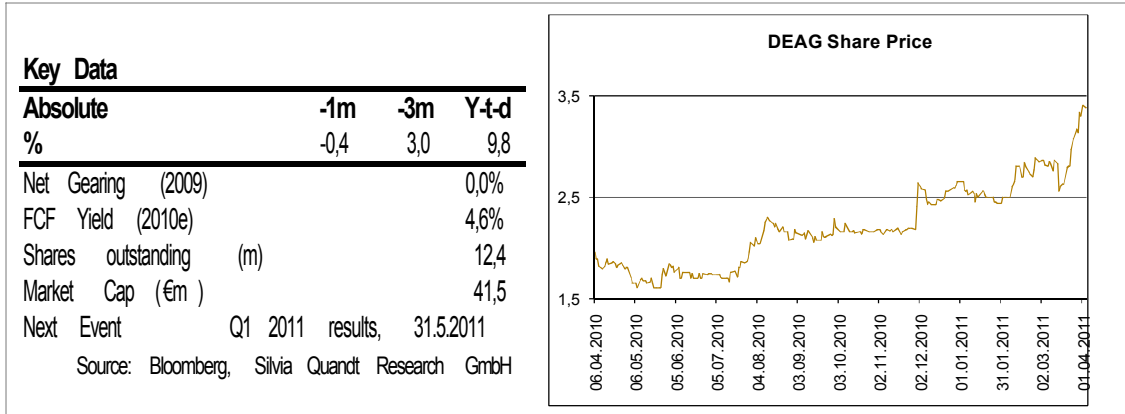




# Deutsche Entertainment AG

## Increasing pt to €3.95 due to high visibility of 2011 earnings



<b>Rating: Buy</b>	<b>Target price: € 3.95 (€ 3.50)</b>	<b>Last: € 3.41</b>	<b>Code: ERMk GY</b>
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### Facts:

DEAG held an analyst and press conference on Friday where they went through their FY2010 results and gave an outlook for 2011. DEAG has already presold 80-85% of 2011 tickets and therefore has a good visibility regarding this year's earnings. Mr. Schwenkow expects EPS to grow disproportionately.

### Assessment:

The fact that the visibility of the earnings is clear, coupled with the European expansion into Benelux and Denmark as well as the new joint venture with Sony (Gold Entertainment) and a new multi-year contract with Ticketmaster all point to several years of earnings growth and improved margins going forward.

We expect margins to rise and minorities to fall as DEAG will continue to buy these out wherever possible. Note though, since Sony owns 49% of DEAG classics, the minorities in this segment will rise. Overall this should lead to a disproportionate rise in EPS.

With 80-85% of this year's tickets already pre-sold, management is confident of its new guidance.

### Conclusion:

We are maintaining our Buy rating and raising our price target to € 3.95 (€ 3.50) based on our new DCF model.

Year end Dec	Sales (€ m)	EBIT (€ m)	EPS €	EV/EBITDA (x)
2010	125,8	8,2	0,11	6,6
2011e	142,1	10,8	0,20	4,8
2012e	151,4	12,7	0,27	4,1
2013e	155,2	12,9	0,29	4,1

Source: Company Data, Silvia Quandt Research GmbH

## **Q&A Session with Management**

The takeover of Manfred Hertlein made sense since Hertlein always made either a break-even or small profit. It expands DEAG's local expertise and under DEAG's management profitability has already improved drastically.

2011 will see tours by Anna Netrebko, Jonas Kaufmann as well as Paul Potts.

The expansion into Benelux and Denmark is expected to be profitable already in its first year. DEAG will (try to) only enter markets where it can gain a value added.

Gold Entertainment will contribute positively in 2011. In fact all separate divisions of DEAG are profitable.

The new multi-year agreement with Ticketmaster will improve margins although the impact will only be seen from 2012 going forward. Similarly, newly negotiated contracts in Switzerland (Ringier) will improve the margins there.

The EBITDA margin is expected to be at least 8%

DEAG will continue to buy back minorities where this makes sense. The effect will be seen directly in the EPS. Last year's minority buy-backs occurred in the second half of 2010 and thus will have an additional effect this year.

## **Recurring questions about a DEAG takeover**

One of the questions that came up again during the press conference was whether Mr Schwenkow was prepared to sell his holding if a good offer came along. The answer from Mr. Schwenkow was a clear one, namely that only a friendly bid would be considered.

