating expenses	-0.7	0.0	0.0	0.0	0.0	0.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	4.8	5.7	6.4	7.0	7.2	7.4
For information: EBIT adjusted	4.8	5.7	6.4	7.0	7.2	7.4
% against prev. year		18%	12%	10%	2%	2%
Interest paid / received	-1.6	-1.0	-1.0	-1.0	-1.0	-1.0
Profit before tax	3.3	4.7	5.4	6.0	6.2	6.4
For information: EBT adjusted	3.3	4.7	5.4	6.0	6.2	6.4
% against prev. year		44%	15%	11%	3%	3%
Income taxes from continuing operations	-0.4	-1.0	-1.1	-1.3	-1.4	-1.5
Tax rate	12%	20%	21%	22%	23%	24%
Net profit from continuing operations	2.9	3.8	4.3	4.7	4.8	4.8
Net profit from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
Net profit	2.1	3.8	4.3	4.7	4.8	4.8
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	1.8	2.3	2.7	2.8	2.8
thereof from continuing operations	1.3	1.8	2.3	2.7	2.8	2.8
thereof from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	12.388	12.388	12.388	12.388	12.388	12.388
IFRS earnings per share, diluted	0.04	0.14	0.18	0.22	0.22	0.23
Adjusted earnings per share, diluted (contin.)	0.10	0.14	0.18	0.22	0.22	0.23
For information						
Depreciation	1.6	1.4	1.6	1.8	2.0	2.2
EBITDA	6.4	7.1	8.0	8.8	9.2	9.6
EBITDA adjusted	6.1	7.1	8.0	8.8	9.2	9.6

Fiscal year end December

Source: DEAG and DZ BANK estimates

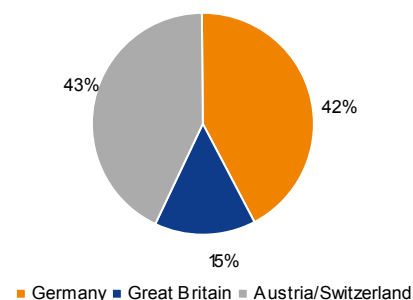
1)–9) Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

RATIOS

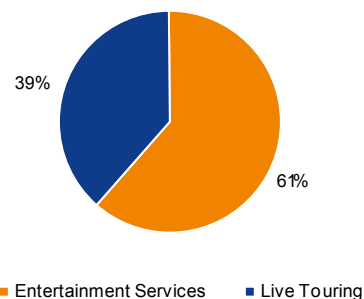
Euro	2009	2010e	2011e	2012e	2013e
Profit and loss ratios					
Sales (m)	116.7	125.4	135.6	140.0	144.6
EBITDA margin	5.2%	5.7%	5.9%	6.3%	6.4%
EBIT margin	4.1%	4.5%	4.7%	5.0%	5.0%
Net margin	2.5%	3.0%	3.1%	3.4%	3.3%
Investment ratio	0.3%	3.7%	2.7%	2.6%	2.6%
R&D as % of sales					
Admin and sales costs as % of sales	22.0%	21.2%	21.2%	20.8%	20.7%
Net other operating costs as % of sales	-3.9%	-1.9%	-1.9%	-2.1%	-2.1%
Net financial income as % of sales	-1.3%	-0.8%	-0.7%	-0.7%	-0.7%
Interest cover	3.7				
Average sales growth next five years	5.1%				
Average earnings growth next five years	42.9%				
Profitability ratios					
ROE	11.1%	13.1%	13.5%	13.4%	12.4%
ROCE	40.7%	40.8%	43.8%	44.2%	42.3%
Productivity ratios					
Sales per employee ('000)	250.33		809.55	811.59	819.26
EBIT per employee ('000)	10.36		38.21	40.70	40.69
Balance sheet ratios					
Equity ratio	33.4%	34.6%	35.8%	37.7%	39.5%
Long term debt and equity / Fixed assets	93.3%	92.2%	95.1%	98.7%	102.4%
Liquidity (quick ratio)	79.9%	78.0%	80.1%	83.0%	86.0%
Receivables as % of sales	7.6%	7.5%	7.5%	7.5%	7.5%
Investment (net of GW) / Depreciation		331.4%	228.8%	205.6%	187.5%
Working capital as % of sales	-19.4%	-19.0%	-18.6%	-18.4%	-18.3%
Film assets (m)	0.0	0.0	0.0	0.0	0.0
Net debt (m)	-14.0	-14.5	-16.9	-19.0	-21.3
Net debt complete (m)	-15.9	-16.4	-18.8	-20.9	-23.2
Figures per share					
Earnings per share, diluted	0.10	0.14	0.18	0.22	0.22
Diluted cash earnings per share	0.21	0.25	0.31	0.36	0.38
Dividend per common share	0.00	0.00	0.00	0.00	0.50
Cash per share, diluted	1.90	1.91	2.08	2.23	2.39
Net debt per share, diluted	-1.13	-1.17	-1.36	-1.54	-1.72
Valuation ratios					
Enterprise value / Sales	0.1	0.4	0.3	0.3	0.3
Enterprise value / EBITDA	2.3	7.0	5.9	5.1	4.7
Enterprise value / EBIT	3.0	8.7	7.4	6.4	5.9
EV/Sales to sales growth	0.02	0.08	0.07	0.06	0.06
PEG ratio - common shares		0.36			
Fiscal year end December					

