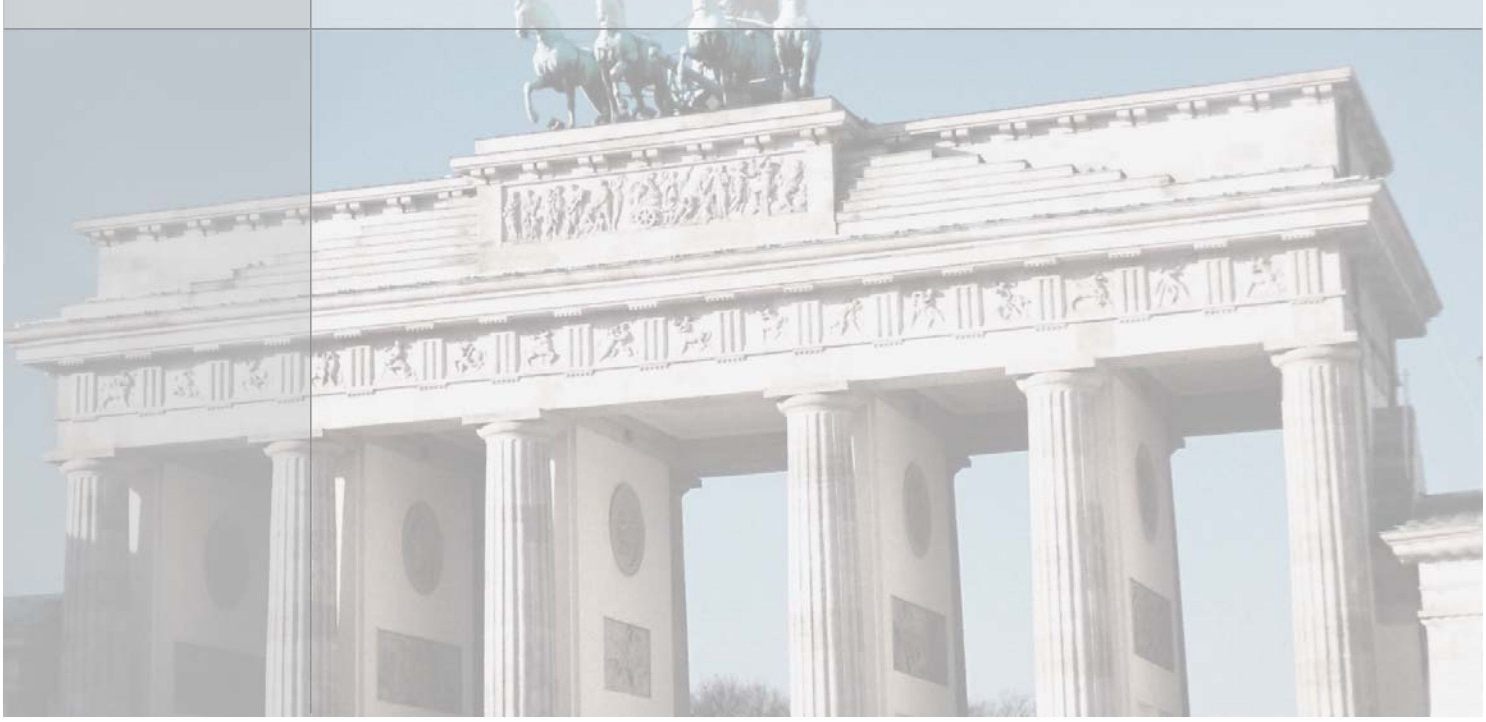
FIRST BERLIN
Equity Research

ELITE WORLD SA

LUXEMBOURG /
FASHION / MANAGEMENT SERVICES

PRICE TARGET: €3.90
PREVIOUS CLOSE: €2.86
UPSIDE: 36.4%

INITIATING COVERAGE
11 July 2007



CONTENT PAGE

11 July 2007

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ELITE WORLD SA

LUXEMBOURG / FASHION / MANAGEMENT SERVICES

Frankfurt, Xetra — Entry Standard
Symbol: E1M — ISIN: LU0252519037

RATING: Buy
PRICE TARGET: €3.90
RISK RATING: High

INITIATING COVERAGE

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

Despite low barriers to entry, Elite remains one of the premier model-management agencies due to its flexibility and fine-tuned business strategy. Besides model management, Elite's business strategy includes brand licensing and the organisation of the world's largest yearly model-scouting event—the Elite Model Look Contest. These diversions from model management are highly lucrative, expected to undergo strong growth in coming years, and will be catalysts to the group's growth in the near to mid-term.

