

# ELITE WORLD SA

LUXEMBOURG / FASHION / MANAGEMENT SERVICES

Frankfurt, Xetra      Entry Standard  
Symbol: E1M          ISIN: LU0252519037

**RATING: Buy**

**PRICE TARGET: €3.80**

**RISK RATING: High**

STEADY Q3 RESULTS AS LICENSING INCOME INCREASES

## COMPANY PROFILE

Elite World SA is one of the oldest names in model management. The Elite network includes 10 subsidiary agencies and several agency franchises, managing some 800 models combined. Elite also engages in brand licensing and operates the biggest yearly model-discovery competition. The company has approximately 80 full-time employees.

## KEY POINTS

**Q3 results mark further licensing growth** Management released Q3 results yesterday showing a 72% y-o-y increase in licensing income to €1.3m from €0.8m. This growth was not replicated in the modelling division, where sales grew just 1% y-o-y to €6.2m from €6.1m. The increase in licensing income, generating essentially 100% margins, was enough to improve overall EBIT after exceptional items, which came in at €0.45m versus €0.43m in the prior year period.

**Lowering full-year modelling sales expectations** We decrease our FY07 modelling sales forecast to €9.6m from €1.0m. This equates to a 2% increase over FY06 modelling sales (€9.0m) as opposed to our prior estimate of 7% growth. Our new forecast is more in line with management's accompanying statement that the modelling division would finish the year 'slightly above last year's level.' Additionally, we increase our cost of goods sold forecast to 70% from 69% to account for higher-than-expected modelling costs in Q3.

**Revised sales forecasts slightly more conservative** The decrease to our FY modelling sales forecast and slight increase to our modelling cost assumptions leads to a slight decrease in our FY sales forecast to €34.1m (€35.6m) and EBIT assumption to €3.8m (€4.1m). We maintain our modelling sales growth forecast for 2008, which is now based on the lower 2007 forecast. We thus also reduce our total revenue forecast for 2008. These changes do not have a substantial impact on our valuation. Our licensing income growth forecasts remain unchanged.

**Maintaining €3.80 price target** We maintain our €3.80 price target, which is based on the weighted combination of a DCF, a discounted P/E and a peer-group valuation using listed companies in the advertising and fashion/retail industries.

## RECOMMENDATION

We maintain our €3.80 price target following release of Q3 results yesterday. Given the slight depreciation of the share price as of late, we recommend the share a Buy at current levels.

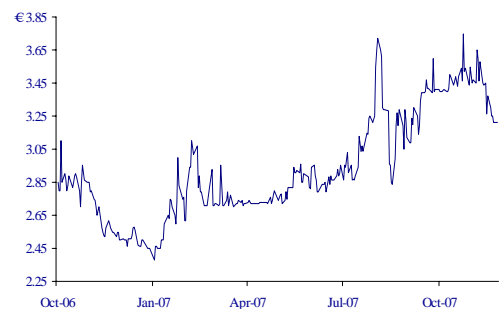
## RISKS

Primary risks to our price target are possible downward fluctuations in advertisement and fashion spending, intensified competition, continued legal allegations against the group and the general exclusion from engaging in model-management activities in the US under the Elite name.

## TRADING DATA

Market capitalisation (26.11.07)	€63.82m
Shares outstanding	19.88m
Closing price (26.11.07)	€3.21
52-week range	€2.38 / 3.75
Free float (according to company)	32%
Average daily share volume (year)	9,476

## STOCK OVERVIEW



Source: Bloomberg & First Berlin

## FINANCIAL HISTORY & PROJECTIONS

	2006	2007E	2008E	2009E
Revenue €m	32.51	34.14	36.89	39.59
Yr/Yr growth	9.0%	5.0%	8.0%	7.3%
Operating profit €m	2.70	3.80	4.96	5.68
Operating margin	8.3%	11.1%	13.4%	14.3%
Net income €m	1.58	3.20	4.18	4.68
EPS €	0.08	0.16	0.21	0.24
P/E	40.4	19.9	15.3	13.6

## COMPANY DATA (as of 30 September 2007 unless noted)

Liquid assets	€7.74m
Current assets	€16.88m
Intangible assets	€0.00m
Total assets	€18.52m
Current liabilities	€9.32m
Shareholders' equity	€8.58m

## ANALYST INFORMATION

Meghan Moreland	m.moreland@firstberlin.com
Kenneth Wood	k.wood@firstberlin.com
Tel +49 (0)30 91 68 41 06	Fax +49 (0)30 - 80 93 96 87

IMPORTANT DISCLOSURES ARE AT THE BACK OF THIS REPORT



## FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.	Date of publication	Previous day closing price	Recommendation	Price target	Interim high	% change to high
Initial Report	11 July 2007	€2.86	Buy	€3.90	€3.72	29.4%
2	23 August 2007	€3.27	Buy	€3.80	€3.75	14.7%
3	Today	€3.21	Buy	€3.80	-	-

Source: Bloomberg & First Berlin

Meghan Moreland  
Kenneth Wood

First Berlin  
Equity Research GmbH

Lennéstrasse 9  
10785 Berlin

Tel. +49 (0)30 91 68 41 06  
Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com  
www.firstberlin.com

### FIRST BERLIN POLICY

In an effort to assure the independence of First Berlin research neither analysts nor the company itself trade or own securities in subject companies. In addition, analysts' compensation is not directly linked to specific financial transactions, trading revenue or asset management fees. Analysts are compensated on a broad range of benchmarks. Furthermore, First Berlin receives no compensation from subject companies in relation to the costs of producing this report.

### ANALYST CERTIFICATION

We, Meghan Moreland & Kenneth Wood, certify that the views expressed in this report accurately reflect our personal and professional views about the subject company; and we certify that our compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, we possess no shares in the subject company.

### INVESTMENT RATING SYSTEM

First Berlin's investment rating system includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

BUY: Expected return greater than 15%  
HOLD: Expected return between 0% and 15%  
SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 30 June 2005, First Berlin's investment rating system was five tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: STRONG BUY: expected return greater than 20%, BUY: expected return greater than 10%, HOLD: fairly valued, REDUCE: expected return between -10% and 0%, SELL: expected return to depreciate by more than 15%. In addition, we had a SPECULATIVE BUY recommendation for stocks which we projected had the potential to give a return of 50% or more but which we also expected to be exceptionally volatile (movement up or down of 50% or more). Our risk ratings were Low, Medium, High and Speculative and were a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

### ADDITIONAL DISCLOSURES

This report is not constructed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer would be illegal. We are not soliciting any action based upon this material. This material is for the general information of clients of First Berlin. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, a client should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only; such opinions are subject to change without notice.

Copyright © 2007 First Berlin Equity Research GmbH. All rights reserved. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without First Berlin's prior written consent. The research is not for distribution in the USA or Canada. When quoting please cite First Berlin as the source. Additional information is available upon request.