Source: DEAG Entertainment, DZ BANK estimates

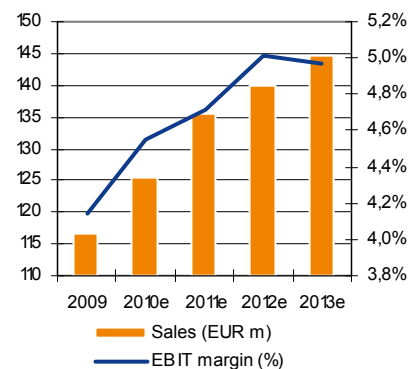
SALES BY REGION 2009



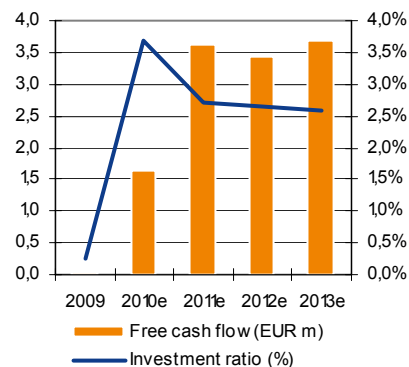
SALES BY BUSINESS SEGMENT 2009



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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BALANCE SHEET

IFRS - Euro m	2009	2010e	2011e	2012e	2013e	2014e
ASSETS						
Non current assets	36.1	39.3	41.4	43.3	45.0	46.4
Intangible assets	25.4	28.6	30.6	32.4	34.1	35.7
thereof goodwill	18.9	19.4	19.4	19.4	19.4	19.4
Long-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	9.1	9.1	9.1	9.1	9.0	8.8
Financial assets	1.6	1.6	1.6	1.6	1.6	1.6
Other long-term assets	0.0	0.0	0.1	0.2	0.4	0.4
Current assets	41.8	43.4	47.1	49.6	52.3	49.4
Inventories	6.5	7.1	7.7	8.0	8.2	8.5
Short-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	8.9	9.4	10.2	10.5	10.8	11.2
Financial assets	0.4	0.4	0.4	0.4	0.4	0.4
Other receivables and short-term assets	2.5	2.8	3.0	3.1	3.2	3.3
Liquid assets	23.5	23.7	25.8	27.6	29.6	26.0
Assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	77.9	82.7	88.5	92.9	97.3	95.8
LIABILITIES						
Shareholders' equity	26.0	28.6	31.7	35.1	38.4	35.5
Share capital	12.4	12.4	12.4	12.4	12.4	12.4
Reserves	10.4	12.1	14.4	17.1	19.8	16.5
Other equity	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Minority interest	4.2	5.0	5.8	6.5	7.1	7.6
Treasury stock	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	7.7	7.7	7.7	7.7	7.7	7.7
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	5.8	5.8	5.8	5.8	5.8	5.8
Other payables	1.8	1.8	1.8	1.8	1.8	1.8
Current liabilities	44.2	46.5	49.2	50.2	51.2	52.6
Trade receivables	10.2	11.0	11.9	12.3	12.7	13.1
Other provisions	6.9	7.0	7.0	7.1	7.1	7.1
Financial liabilities	3.7	3.4	3.1	2.8	2.5	2.5
Other liabilities	23.4	25.1	27.2	28.0	29.0	29.9
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	77.9	82.7	88.5	92.9	97.3	95.8
Fiscal year end December						