While we expect stable 2007-2010 sales CAGR of 5.8% in the model-management branch, we expect sales CAGR of 14.1% for brand licensing and sales CAGR of 14.9% for contest-related operations over the same period. Brand licensing and contest-sales growth has a compounded effect on earnings, as Elite does not take on any associated costs or risks for brand licensing and the contest is largely paid for by sponsors—resulting in margins of almost 100% for both branches. As such, we expect significant EBIT-margin growth, from 8.3% in 2006 to at least 14.5% by 2010.

Steady sales growth, paired with EBIT-margin improvements, lead to a positive valuation for Elite. We calculated our €3.90 price target by averaging the results of a discounted-cash-flow valuation, a discounted P/E valuation and a peer-group comparison using the closest listed competitors in the advertising and fashion industries. At current levels, our €3.90 price target implies upside of some 36%.

Potential upside to our price target includes the possible sale of TV rights for the Elite Model Look Contest and the opening of celebrity endorsement agencies in Paris and Los Angeles. The actualisation of either of these would lead to increased sales projections.

RECOMMENDATION

At current levels, Elite World SA is an inexpensive way for investors to diversify into the only listed model-management company. The company is an attractive Buy given solid model-management operations, fast-growing brand licensing and Elite Model Look operations, and an improving EBIT margin. Elite has remained at the top of the highly competitive model-management industry for more than thirty years. As Elite works on retaining its signed models and develops its rising stars, we expect an even more competitve Elite to emerge. For several years, the company has profited from licensing out its brand name, which demonstrates the strength of the Elite name and management's ability to successfully diversify operations. We are initiating coverage on Elite with a Buy recommendation and €3.90 price target. Our risk rating is High.

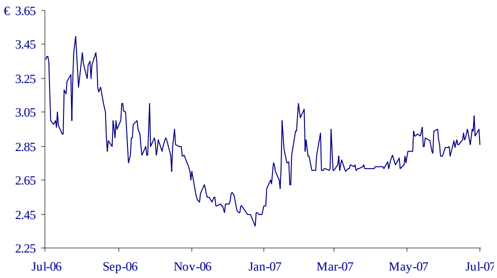
RISKS

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 (10.07.07)	€56.86m
Shares outstanding	19.88m
Closing price (10.07.07)	€2.86
52-week range	€2.38 / 3.50
Free float (according to company)	32%
Average daily share volume (year)	10,513

STOCK OVERVIEW



Source: Bloomberg & First Berlin

FINANCIAL HISTORY & PROJECTIONS

	2006	2007E	2008E	2009E
Revenue €m	32.51	35.59	38.43	41.22
Yr/Yr growth	9.0%	9.5%	8.0%	7.3%
Operating profit €m	2.70	4.14	5.01	5.73
Operating margin	8.3%	11.6%	13.0%	13.9%
Net income €m	1.58	3.63	4.41	4.93
EPS €	0.08	0.18	0.22	0.25
P/E	36.0	15.7	12.9	11.5

COMPANY DATA (as of 31 March 2007 unless noted)

Liquid assets	€5.83m
Current assets	€15.41m
Intangible assets	€0.00m
Total assets	€17.10m
Current liabilities	€8.55m
Total shareholders' equity	€8.12m

ANALYST INFORMATION

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COMPANY OVERVIEW

BRIEF HISTORY

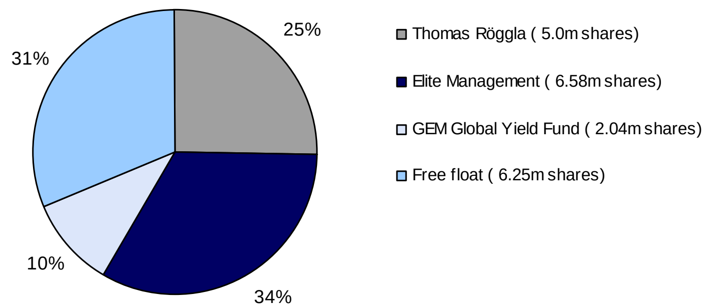
The first Elite Model Management agency was founded in Paris in 1972 by John Casablancas and Alain Kittler. Soon gaining acclaim, Elite began to develop a worldwide network of local model-management companies. As the company grew, so too did its need for new talent, and in 1983 Elite began a modelling contest. Today the contest is known as the 'Elite Model Look Contest' and is considered to be the industry's largest yearly model-scouting event—attracting more than 350,000 candidates each year worldwide. Throughout the 1980's and 1990's, Elite launched the careers of the era's most popular supermodels, most notably; Cindy Crawford, Claudia Schiffer, Linda Evangelista, Stephanie Seymour, Naomi Campbell and Tyra Banks. In 1998, Elite began licensing its trademarks to apparel, accessory and cosmetic producers, in addition to licensing franchises of the Elite Model Management concept.

