

Media & Entertainment

A Research Publication by DZ BANK AG

DEAG Entertainment⁶⁾

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2008	109.5	-0.25	-0.07	–	–	0.00
2009e	100.4	0.14	0.23	14.4	9.1	0.00
2010e	107.0	0.20	0.28	10.5	7.2	0.00
2011e	110.7	0.25	0.35	8.3	5.9	0.10

* Fiscal year end December

Classical music and strategic alliances the key to success

- **Strategic alliance:** At the end of October DEAG and Klassik Radio AG entered into a co-operation venture in the framework of which DEAG will organise 25 concerts per annum for the radio broadcaster in the next three years (incl. option to extend). In addition DEAG will receive an annual media budget of EUR 3.5m. We forecast the additional sales from this joint venture at EUR 2-3m per annum.
- **Repositioning of Ringier Publishing:** Switzerland's largest media company and at the same time one of the main shareholders in the Swiss DEAG subsidiary Good News will in future bundle the Radio and TV divisions with the concert event operations in the newly-formed business area entitled Entertainment, Electronic Media & Events. The objective is to link all the products and services with each other and to expand them further. We anticipate that Good News will benefit in the long term from the media presence of the Ringier publishing house and the focus on the entertainment business area.
- **Publishing business:** The development of the 360 degree model with successful artists such as David Garrett now seems to fructify. For David Garrett's third album, which was released on 6.11.09, 55,000 advance orders were received, thus a significantly higher number than for the two preceding albums. The management expects a total of between 150,000 and 200,000 units to be sold in 2009, which with an EBIT contribution of about EUR 4 per record should have a clearly positive impact on earnings.

With its restructuring of the group portfolio and its focus on the significantly higher-margin core business of classical music DEAG appears to be on the right track in our opinion. The co-operation venture with Sony Music and Klassik Radio should generate additional growth effects. In addition the closer co-operation with Ringier Publishing and the successful expansion of the own publishing business should generate additional positive earnings contributions in the long term. Based on our slightly increased sales and earnings plan we derive a DCF-based fair value of EUR 2.90 compared to EUR 2.68 previously.

Selected Companies	Price on		PER		EV / EBITDA		EBITDA marg. 09e	Re- com.
	17 Nov 2009		09e	10e	09e	10e		
DEAG Entertainment	2.05	EUR	14.4	10.5	6.8	5.6	6.1%	↑
CTS Eventim	33.90	EUR	19.7	15.2	8.9	7.2	17.1%	↑
Live Nation Inc	7.97	USD	–	–	8.8	6.5	3.7%	–
Ticketmaster Entertainm.	11.45	USD	12.2	9.5	5.5	4.5	16.6%	–

Median for all peer group companies 16.0 12.4 8.8 6.5 16.6% –

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate

Source: DZ BANK, I/B/E/S, FactSet

Equities

Flash
18 Nov 2009

Buy (prev. Buy)

Closing price 17 Nov 2009

(in EUR): 2.05

Fair value: 2.90

Risk classification: 5

Financial ratios 2009e:

Book value per share (in EUR): 1.79

Equity ratio (in %): 43.1

Net margin (in %): 3.6

ROE (in %): 10.2

Dividend yield (in %): 0.0

Free cash flow (EUR m): 4.4

Net debt (EUR m): -20.1

Number of shares

(million units): 12.4

Market cap

(in EUR m): 25.40

Free float (in %): 50.0

SIN: A0Z23G

ISIN: DE000A0Z23G6

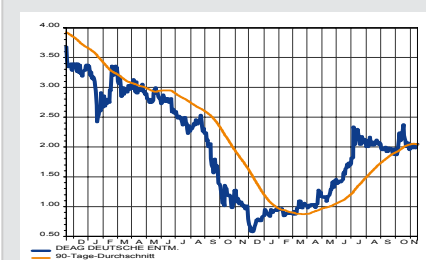
Datastream: D:ERMX

Reuters: ERMGK.DE

Bloomberg: ERMK GY

Next Newsflow:

30.11.2009 Q3/2009 report



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Classical music and strategic alliances the key to success

