

# 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				
2009	116.7	(116.7)	0.10	(0.10)	0.21	(0.21)	19.1	9.5	0.00
2010e	125.4	(125.4)	0.14	(0.14)	0.25	(0.25)	17.0	9.4	0.00
2011e	135.6	(135.6)	0.18	(0.18)	0.31	(0.31)	13.1	7.7	0.00
2012e	140.0	(140.0)	0.22	(0.22)	0.36	(0.36)	11.0	6.6	0.00

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

### Q3-Review: Turnaround in operations and more optimistic outlook for Q4

- » **Performance:** DEAG Entertainment reported sales growth of 20% to EUR 29.1 m in Q3/10. EBITDA of EUR 1.1m was around EUR 1m higher than the value from the previous year. DEAG has succeeded in achieving a positive turnaround with EBIT increasing from EUR -0.2m to EUR 0.8m.
- » **Classics Expansion:** DEAG Classics announced on 29.11.2010 that it would establish a company to host the "See Festspiele Potsdam" with two further partners. From summer 2011, this venue will host a range of open-air operas and thus supplements DEAG's classics portfolio. We view the strengthening of DEAG's market position in classical music as very positive. In the short-term, however, we expect low earnings potential.
- » **Outlook:** After management previously forecast that all earnings ratios would improve on the previous year, the highest sales and earnings figures for 5 years are now expected in Q4. The full-year outlook with respect to EBITDA is 7% higher than our expectations and with respect to EBIT 6% higher than our expectations.
- » **Conclusion & Valuation:** DEAG Entertainment has again delivered solid quarterly results, has achieved a turnaround in operations and has strengthened classical music business with a new event range. Given that up to 50% of full-year EBIT is generated in Q4 and concert business involves a high utilisation risk, we are leaving our forecasts unchanged despite the more optimistic guidance.

**DEAG has reported solid quarterly results and has increased full-year guidance. The strategic realignment of the business portfolio and more consistent cost control are beginning to bear fruit. We therefore confirm our recommendation and price target.**

Selected Companies	Price on 30 Nov 2010	PER		EV / EBITDA		EV / Sales 10e	Re- com.
		10e	11e	10e	11e		
DEAG Entertainment	2.40 EUR	17.0	13.1	7.4	6.2	0.42	↑
CTS Eventim	44.15 EUR	19.8	15.3	11.4	8.6	2.19	↑
Live Nation Inc	10.76 USD	–	215.2	8.3	6.4	0.60	–
<b>Median for all peer group companies</b>		<b>19.8</b>	<b>115.3</b>	<b>9.9</b>	<b>7.5</b>	<b>1.40</b>	<b>–</b>

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

## EQUITIES

Flash  
1 Dec 2010

Buy (prev. Buy)

Closing price 30 Nov 2010

(in EUR): 2.40

Fair value: 3.00 (prev. 3.00)

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): 29.67

Free float (in %): 50.0

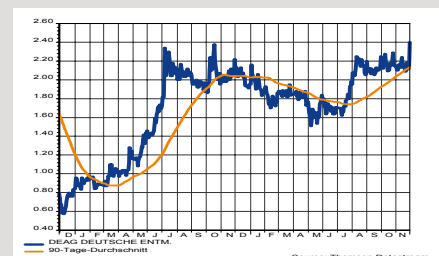
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ISIN: DE000A0Z23G6

Datastream: D:ERMX

Next Newsflow:

Annual Results 2010: 31. March 2011



Author: Christoph Bast, Analyst

**DZ BANK**  
Bank on Germany

## PROFIT AND LOSS ACCOUNT

Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>Sales</b>	<b>116.7</b>	<b>125.4</b>	<b>135.6</b>	<b>140.0</b>	<b>144.6</b>	<b>149.3</b>
% 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
<b>Gross profit</b>	<b>26.0</b>	<b>29.9</b>	<b>32.6</b>	<b>33.2</b>	<b>34.2</b>	<b>35.1</b>
% 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
<b>Operating profit (EBIT)</b>	<b>4.8</b>	<b>5.7</b>	<b>6.4</b>	<b>7.0</b>	<b>7.2</b>	<b>7.4</b>
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
<b>Profit before tax</b>	<b>3.3</b>	<b>4.7</b>	<b>5.4</b>	<b>6.0</b>	<b>6.2</b>	<b>6.4</b>
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%
<b>Net profit from continuing operations</b>	<b>2.9</b>	<b>3.8</b>	<b>4.3</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>
Net profit from discontinued operations	-0.8	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2.1</b>	<b>3.8</b>	<b>4.3</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>
Profit or loss attributable to minority interest	-1.6	-2.0	-2.0	-2.0	-2.0	-2.0
<b>Profit or loss attributable to shareholders</b>	<b>0.5</b>	<b>1.8</b>	<b>2.3</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>
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
<b>For information</b>						
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						

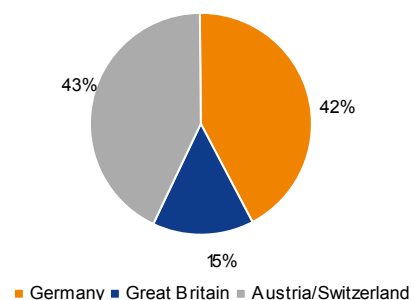
Source: DEAG Entertainment and DZ BANK estimates