In 2003, a number of models filed a complaint against several modelling agencies in New York, including Elite Model Management Corp New York, which, at the time, was a subsidiary of Elite Model Management SA (now Elite SA). As a result, the New York office filed for Chapter 11 of the US Bankruptcy Code in 2004 and was sold to the Trump Group. Although the New York office still operates under the Elite name, it has no financial or operational ties to Elite SA. Furthermore, Elite SA is barred from opening an agency in the US under the Elite name. The plaintiffs later sued parent company, Elite Model Management SA Fribourg and a lump-sum settlement was paid out in the order of $1.4m. As a result, Elite SA lost all representation in New York, the US fashion capital, and cannot engage in model-management activities in the US under the Elite name. Elite SA remains entitled, however, to engage in brand licensing in the US under the Elite name.

LISTING & SHAREHOLDER STRUCTURE

The Elite shareholder structure is currently dominated by Elite management and board members. Some 6.58m shares combined are held by CEO Bernard Hennet and CFO Andrew Gleeson, and 5.0m shares are held by board member Mr Thomas Röggla. We expect the free float rate, currently 31%, to increase in proportion with increases in the share price as management and board members sell positions at higher share prices.

Current shareholder structure



On 20 March 2006, Elite Sàrl (Société à Responsabilité Limitée) became Elite SA (Sociéte Anonyme) when it listed on the Entry Standard of the Frankfurt Stock Exchange. Elite SA has share capital of €24.85m consisting of 19.88m shares with a €1.25 par value. The company remains a limited liability company, however, now that shares are exchanged freely, Elite has a board of directors and annual statements are audited by an authorised auditor.

There are currently no options or convertible shares outstanding. Elite has €125m in authorised capital at its disposal, which may be divided into 100m shares. To date, no dividends have been paid. We not expect any dividend payments in the near term given the loss carried forward.

MANAGEMENT

Management made a positive impression when we met at Elite's Paris offices in May.

Bernard Hennet (52) has been CEO and member of the Supervisory Board since 2006. He comes from a primarily industrial background, including tenures at GE Capital France (General Director 1978-1983), the Schutz Group (Vice President 1983-2005) and the Storsack Group (CEO and board member 2003-2005).

Gérald Marie (56) is President of the Model Agencies Division. He has been with Elite since 1986, working extensively on building up the Elite network. He is managing director of both Elite Model Management Sàrl, Paris and Elite Model Management SA, Fribourg.

Andrew Gleeson (50) is CFO and member of the Supervisory Board. He began his career as an accountant with KPMG & Co (1980-1986), before moving on to hold senior positions at Security Pacific National Bank, INVESCO and ASDVA SA. He joined Elite in 2006.

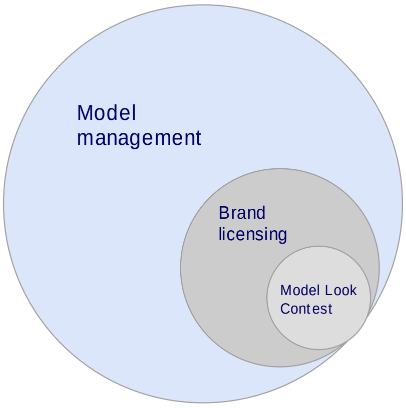
BUSINESS MODEL

OVERVIEW

Elite World SA has three operational branches: model management, brand licensing and the Elite Model Look Contest. The core business, representing 89% of 2006 revenues, is model management. Brand licensing comes second, representing 9% of revenues. Brand licensing includes licensing the Elite name to producers of cosmetics, accessories and other products in line with the Elite concept, and licensing the Elite name to agency franchises. Sponsorship and licensing sales generated by the Elite Model Look Contest, a yearly event used to discover new talent and increase brand awareness, represent 2% of revenues.