Strategic repositioning and co-operation ventures should open up new growth prospects for DEAG

Concentration on the higher-margin classical music business

Due to new technical possibilities in music consumption in the online business which have changed user behaviour, sales in the distribution of records have fallen off drastically over the past few years. According to the GfK market research agency study on the consumer behaviour of concert and event audiences in Germany, consumers spent about EUR 2.65bn on records in 1995, while EUR 2.45bn was spent on concert events. From this point in time record industry sales fell by 61% to EUR 1.61bn in the period up to 2007. In contrast the market for concert events grew by 17.5% in the same period. This led to the fact that business with concert events has meanwhile become the main source of income for many artists. International superstars in particular generate the bulk of their income with concerts. Thus Madonna, for example, generated revenues of USD 100m from her concerts in fiscal 2008 compared to record sales of just USD 20m. Thus the ratio of concert revenues to record sales in this case is about 5:1. Nowadays, therefore, an album serves as a marketing instrument for a tour rather than the opposite.

Due to the decreasing relevance of record sales as a main source of income the importance of concert organisers has significantly increased. The artists tend to go on tour more frequently and demand for the organisers' services has increased. However, not all concerts are automatically profitable. Given that artists' fees and the production costs of increasingly spectacular live events have risen steadily, the organisers' risks have increased. Concerts with internationally-renowned stars are often only profitable for the organisers if the venue is almost completely sold out. Therefore average margins in live entertainment are small.

DEAG Deutsche Entertainment AG has learned the lessons of this trend and at the beginning of the year carried out a streamlining of its group portfolio. On 21 April 2009 the group parted company with the two tour operators MPE Music Pool Europe GmbH and ct creative talent GmbH, the focal point of whose business is for the most part pop/rock. As far as the pop/rock business is concerned, in future DEAG only wishes to be involved in selected events with an attractive risk-return ratio. Since the beginning of 2009 DEAG has concentrated on the higher-margin and less risky classical music business.

Indeed, the significantly smaller market for classical music has some attractions compared to the business with international pop and rock stars. The market for particular classical music artists is similar to the folk and popular music market in that it is less volatile than business involving top international acts, whose popularity can be more volatile in the long term. Established classical artists can usually maintain their audience-pulling ability over a more extended period. However, if a concert organiser today books an internationally renowned pop star for a series of concerts due to take place in 12 months, there is a risk that the artist will already have lost a major part of his attractiveness in a year's time. However, if he waits to see how general demand among consumers for the artist develops, under certain circumstances the acquisition costs may rise. As a result the margins in the classical music business are significantly better to calculate.

DEAG Entertainment is outstandingly positioned in the classical music business and thanks to its majority shareholding in Raymond Gubbay Ltd. has grown into the largest classical music concert organiser in Europe. DEAG has long-term contracts with important classical

Importance of live concerts to the artists has increased significantly

Streamlining of the group portfolio at the beginning of the year

Lower risk in the classical market

DEAG enjoys a strong market position in the classical business

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stars such as Anna Netrebko, Placido Domingo, David Garrett, Jessye Norman and Elina Garanca. If one considers the concert business as a whole, through its 52% participating interest in Good News Productions AG DEAG is also the market leader in Switzerland. In the German live entertainment business DEAG is No. 2.

Joint venture between DEAG Classics and Sony Music Entertainment

At the beginning of June 2009 in the framework of a joint venture Sony Music Entertainment acquired a 49% stake in DEAG subsidiary DEAG Classics AG. The stated aim of the co-operation agreement is to expand the already existing business with the artists from classical music and drive forward European expansion more quickly. The focus is on the Swiss, French, Italian and Austrian markets in particular. DEAG Classics AG and Sony Music Entertainment will now jointly market live events by artists in the international market, which should lead to the development of positive synergies in artist acquisition and retainment. As the world's second-largest music group Sony Music has a 25% global market share in music business and is active in 47 countries. By our reckoning DEAG should benefit from the international network and expertise of the music group in the long term. Given successful conclusion of the planned joint venture in Switzerland and Austria DEAG would according to its own figures cover 70% of the Western European classical market.