Source: DEAG and DZ BANK estimates

1) - 9) Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

SUMMARY

Euro m	2009	2010e	2011e	2012e	2013e	2014e
Profit and loss account						
Sales	116.7	125.4	135.6	140.0	144.6	149.3
Cost of goods sold	-90.7	-95.5	-103.0	-106.8	-110.5	-114.2
Gross profit	26.0	29.9	32.6	33.2	34.2	35.1
Sales costs	-14.7	-15.2	-16.4	-16.7	-17.4	-17.8
Administration costs	-11.0	-11.4	-12.3	-12.5	-12.6	-13.0
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expenses	4.5	2.4	2.6	2.9	3.0	3.0
Operating profit (EBIT)	4.8	5.7	6.4	7.0	7.2	7.4
Interest paid / received	-1.6	-1.0	-1.0	-1.0	-1.0	-1.0
Profit before tax	3.3	4.7	5.4	6.0	6.2	6.4
Income taxes from continuing operations	-0.4	-1.0	-1.1	-1.3	-1.4	-1.5
Net profit from continuing operations	2.9	3.8	4.3	4.7	4.8	4.8
Net profit from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
Net profit	2.1	3.8	4.3	4.7	4.8	4.8
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	1.8	2.3	2.7	2.8	2.8
Balance sheet						
Non current assets	36.1	39.3	41.4	43.3	45.0	46.4
thereof goodwill	18.9	19.4	19.4	19.4	19.4	19.4
Current assets	41.8	43.4	47.1	49.6	52.3	49.4
thereof liquid assets	23.5	23.7	25.8	27.6	29.6	26.0
Shareholders' equity	26.0	28.6	31.7	35.1	38.4	35.5
Non current liabilities	7.7	7.7	7.7	7.7	7.7	7.7
Current liabilities	44.2	46.5	49.2	50.2	51.2	52.6
Shareholders' equity and liabilities	77.9	82.7	88.5	92.9	97.3	95.8
Cash flow statement						
Operating CF (cont.)	1.2	7.3	8.3	8.1	8.4	8.7
Operating CF (discont.)	-0.8					
Investing CF (cont.)	-0.1	-5.6	-4.7	-4.7	-4.8	-4.6
Investing CF (discont.)	-0.2					
Free cash flow (cont.)	1.0	1.6	3.6	3.4	3.7	4.1
Free cash flow (discont.)	-1.0					
Financing CF (cont.)	1.2	-1.5	-1.5	-1.6	-1.7	-7.7
Financing CF (discont.)	-0.1					
Increase/decrease of cash	1.1	0.2	2.1	1.8	2.0	-3.6
Fiscal year end December						

Source: DEAG and DZ BANK estimates

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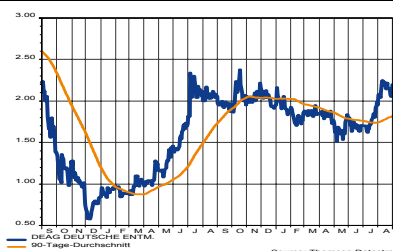
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Recommendation	Date	Price
Buy	8 Jul 2009	2.40 EUR
Hold	2 Dec 2008	0.74 EUR
Buy	27 May 2008	2.92 EUR

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