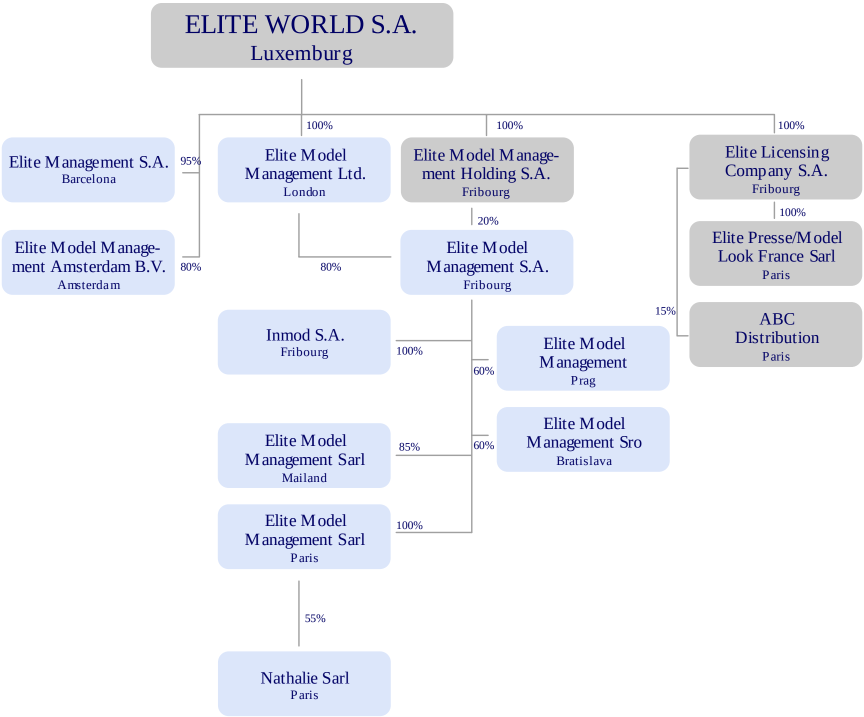
Although model management is and will continue to be the heart of the enterprise, the three branches are highly linked. Each branch seeks to further the Elite name and business concept. Elite brand licensing profits from existing market penetration of the Elite name due to its model management activities, and the Elite Model Look Contest is a tool for discovering new models while at the same time increasing brand awareness.

Elite business segments



Source: Elite SA, First Berlin Equity Research

Elite SA structure



Source: Elite SA, First Berlin. Modelling agencies shaded blue; holding companies, licensing subsidiaries, etc in grey.

ELITE MODEL MANAGEMENT

Elite is one of the oldest names in model management. The first Elite agency opened more than 30 years ago in Paris. Today there are more than 800 models in the Elite network, categorised as runway, catalogue, special bookings, new faces, and male models. The Elite network of agencies includes direct subsidiaries of the Elite Group and franchises which employ the Elite model agency concept. Elite is entitled to either whole or partial earnings of direct subsidiaries but only charges a yearly licensing fee from franchises. Direct subsidiaries of Elite Group are located in Paris, London, Amsterdam, Barcelona, Milan, Fribourg, Prague and Bratislava. Some former subsidiaries are still operating under the Elite name, such as Elite New York, but are neither operationally nor financially linked with the Elite Group at present.

In order to profit from the recent trend of using celebrities in fashion and cosmetic campaigns in place of models, Elite plans to open celebrity-endorsement agencies in Paris and Los Angeles. Both agencies are expected to be operational by 2008. Management do not intend to open either agency under the Elite name.

MODEL MANAGEMENT: THE BASICS

Model-management agencies act as intermediaries between models and clients, composed primarily of advertising agencies, photographers and fashion houses. Aside from facilitating jobs between models and clients, an agency coordinates timetables, manages bookings and handles contracts in addition to training models and coordinating model portfolios. An agency also scouts talent and develops that talent.

MOTHER AGENCIES AND COMMISSIONS

Inherent to the model-management industry is the concept of the ‘mother agency.’ The mother agency is where a model is considered to be under direct contract. The mother agency is responsible for developing a model and building up their portfolio and network. To increase a sought-after model’s exposure to job opportunities, a model’s network will often include other model agencies, some in other countries. In this sense, agencies also act as intermediaries between models, clients and other agencies.

In exchange for its services, Elite charges both models and clients a commission—the commission being a percentage of the amount paid to the model for a job. These commission percentages vary depending on a model’s popularity and the relationship with the client, but are usually 20% for both the model and the client. For example, if Elite facilitates a photo shoot for which its model earns €10,000, Elite will keep €2,000 of the model’s earnings and charge the client a €2,000 service charge.

If an agency acts as an intermediary between a client and a model not under direct contract, the agency will split the model’s commission with the model’s mother agency. For instance, if a client wants to work with Elite using a model under direct contract at IMG (a mother agency), Elite will facilitate the transaction. For its efforts, Elite will receive the entire client service charge but only half of the model’s commission, the other half belonging to the model’s mother agency. This system works both ways and Elite agencies will receive half of a model’s commission when its models are booked through another agency. The most lucrative option for any agency is to book jobs for models it has under direct contract, meaning that it keeps a model's entire commission in addition to the client service charge.