Besides the strategic advantages the transaction also has a positive effect on the consolidated balance sheet. The seven-digit purchase price, which we estimate at around EUR 10-12m, will flow into the group in the form of a cash component, a loan extended by Sony Music to DEAG Classics AG and by way of an increase in the share capital of DEAG Classics AG. The funds thus collected will be used among other things for repayment of a loan extended by the DEAG parent company to DEAG Classics for financing of the Raymond Gubbay acquisition. Overall both the liquidity situation and the equity position will improve because of this. The latter fell significantly in the previous year due to extraordinary write-downs and restructuring costs. Moreover, the reduction of loan liabilities will take the pressure off the financial result and thus have a positive impact at net earnings level. At the DEAG Classics AG level, as a result of the co-operation with Sony Music the company anticipates medium-term annual sales growth of 20-30% with an EBITDA margin of at least 10.0%. We have already taken account of this increased earnings growth in our sales and earnings plan, though we remain conservative in our forecast.

360 degree model and back catalogue

DEAG Entertainment AG has for quite some time been successfully building its 360 degree marketing business area. In this business area DEAG takes care of services for the artists related to recording, production and distribution of records, the organisation of concert events, and merchandising. The best known artist in DEAG Music's portfolio is David Garrett, who is very successful. In 2008 just 23,000 entrance tickets were sold; in 2009 this figure was increased more than three-fold with 74,000 tickets sold. DEAG anticipates a sold ticket volume of over 150,000 units in 2010. Besides a contract which entitles DEAG to promote a total of 40 concerts with David Garrett between now and the end of 2012, the company also has the publishing rights, i.e. with record unit sold DEAG generates an EBIT contribution of about EUR 4. In 2007/08 120,000 units (with 4,000 advance orders) of the first David Garrett album were sold; the number of units of the second album sold in 2008/09 was above 220,000 units. For the third album, shipped on 6.11.09, there are already 55,000 advance orders. The management expects between 150,000 and 200,000 units to be sold in 2009. Given the successful releases in the past and the increased use of marketing we consider these targets to be achievable. According to Amazon the new David

European expansion can proceed more quickly with support from Sony Music

Joint venture has a positive impact on liquidity and equity

Successful marketing of the artist David Garrett

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

Garrett album is currently ranked at number two of the most frequently sold records on that online platform.

At this juncture we should like to point out that the release of a new album also has a positive impact on unit sales of older albums, the so-called back catalogue. Thus following the release of a second album the number of record units sold of the first David Garrett album increased from 40,000 units in 2007 to 80,000 units in 2008. DEAG plans to expand this business area with additional artists and from the back catalogue business it expects to cover the full holding company costs of the order of EUR 4m by 2012/13. We most certainly foresee attractive growth opportunities in this business area, especially as DEAG is involved in a sales co-operation agreement with the world's third-largest music group, Warner Music. On the other hand it must not be ignored that the major music publishing houses have for years been struggling against deteriorating revenues from sales of physical records.

Repositioning of Ringier Switzerland

Ringier AG is the largest media company in Switzerland and generated sales of CHF 939m there in 2008. The company owns numerous periodicals and newspapers, for example "Blick", the counterpart to Germany's Bild newspaper. In addition Ringier owns two radio broadcasters and makes its own TV formats. In the middle of the year the company announced that it was going to create a new division: "Entertainment, Electronic Media & Events". This business area will include all the radio, TV and concert activities of Good News Productions AG, in which Ringier AG holds the remaining 48% of the shares. The objective is to optimise co-operation between all the divisions and to further expand the existing range. We anticipate that in the long term Good News will be able to benefit from the media presence of the Ringier publishing house.

Moreover, in 2010 the ticketing agreement between Ticketcorner – Switzerland's leading ticketing company – and Good News expires. Ringier AG and DEAG are jointly planning to establish their own ticketing platform in Switzerland from 2011 onwards, and they will use this in particular to distribute the released ticket content of Good News. According to the management the successful launch of a proprietary platform in 2011 will allow generation of an EBIT contribution in the lower single-digit million Euro areas.