We believe that the question was wrongly phrased since there is a possibility both for Sony purchasing DEAG outright and of another music major like Universal taking a large stake in the Holding company. If the Sony deal is structured similarly to other corporate finance deals, this stake would have to be below 30% as we believe that otherwise Sony could have an option to buy out DEAG classical.

We name Universal music because industry rumor has it, that its newly founded live entertainment arm actually made a loss of nearly € 15m in 2010 compared to DEAG's profitability.

Another possibility would be long-term partner Ringier, which has been present in the German market through its Cicero magazine since 2004.

Looking at the original Sony-DEAG Deal we come to the following valuation disregarding future earn-out payments:

Sony paid around €10.2m for a 49% stake in DEAG classical. At the time DEAG classical accounted for 25% of earnings => Sony valued DEAG through the Deal at € 83.25 m or, € 6.72 per share.

Note that this is nearly twice today's value of DEAG.

All told, anyone who is serious about live entertainment in Germany and the UK and not yet positioned needs DEAG either as a partner or as part of its business.

## **Note:**

We have adjusted our DCF model to reflect the higher achieved profitability in 2010 (compared to our estimates) and have carried the model forward to 2014.



## Key Financials

(€ m)	2010	2011e	2012e	2013e
<b>Revenues</b>	<b>125,8</b>	<b>142,1</b>	<b>151,4</b>	<b>155,2</b>
-Live Touring	61,0	74,0	81,5	84,5
-Entertainment Services	71,7	74,5	75,5	76,2
-consolidation effect	-6,9	-6,4	-5,6	-5,5
Cost of Revenues	-94,5	-106,6	-113,6	-116,9
<b>Gross Profit</b>	<b>31,3</b>	<b>35,5</b>	<b>37,9</b>	<b>38,3</b>
Distribution costs	-13,2	-15,2	-15,4	-15,4
Administration	-11,4	-11,8	-12,2	-12,3
others	1,5	2,3	2,4	2,3
<b>EBIT</b>	<b>8,2</b>	<b>10,8</b>	<b>12,7</b>	<b>12,9</b>
Depreciation & Amortisation	-1,9	-1,9	-1,9	-1,8
<b>EBITDA</b>	<b>10,1</b>	<b>12,7</b>	<b>14,6</b>	<b>14,7</b>
Financial results	-1,3	-1,5	-1,6	-1,4
<b>PBT</b>	<b>6,9</b>	<b>9,3</b>	<b>11,1</b>	<b>11,5</b>
Taxes	-2,5	-3,3	-3,9	-4,0
<b>PAT</b>	<b>4,4</b>	<b>6,1</b>	<b>7,2</b>	<b>7,5</b>
discontinued Operations	0,0	0	0	0
Minorities	-3,0	-3,6	-3,8	-3,9
<b>Group results</b>	<b>1,4</b>	<b>2,5</b>	<b>3,4</b>	<b>3,6</b>
Shares outstanding	12,4	12,4	12,4	12,4
EPS (continued Operations)	0,11	0,20	0,27	0,29
EPS	0,11	0,20	0,27	0,29

Source: company Data, Silvia Quandt Research GmbH

	2010	2011e	2012e	2013e
Revenues	125,8	142,1	151,4	155,2
EPS	0,11	0,20	0,27	0,29
Cost Ratios				
COGS/sales	-75,14%	-75,00%	-75,00%	-75,32%
SGA/sales	-9,06%	-8,30%	-8,06%	-7,93%
Tax rate	36,23%	35,00%	35,00%	35,00%
Profitability ratios				
Gross margin	24,86%	25,00%	25,00%	24,68%
EBIT margin	8,03%	8,95%	9,61%	9,47%
EBT margin	5,49%	6,56%	7,30%	7,41%
Net margin	1,11%	1,73%	2,23%	2,30%
Valuation				
Enterprise Value (€ m)	66,7	61,7	59,6	59,6
Book Value (€ m)	44,1	47,1	47,6	47,6
Market Cap (€ m)	41,5	41,5	41,5	41,5
EV/sales	0,53	0,43	0,39	0,38
EV/EBITDA	8,13	5,70	4,71	4,62
PBV	0,94	0,88	0,87	0,87