WHAT MAKES FOR A SUCCESSFUL AGENCY?

We believe the following three ingredients are imperative for a successful modelling agency:

- The ability of agents and bookers to discover, sign and develop talent
- Successful networking with advertising agencies, magazines and fashion houses
- Keep signed models under contract

If an agency's models do not appeal to current market trends, its models will not be hired. If an agency has good models but does not have fortified relationships with photographers, advertisers and fashion houses, it will not have enough jobs to offer its models. If an agency has good models in high demand, but does not pay enough attention to its models' needs or charges its models commission incommensurate with a model's demand, the model will be stolen away by a competitor.

ELITE NEEDS TO RETAIN SIGNED MODELS

These criteria may seem obvious enough, but many agencies lack in at least one of these areas—Elite included. Elite is well-positioned to discover new talent via the Elite Model Look Contest, open calls and scouts, and the Elite name alone ensures numerous clients, amongst them Chanel, Christian Dior, Yves Saint Laurent, Victoria's Secret, Mango and Ralph Lauren. However, where Elite is lacking, in our opinion, is keeping its signed models under contract.

Models often grow discontent with their mother agency once reaching a certain level of fame. Models commonly believe they will get more jobs, more attention and lower commissions if they switch agencies. As contracts between a model and the mother agency are usually non-binding (with some exceptions), models often switch to rival agencies after establishing a name for themselves.

Elite has lost several big name in this way, including Giselle Bündchen and Heidi Klum. This has led to Elite not having many supermodels under direct contract at present. This is a shame, given that Elite was instrumental in forming the concept of the 'supermodel', launching the careers of Cindy Crawford, Linda Evangelista, Karen Mulder and Naomi Campbell. We would like to see Elite place greater priority on keeping its signed models happy, which may mean further lowering commissions charged to highly demanded models.

ELITE BRAND LICENSING

Through its wholly-owned subsidiary, Elite Licensing Company SA, Elite earns revenue through product licensing and franchising. Elite also earns licensing income through its Elite Model Look Contest, which we include and examine in the Elite Model Look Contest section.

PRODUCT LICENSING

The majority of licensing income comes from product licensing, for which Elite grants the use of the Elite name to producers and distributors of consumer products. The products can generally be classified in three categories: apparel, accessories and cosmetics. Although the products are developed together with licensing partners to ensure that the end results typify the Elite ‘spirit’, the process is very hands-off as far as Elite is concerned. The company does not take part in the production or distribution process and in return for granting the use of the Elite name, Elite earns a percentage of product sales—usually 5-8% of sales. This, essentially, results in margins of 100% for product licensing with no associated costs or risks for Elite.

Product categories

Apparel	Accessories	Cosmetics
Streetwear, sportswear, swimsuits, tights, lingerie, socks, footwear	Bags, eyeglasses, watches, jewellry, hairbrushes, hair appliances	Skincare, perfume, lipstick, manicure and pedicure products

Elite began offering non-exclusive licensing rights for the Elite brand name on products in 1998, targeting women between 20 and 35 years of age. 80% of licensing sales take place in France and the remaining 20% throughout Western Europe. In 2006, Elite was party to 17 different product-licensing agreements which grossed approximately €3.0m for Elite, representing approximately 9% of Elite’s total revenue for the year. Management see large potential for expansion and growth in Western Europe, the US and Asia.

AGENCY LICENSING

As a franchisor, Elite earns a yearly lump sum from agencies operating under the Elite name and receiving limited guidance from Elite management. Elite is entitled to neither whole nor partial earnings from agency franchises, receiving instead a yearly lump sum from the franchisee. Although Elite has franchises in more than 30 countries, revenues from franchises are minimal. Agency-franchise revenue accounted for less than 1%, or €0.18m of total revenue in 2006.

ELITE MODEL LOOK CONTEST

OVERVIEW

The Elite Model Look Contest is the industry's largest yearly fashion-scouting event. The contest first took place in 1983 under the name 'Look of the year', launching the careers of Cindy Crawford, Stephanie Seymour, Karen Mulder, and Gisele Bündchen. Today the contest attracts more than 350,000 candidates in more than 60 countries. Winners of the regional and national contests proceed to the 'Finale', which takes place each year in an exotic location. Recent locations include Shanghai and Morocco. The jury is made up of models, fashion insiders and Elite management.