Strategic alliance with Klassik Radio

At the end of October DEAG Classics AG entered into a co-operation venture with Klassik Radio AG and will for a period of three years from 2010 (incl. option to extend) take over the entire tour business of the radio broadcaster. DEAG Classics will stage 25 concerts per annum. In the past Klassik Radio has produced its own concert series such as "The Best Classical Hits", "Klassik Radio Proms" and "The Big Wide World of Film Music". Klassik Radio has a daily audience of 1.4 million listeners and will make available to DEAG a media budget of EUR 3.5m per annum over the term of the contract. This will extend to radio and to TV and print media. We anticipate that this media service will most certainly have a positive impact on the size of the audiences at the respective live concerts. Besides the existing concert series DEAG and Klassik Radio will jointly develop additional event formats. We forecast the additional sales from this co-operation venture at EUR 2.0-3.0m per annum.

Back catalogue opens up long-term earnings potential

The Ringier publishing house is increasingly focussing on entertainment

Own ticket platform planned in Switzerland

DEAG will organise 75 concerts for Klassik Radio

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Summary

With its restructuring of the group portfolio and its focus on the significantly higher-margin and more plannable core business of classical music DEAG appears to be on the right track in our opinion. After its takeover of Raymond Gubbay Ltd. DEAG is also active in the British classical market and has thus developed into the largest classical operator in Europe. The co-operation venture with the world's second-largest music group, Sony Music Entertainment, represents a major opportunity for expansion of the European classical music business. Besides the strategic advantages, despite increasing minorities we expect growing dynamism in earnings growth in the classical business area and positive effects on liquidity and capital resources. Jointly with its partner Sony Music DEAG should manage to gain further market shares in the German and European classical markets.

In fiscal 2009 we forecast that 46.7% of the tour business will be accounted for by classical music. We estimate that the classical component will already account for more than 20% of the sales volume at group level this year. Due to the co-operation venture with Sony Music Entertainment, the planned European expansion and the co-operation with Klassik Radio, DEAG should be able to grow this share further in the long term.

Valuation

We have taken account of the new co-operation venture with Klassik Radio AG in our financial model and have made a corresponding upward adjustment to our long-term sales and earnings plan. Based on this adjusted plan we derive a DCF-based fair value of EUR 2.90 per share, compared to EUR 2.68 previously. We therefore advise investors to Buy the share.

Buy | Fair value EUR 2.90

Profit and loss account

Euro m	2008	2009e	2010e	2011e	2012e	2013e
Sales	109.5	100.4	107.0	110.7	114.5	116.5
% against prev. year	39%	-8%	7%	3%	3%	2%
Cost of goods sold	-89.8	-80.5	-85.4	-87.5	-89.7	-90.4
Gross profit	19.7	20.0	21.6	23.2	24.8	26.1
% against prev. year	-2%	2%	8%	8%	7%	5%
Sales costs	-13.8	-6.7	-7.2	-7.4	-7.7	-7.8
Administration costs	-10.2	-9.3	-10.0	-10.3	-10.6	-10.8
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.1	2.0	2.1	2.2	2.3	2.3
Other operating expenses	-1.0	-0.8	-0.9	-0.9	-0.9	-0.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	-3.1	5.1	5.8	6.9	7.9	8.9
For information: EBIT adjusted	-0.8	5.1	5.8	6.9	7.9	8.9
% against prev. year	-114%		14%	19%	15%	12%
Interest paid / received	-1.4	-0.6	-0.3	-0.3	-0.2	-0.2
Profit before tax	-4.6	4.5	5.5	6.6	7.7	8.7
For information: EBT adjusted	-2.2	4.5	5.5	6.6	7.7	8.7
% against prev. year	-154%		22%	21%	16%	13%
Income taxes from continuing operations	-0.4	-0.9	-1.0	-1.4	-1.8	-2.1
Tax rate	-9%	19%	19%	22%	24%	24%
Net profit from continuing operations	-5.0	3.6	4.4	5.2	5.9	6.5
Net profit from discontinued operations	-5.2	0.0	0.0	0.0	0.0	0.0
Net profit	-10.1	3.6	4.4	5.2	5.9	6.5
Profit or loss attributable to minority interest	-1.0	-1.9	-2.0	-2.1	-2.2	-2.4
Profit or loss attributable to shareholders	-11.1	1.8	2.4	3.1	3.7	4.1
thereof from continuing operations	-6.0	1.8	2.4	3.1	3.7	4.1
thereof from discontinued operations	-5.2	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	23.965	12.389	12.389	12.389	12.389	12.389
IFRS earnings per share, diluted	-0.93	0.14	0.20	0.25	0.30	0.33
Adjusted earnings per share, diluted (contin.)	-0.25	0.14	0.20	0.25	0.30	0.33
For information						
Depreciation	6.9	1.0	1.1	1.3	1.4	1.6
EBITDA	3.7	6.1	6.9	8.1	9.3	10.4
EBITDA adjusted	1.4	6.1	6.9	8.1	9.3	10.4