\*Note: Book Value etc is affected by DEAG's large Cash position

		2010	2011e	2012e	2013e	2014e
Sales		126	142	151	155	157
EBITDA		8,2	10,8	12,7	12,9	13,0
- tax on income		-2,5	-3,3	-3,9	-4,0	-4,3
NOPAT		5,7	7,6	8,8	8,9	8,7
Depreciation		1,9	1,9	1,9	1,8	1,8
+/- Change Working Capital		1,4	2,1	2,3	2,5	2,4
- Capital Expenditure		-5,4	-5,6	-5,8	-6,1	-6,4
Free Operating Cash Flow		3,6	4,1	5,3	5,3	4,7
			1,00	0,90	0,81	0,74
			4,1	4,8	4,3	3,5
						42
<i>Discount rate</i>	10,8%					Enterprise Value
<i>Long term growth rate</i>	2,5%					- net financial debt
WACC	8,5%					- Value of minority participations
						Value of the companies equity
						49
Discount rate		9,0%	10,0%	11,0%	12,0%	13,0%
Value of the equity		63	54	49	47	38
Value per share (Euro)		5,10	4,38	3,92	3,82	3,03

Source: company Data, Silvia Quandt Research GmbH

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Company responsible for the preparation and publication: Silvia Quandt Research GmbH, Grüneburgweg 18, 60322 Frankfurt / Main.

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Author of the present financial analysis: Jacques Abramowicz, Head of Technology, Media and Telecommunications

#### 2.2. Sources of information and summary of the basis of valuation and the valuation methods applied during the preparation

##### 2.2.1. Sources of information:

Essential sources of information for the preparation of this document are publications in interior and foreign media like information services (e.g., Reuters, VWD, Bloomberg, dpa-AFX, among others), business press (e.g., "Börsenzeitung" (financial paper), "Handelsblatt", "Frankfurter Allgemeine Zeitung", Financial Times, among others), specialized press, published statistics, rating agencies as well as publications of the analysed issuers.

All information refers to the date of the publication: [Date, time, refer to the date at the end of the disclaimer]

##### 2.2.2. Summary of the basis of valuation and the valuation methods used during the preparation:

Within the scope of the evaluation of enterprises the following valuation methods are applied: multiplier models (stock exchange value / profit, stock exchange value / cash flow, stock exchange value / book value, Enterprise Value (EV) / turnover, EV / EBIT, EV / EBITA, EV / EBITDA), Peer Group comparisons, historic valuation methods, discounting models (DCF, DDM, EVA, RIM), Break-up-Value- and Sum-of-the-Parts-approaches, substance-valuation methods or a combination of different methods. The valuation models are dependent on economic parameters like interest rates, currencies, resources and on economic assumptions. Moreover, market moods influence the valuations of enterprises. Also, the approaches are based on expectations that may change rapidly and without advance warning according to developments specific for the respective branch. Therefore, the valuation results and fair values derived from the models may also change accordingly. The results of the evaluation basically refer to a period of 12 months. Nevertheless, they are also subjected to market conditions and constitute merely a snapshot. They may be reached faster or slower or may be scaled up or down.

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**BUY: The expected yield, based on the determined target price, incl. dividend payment within the respective suitable time frame amounts to > = + 10%.**

**NEUTRAL: The expected yield, based on the determined target price, incl. dividend payment within the suitable time frame amounts to between -10% and <+10%.**

**AVOID: The expected yield, based on the determined target price, incl. dividend payment within the suitable time frame amounts to <= - 10%.**

### 2.3. Update

A specific update of the present analysis at a firm time has currently not yet been determined. The analysis and the opinions and assessments contained therein merely reflect the perspective taken at the date stated on the first page of the analysis. Silvia Quandt Research GmbH reserves the right to make an update of the analysis or the opinions and assessments contained therein without prior notice. The decision whether and when an update is made lies solely in the discretion of Silvia Quandt Research GmbH.

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11. This financial analysis had been made accessible for the issuer, who or whose financial instruments are subjected to the financial analysis, before publication and was modified subsequently.



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2. The remuneration of the aforementioned persons and/or enterprises is dependent on investment banking transactions of their own enterprise or of affiliated enterprises.

3. In their trading portfolio the aforementioned Persons and/or enterprises regularly hold financial instruments which or the issuer of which are subjected to the financial analysis.

4. The aforementioned persons and/or enterprises hold in respect of the financial instruments, which or the issuer of which are subjected to the financial analysis, a net short (short position) of at least 1 percent of the share capital of the issuer.