Elite generates revenue from the contest in two ways—by selling operating licenses to regional and national organisers of the Elite Model Look Contest and through sponsorship sales at the Finale. This year management expect to earn media revenue by televising the contest themselves and are in discussions regarding the sale of network-TV rights.

A SUCCESSFUL TOOL

The contest is an extremely successful tool in discovering new talent. In fact, 70% of Elite Group models were discovered through the contest. Of the 60-70 regional and national winners advancing to the Finale, 15 of the top finalists will be offered contracts with Elite—the top three with guaranteed first-year earnings.

The event also attracts significant attention from the fashion and media industries. As such, the contest is also beneficial in increasing brand awareness among clients and potential consumers of Elite-branded products.

NOT A HISTORICALLY SIGNIFICANT SOURCE OF INCOME

Although the contest is instrumental in discovering new talent, in the past it has not been a significant source of income. Operating licenses to regional and national organisers represented just 1.4%, or €0.46m of 2006 revenues—Finale sponsorship income just 0.25%, or €0.081m. We expect contest-related income to increase, beginning this year, as management start taking more control over the Finale and expand the contest's exposure to media outlets.

2006: AN EXCEPTIONAL YEAR

Last year was exceptionally rocky for the Elite Model Look Contest. The contest was originally scheduled to take place in November in Thailand, but had to be relocated following the political coup in autumn. The contest was relocated to Dubai where, a few weeks prior to the rescheduled event, poster advertisements for a non-related beauty pageant depicted scantily-clad young women throughout Dubai. This angered the Muslim population and Dubai became inhospitable to similar competitions, meaning that the contest had to be rescheduled once again. Management then decided to accept the proposition of a principal sponsor to hold the contest in Marrakesh, Morocco. The failure of this principal sponsor to meet its contractual obligations led to the Group having to assume virtually all the cost of the organisation of the contests—costs which are normally assumed by the principal sponsor. This resulted in Elite paying some

€850,000 in contest-related costs, of which only some €300,000 was recouped through sponsor sales.

2007: PROFIT EXPECTED IN TURKEY

Management learned from last year's experiences and are taking a firmer hand in contest planning this year. This year's contest is set to take place at a hotel in Antalya, Turkey. The hotel has agreed to cover logistical costs (travel and accommodation) and Elite will cover the contest costs itself, giving Elite exclusive entitlement to sponsorship and broadcasting income. Although sponsorship earnings are only expected to cover contest costs this year, management expect to earn between €300,000 and €400,000 by broadcasting the event.

POSSIBLE NETWORK SALE OF TV RIGHTS

Management's goal is to sell the TV rights to a main network, who would either broadcast the contest alone or turn it into a reality TV show chronicling the finalists' journeys towards becoming a model. This goal has potential. Fashion-based reality TV shows like America's Next Top Model and Project Runway have gained a large following in the US and abroad. Management are currently in discussion regarding the sale of televising rights. Our projections only include broadcasting income that Elite would realise by broadcasting regionally itself, and not the potential income of a network deal. A network deal would be a cash cow for the company and significantly increase brand awareness.

COMPETITORS

We are focussing our competitive outlook on the model-management industry. The core business—currently representing 89% of revenues—is, and will continue to be, model management. Brand licensing and the Elite Model Look Contest, while highly lucrative, are only possible given profitable model-management activities.

LOW BARRIERS TO ENTRY

Barriers to entry in model management are low to non-existent. If one has the ability to spot talent and network in the advertising and fashion industries, one can start a model agency. Given this, Elite faces significant competition. Additionally, an agency's product—essentially its models—are easily lured away by competing firms promising better jobs and lower commissions.

Elite competes most directly with IMG (Heidi Klum, Giselle Bündchen, Erin Wasson, Daria Werbony), DNA (Karolina Kurkova, Linda Evangelista, Karen Elson, Natalia Vodionova), NEXT (Petra Nemcova, Molly Sims), Women Model Management (Carmen Kass, Kate Moss) Wilhelmina, FORD Models, and Marilyn. These agencies are headquartered in New York but also operate in Europe through branch offices. With Elite New York no longer a subsidiary of Elite World SA, the company is only represented in the US through its connections with One Model Management, New York Model Management and LA Model Management.

As for Europe-based model-management agencies, competitors include London-based Storm, Models1, Take 2 Management, Select and German agencies Mega, Promod, Modelwerk and Louisa Models.