Fiscal year end December

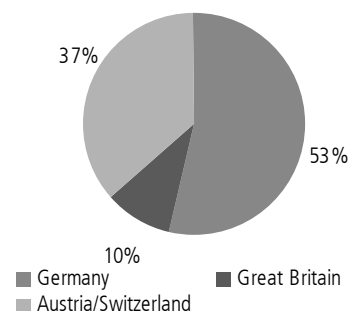
Source: DEAG Entertainment and DZ BANK estimates

Ratios

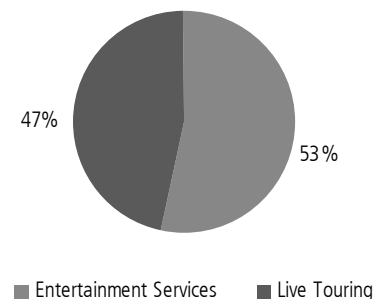
Euro	2008	2009e	2010e	2011e	2012e
Profit and loss ratios					
Sales (m)	109.5	100.4	107.0	110.7	114.5
EBITDA margin	1.2%	6.1%	6.4%	7.3%	8.1%
EBIT margin	-0.7%	5.0%	5.4%	6.2%	6.9%
Net margin	-1.8%	3.6%	4.1%	4.7%	5.1%
Investment ratio	0.0%	2.7%	2.5%	2.4%	2.4%
R&D as % of sales					
Admin and sales costs as % of sales	21.9%	16.0%	16.0%	16.0%	16.0%
Net other operating costs as % of sales	-1.1%	-1.2%	-1.2%	-1.2%	-1.2%
Net financial income as % of sales	-1.3%	-0.6%	-0.3%	-0.2%	-0.2%
Interest cover		8.7	17.8	24.8	34.0
Average sales growth next five years	1.3%				
Average earnings growth next five years					
Profitability ratios					
ROE	-8.1%	10.2%	11.3%	11.9%	12.4%
ROCE	-5.0%	34.2%	36.4%	39.7%	41.3%
Productivity ratios					
Sales per employee ('000)			648.48	660.90	663.77
EBIT per employee ('000)			35.02	40.98	45.80
Balance sheet ratios					
Equity ratio	29.3%	43.1%	44.6%	46.8%	48.9%
Long term debt and equity / Fixed assets	83.2%	107.4%	112.0%	118.1%	122.7%
Liquidity (quick ratio)	70.6%	92.3%	96.6%	102.8%	107.7%
Receivables as % of sales	6.1%	5.0%	5.5%	6.0%	6.0%
Investment (net of GW) / Depreciation		261.6%	246.3%	216.0%	194.0%
Working capital as % of sales	-22.8%	-23.1%	-22.1%	-21.5%	-20.3%
Film assets (m)	0.0	0.0	0.0	0.0	0.0
Net debt (m)	-8.6	-20.1	-22.7	-25.5	-27.3
Net debt complete (m)	-11.2	-22.8	-25.4	-28.2	-30.0
Figures per share					
Earnings per share, diluted	-0.25	0.14	0.20	0.25	0.30
Diluted cash earnings per share	-0.07	0.23	0.28	0.35	0.41
Dividend per common share	0.00	0.00	0.00	0.10	0.12
Cash per share, diluted	1.84	2.31	2.50	2.70	2.82
Net debt per share, diluted	-0.71	-1.62	-1.83	-2.06	-2.20
Valuation ratios					
Enterprise value / Sales	0.0	0.4	0.4	0.3	0.3
Enterprise value / EBITDA	3.7	6.8	5.6	4.4	3.7
Enterprise value / EBIT		8.1	6.7	5.2	4.3
EV/Sales to sales growth	0.01	0.33	0.29	0.26	0.24
PEG ratio - common shares					
Fiscal year end December					