**RATIOS**

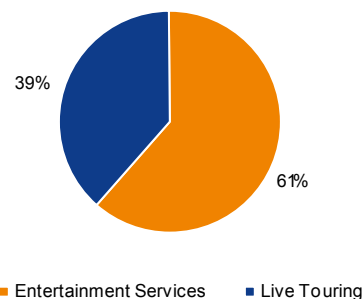
Euro	2009	2010e	2011e	2012e	2013e
<b>Profit and loss ratios</b>					
Sales (m)	116.7	125.4	135.6	140.0	144.6
EBITDA margin	5.2%	5.7%	5.9%	6.3%	6.4%
EBIT margin	4.1%	4.5%	4.7%	5.0%	5.0%
Net margin	2.5%	3.0%	3.1%	3.4%	3.3%
Investment ratio	0.3%	3.7%	2.7%	2.6%	2.6%
R&D as % of sales					
Admin and sales 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%				
<b>Profitability ratios</b>					
ROE	11.1%	13.1%	13.5%	13.4%	12.4%
ROCE	40.7%	40.8%	43.8%	44.2%	42.3%
<b>Productivity ratios</b>					
Sales per employee ('000)	250.33		809.55	811.59	819.26
EBIT per employee ('000)	10.36		38.21	40.70	40.69
<b>Balance sheet ratios</b>					
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
<b>Figures per share</b>					
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
<b>Valuation ratios</b>					
Enterprise value / Sales	0.1	0.4	0.4	0.3	0.3
Enterprise value / EBITDA	2.3	7.4	6.2	5.4	4.9
Enterprise value / EBIT	3.0	9.2	7.8	6.8	6.3
EV/Sales to sales growth	0.02	0.08	0.07	0.07	0.06
PEG ratio - common shares		0.40			
Fiscal year end December					

Source: DEAG Entertainment, DZ BANK estimates

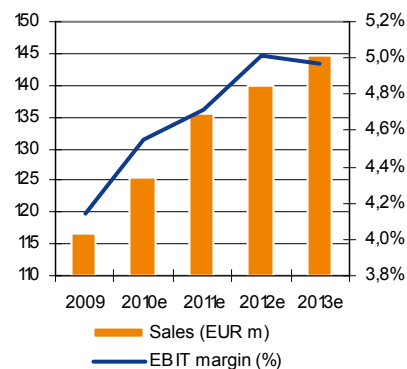
**SALES BY REGION 2009**



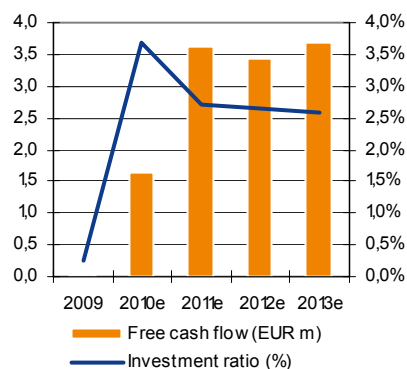
**SALES BY BUSINESS SEGMENT 2009**



**SALES AND MARGIN DEVELOPMENT**



**FREE CASH FLOW AND INVESTMENT RATIO**



<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.

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## BALANCE SHEET

IFRS - Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>ASSETS</b>						
<b>Non current assets</b>	<b>36.1</b>	<b>39.3</b>	<b>41.4</b>	<b>43.3</b>	<b>45.0</b>	<b>46.4</b>
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
<b>Current assets</b>	<b>41.8</b>	<b>43.4</b>	<b>47.1</b>	<b>49.6</b>	<b>52.3</b>	<b>49.4</b>
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
<b>Total assets</b>	<b>77.9</b>	<b>82.7</b>	<b>88.5</b>	<b>92.9</b>	<b>97.3</b>	<b>95.8</b>
<b>LIABILITIES</b>						
<b>Shareholders' equity</b>	<b>26.0</b>	<b>28.6</b>	<b>31.7</b>	<b>35.1</b>	<b>38.4</b>	<b>35.5</b>
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
<b>Non current liabilities</b>	<b>7.7</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	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
<b>Current liabilities</b>	<b>44.2</b>	<b>46.5</b>	<b>49.2</b>	<b>50.2</b>	<b>51.2</b>	<b>52.6</b>
Trade payables	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
<b>Shareholders' equity and liabilities</b>	<b>77.9</b>	<b>82.7</b>	<b>88.5</b>	<b>92.9</b>	<b>97.3</b>	<b>95.8</b>
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.

**SUMMARY**

Euro m	2009	2010e	2011e	2012e	2013e	2014e
<b>Profit and loss account</b>						
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
<b>Balance sheet</b>						
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
<b>Cash flow statement</b>						
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 Entertainment and DZ BANK estimates

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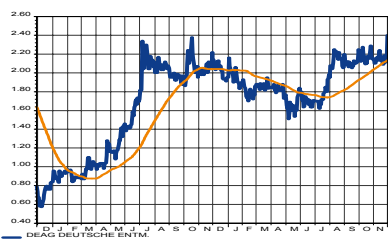
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**RATING HISTORY**

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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