ELITE HAS STRONG FOOTHOLD

Although main competitors IMG and DNA may have more supermodels and famous faces of the moment, Elite has a longer history of model management and its reputation has remained intact for more than 30 years as a premiere model agency. We expect this tradition to continue as prior Elite customers return to Elite and clients new to the industry choose Elite for its solid standing.

Elite has a fresh collection of rising stars such as Yfke Sturm, Johanna Jonsson, Katia Kokoreva, Lara Stone, Leah Dewavrin, and Vanessa Hessler, all of whom are deemed supermodel material. The development of these models and the planned opening of a celebrity-endorsement agency should give Elite a competitive boost in the coming years.

ESTIMATING MARKET GROWTH

To our knowledge, there is currently no market research available on the model-management industry, making it difficult to compare our growth projections for Elite against a market consensus. The best alternative, in our opinion, is to comparatively use the advertising industry. Growth and development of Elite's model-agency branch is highly correlated to advertising sales. Most models earn the majority of their income from advertising campaigns published in newspapers, magazines, billboards or on television.

On a global level, advertising sales have grown moderately over the last few years. According to ZenithOptimedia, worldwide advertising sales grew just 5.1% in 2005 to $406.5bn from 2004's $386.7bn. Worldwide growth is expected to remain stable in 2007 at 5.3% and 2008 at 5.6%, with emerging markets in Asia and Africa expected to exhibit higher growth rates. These growth rates for 2007 and 2008 are below consensus sales-growth forecasts for the advertising agencies outlined in our peer-group comparison on page 20, composed of the major advertising players in the US and Europe. The median sales-growth rates for the advertising peer group are 8.9% in 2007 and 5.7% in 2008.

Given this, we do not consider our model-management growth forecasts of 7.0% in 2007 and 6.5% in 2008 particularly aggressive, especially when considering that Elite's model-management revenue grew 8.3% in 2005 and 9.2% in 2006—higher than the advertising industry.

Our total revenue-growth forecasts, outlined below, are in line with management guidance. For the 2007-2010 period, management guide for total annual revenue growth of 5-10%. Total revenue includes licensing income, which is expected to undergo significantly higher growth than the model-management branch.

EARNINGS

Our earnings projections are estimated through individual forecasting of Elite's three business branches: model management, brand licensing and the Elite Model Look Contest. We have outlined what is included in each of these categories below.

Model management	Brand licensing	Contest-related sales
Model fees, mother-agency commission	Agency-franchise licensing, product licensing	Contest-licensing fees, contest-sponsorship income, television income

All figures in €T	2006	2007E	2008E	2009E	2010E	2011E
Revenue	32,507	35,589	38,432	41,224	43,596	45,541
(y-o-y change)	*9.0%*	*9.5%*	*8.0%*	*7.3%*	*5.8%*	*4.5%*
Model-management commissions	*28,981*	*31,009*	*33,025*	*35,006*	*36,757*	*38,227*
Brand licensing	*2,983*	*3,580*	*4,207*	*4,838*	*5,321*	*5,720*
Contest-related sales	*543*	*1,000*	*1,200*	*1,380*	*1,518*	*1,594*
Model fees	-19,873	-21,396	-22,787	-24,154	-25,362	-26,377
Gross profit	12,634	14,193	15,644	17,070	18,234	19,165
gross margin	*38.9%*	*39.9%*	*40.7%*	*41.4%*	*41.8%*	*42.1%*
Overhead costs	-9,932	-10,058	-10,634	-11,337	-11,915	-12,369
Personnel	*-3,986*	*-4,413*	*-4,746*	*-5,071*	*-5,341*	*-5,556*
Depreciation & amortisation	*-779*	*-484*	*-507*	*-536*	*-558*	*-574*
Other operating costs	*-5,168*	*-5,160*	*-5,380*	*-5,730*	*-6,016*	*-6,239*
EBIT	2,703	4,135	5,010	5,733	6,319	6,796
EBIT margin	*8.3%*	*11.6%*	*13.0%*	*13.9%*	*14.5%*	*14.9%*
Net financial result	0.25	85	115	140	161	169
Extraordinary expenses	-778	0	0	0	0	0
Income taxes	-179	-422	-513	-705	-842	-975
(tax rate)	*-9.3%*	*-10.0%*	*-10.0%*	*-12.0%*	*-13.0%*	*-14.0%*
Minority interest	-166	-169	-205	-235	-259	-279
Net income	1,580	3,630	4,408	4,933	5,379	5,711

Our earnings forecasts for 2007-2010 are in line with management guidance of total revenue growth between 5% and 10% for the period. For 2007, we expect total revenue growth of 9.5%. This marks an increase over 2006's 9.0%, as we expect increased brand-licensing and Elite Model Look Contest sales. We project brand-licensing growth of 20.0% as new markets are entered, and contest-related growth of 84.3% as Elite begins to take more control of contest operations and earnings. The €1.0m in contest-related sales include license income, sponsorship income after costs and broadcasting sales, which management expect to fall between €300,000 and €400,000 this year.