Source: DEAG Entertainment, DZ BANK

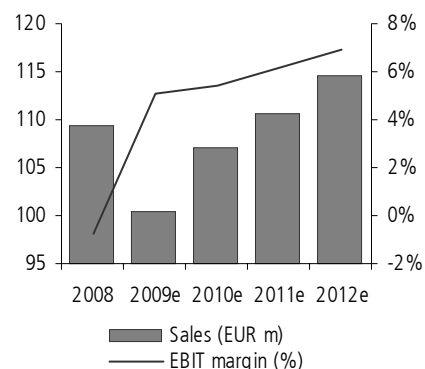
Sales by region



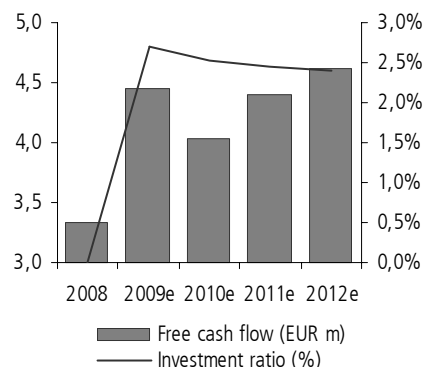
Sales by business segment



Sales and margin development



Free cash flow and investment ratio



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Balance sheet

IFRS - Euro m	2008	2009e	2010e	2011e	2012e	2013e
ASSETS						
Non current assets	42.7	40.1	41.7	43.2	44.5	45.8
Intangible assets	31.0	28.0	29.2	30.2	31.1	31.9
thereof goodwill	23.9	21.9	21.9	21.9	21.9	21.9
Long-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	9.1	9.5	9.9	10.3	10.6	10.9
Financial assets	2.2	2.2	2.2	2.2	2.2	2.2
Other long-term assets	0.4	0.5	0.5	0.6	0.7	0.8
Current assets	39.3	42.5	46.2	49.8	51.8	54.8
Inventories	6.5	6.0	6.4	6.6	6.9	7.0
Short-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	6.6	5.0	5.9	6.6	6.9	7.0
Financial assets	0.6	0.6	0.6	0.6	0.6	0.6
Other receivables and short-term assets	2.4	2.2	2.4	2.4	2.5	2.6
Liquid assets	22.1	28.7	30.9	33.5	34.9	37.6
Assets available for sale	1.0	0.0	0.0	0.0	0.0	0.0
Total assets	82.0	82.6	87.9	93.0	96.3	100.6
LIABILITIES						
Shareholders' equity	24.0	35.6	39.2	43.5	47.1	51.1
Share capital	24.8	12.4	12.4	12.4	12.4	12.4
Reserves	-2.5	11.7	14.1	17.1	19.6	22.2
Other equity	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Minority interest	3.6	13.4	14.6	15.8	17.0	18.3
Treasury stock	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	11.5	7.5	7.5	7.5	7.5	7.5
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	5.4	5.4	5.4	5.4	5.4
Other payables	2.0	2.0	2.0	2.0	2.0	2.0
Current liabilities	46.5	39.5	41.2	42.0	41.7	42.0
Trade receivables	7.5	6.8	7.3	7.5	7.8	7.9
Other provisions	7.4	7.5	7.5	7.6	7.6	7.7
Financial liabilities	4.1	3.1	2.8	2.5	2.2	1.9
Other liabilities	25.6	22.1	23.5	24.4	24.0	24.5
Liabilities assoc. with assets held for sale	1.8	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	82.0	82.6	87.9	93.0	96.3	100.6
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

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Responsible Company

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Rating History



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