5. The aforementioned persons and/or enterprises supervise financial instruments, which or the issuer of which are subjected to the financial analysis, in a market by placing purchase or selling orders (Market Making/ Designated Sponsoring).

6. The aforementioned persons and/or enterprises were involved within the preceding twelve months in lead managing a consortium for in the public offering of financial instruments, which or the issuer of which are subjected to the financial analysis.

7. The aforementioned persons and/or enterprises acted as an issuing bank or a selling agent within the scope of the listing on the stock exchange of the issuer, who or whose financial instruments are subjected to the financial analysis.

8. The aforementioned persons and/or enterprises, within the preceding twelve months and towards the issuer, who or whose financial instruments are subjected to the financial analysis, were bound by an agreement about services in connection with investment banking transactions or received in this period from such an agreement a benefit or a performance promise.

9. The aforementioned persons and/or enterprises expect from the issuer, who or whose financial instruments are subjected to the financial analysis, during the next three months remunerations for services in connection with investment banking transactions or seek at such remunerations.

10. The aforementioned persons and/or enterprises have concluded an agreement for the preparation of a financial analysis with the issuer, who or whose financial instruments are subjected to the financial analysis.

11. This financial analysis had been made accessible for the issuer, who or whose financial instruments are subjected to the financial analysis, before publication and was modified subsequently.

12. The aforementioned persons and/or members of the management board of the aforementioned enterprises hold seats on the board of directors or seats on the supervisory board with issuers, who or whose financial instruments are subjected to the financial analysis.

13. The aforementioned persons and/or enterprises have other important financial interests relating to the issuer, who or whose financial instruments are subjected to the financial analysis.

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**3.1. Issuer and notice according to section 4 subsection 4 No. 4 FinAnV about preceding publications during the last twelve months about the security or the issuer**

Issuer of the analyzed finance instrument is Deutsche Entertainment AG.

**3.2. Date of the first publication and date and time of the price of financial instruments**

Company	1st publication	Price €	Recommendation	Target €
Deutsche Entertainment AG	03.04.2009	0,98 €	Buy	1,12 €

**3.3. Overview of our financial analyses of securities or issuers during the last twelve months**

**3.3. Overview of our financial analyses of securities or issuers during the last twelve months**

Company	Date of issue	Price at issue	Recommendation	Target price
Deutsche Entertainment AG	03.04.2009	0,98 €	Buy	1,12 €
Deutsche Entertainment AG	07.07.2009	2,40 €	Buy	under review
Deutsche Entertainment AG	15.07.2009	2,30 €	Buy	2,54 €
Deutsche Entertainment AG	12.08.2009	2,06 €	Buy	5,08 €
Deutsche Entertainment AG	28.05.2010	1,72 €	Buy	3,15 €
Deutsche Entertainment AG	18.02.2011	2,80 €	Buy	3,50 €
Deutsche Entertainment AG	04.04.2011	3,38 €	Buy	3,95 €

**3.4. Information about possible conflicts of interest**

**3.4.1. Conflict of interests of Silvia Quandt Research GmbH**

2.4.1.1. Bet: >5%	2.4.1.2. Comp.	2.4.1.3. Trade	2.4.1.4. Short >1%	2.4.1.5. DS	2.4.1.6. ECM act.	2.4.1.7. IPO	2.4.1.8. Comp.Res.	2.4.1.9. Comp.ECM	2.4.1.10. Contract	2.4.1.11. Inform.	2.4.1.12. Mandate	2.4.1.13. Holding
											x	

**3.4.2. Conflicts of interest biw bank für Investments und Wertpapiere AG when transmitting the financial analysis**

2.4.2.1. Bet: >5%	2.4.2.2. Comp.	2.4.2.3. Trade	2.4.2.4. Short >1%	2.4.2.5. DS	2.4.2.6. ECM act.	2.4.2.7. IPO	2.4.2.8. Comp.Res.	2.4.2.9. Comp.ECM	2.4.2.10. Contract	2.4.2.11. Inform.	2.4.2.12. Mandate	2.4.2.13. Holding
		x										

**3.5. Publication according to article 5 (4) no. 3 of the German Regulation concerning the analysis of financial instruments (Finanzanalyseverordnung):**

Number of recommendations from Silvia Quandt Research GmbH in 2011	Thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
Buys: 94	30
Neutral: 37	2
Avoid: 4	0

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Frankfurt am Main, 05.04.2011

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