Although we expect above-average growth for the brand-licensing and contest branches, their combined contribution to total revenues is 15% or less for the period. Thus, as we project model-management growth to slow to 5% by 2010, we also expect total revenue growth to slow to 5.8% by 2010.

Model fees can be viewed as Elite's 'cost of goods sold' and have historically represented 68-73% of model-management revenues. We configure model fees, the only cost configured in our gross-profit calculation, as 69% of model-management revenue in 2007 onwards. As we hold this 69% constant, improvements to the gross margin are a direct result of increased licensing and contest sales, which essentially realise gross margins of 100%.

Overhead costs are projected to increase in line with sales, with the exception of depreciation and amortisation, which we expect to decrease this year following the 2006 divestment of Elite's only property holding in France. Other operating costs are primarily made up of commission, travel and office expenses and allowances for bad debts. Although we forecast overhead costs to increase, we expect them to increase at a decreasing rate due to economies of scale. Economies of scale, paired with increased licensing sales, should improve the EBIT margin to at least 14.5% by 2010.

Elite had to pay virtually all 2006 contest-related costs unexpectedly after the principal sponsor failed to meets its contractual obligations, which were classified as unexpected costs of €0.55m. Elite had additional unexpected costs for 2006 related to provisions for non-US litigation costs and outstanding loans to former associated companies. Management do not expect any exceptional items for 2007 onwards.

Elite has a loss carried forward, which we expect will be carried over into 2009. Additionally, significant revenue is realised and taxed in Switzerland at 10%. As such, we project low tax rates of between 10% and 13% for the group until 2010.

BALANCE SHEET

Elite is an asset-light company. The company has no inventories, diminishing intangible assets and little property, plant and equipment following the 2006 divestment of the Group's only property, which was located in Paris. As such, CAPEX is primarily composed of depreciation-related replacement costs.

As there are no inventories, investment in working capital is most affected by increases in trade receivables and decreases in trade payables. In 2006, working capital represented approximately 4% of sales. For 2007, we expect moderate investment in working capital to increase working capital to some 6% of sales and minor investments in working capital from 2008 on.

There was neither short- nor long-term debt on the books at the end of 2006 and management do not intend to take out any debt in the near term. If management did need to raise funds, we believe they would first look to the capital markets, despite being able to secure long-term financing at lower interest rates of around 5%. Should management need to raise funds, we assume a debt-to-equity ratio of 50:50.

CASH FLOW

We expect Elite to remain operating and free-cash-flow positive, given positive earnings and low capital investments. Cash on-hand is expected to remain between 27% and 34% of sales.

As mentioned in the previous section, we do not expect management to raise debt or equity financing in the near term. However, should management acquire a large agency, which we do not think likely, we would expect management to raise funds in the equity markets.

Elite has not yet paid out dividends given the loss carried forward. We expect so see dividend payments beginning in 2009 or 2010.

VALUATION

Our €3.90 price target is calculated by averaging the results of three different valuation techniques: a discounted-cash-flow (DCF) valuation, a discounted-PE valuation and 2008 EV/sales and EV/EBIT multiples. Valuing a company such as Elite is difficult as there are no listed competitors and limited industry information with which to forecast growth. As such, we do not believe one valuation technique trumps another and choose rather to combine various techniques. Our detailed DCF, discounted PE and multiple valuations are located on pages 18-20.

Fair value table

Based on EV/sales 2008	4.35
Based on EV/EBIT 2008	3.47
Based on discounted PE	3.25
Based on DCF	4.43
First Berlin price target	3.88

At current levels, our €3.90 price target implies upside of 36%. We are initiating coverage on Elite with a Buy recommendation. Our risk rating is High.

Potential upside to our price target includes the sale of TV rights for the Elite Model Look Contest and the opening of two celebrity-endorsement agencies. The sale of exclusive television rights would be a cash cow for Elite and management are currently in discussion with possible broadcasting networks. Successful expansion into celebrity endorsement would allow Elite to capitalise on the current trend towards using celebrities in fashion and cosmetic campaigns in place of models. Management plan to open celebrity-endorsement agencies in Paris and Los Angeles by 2008.

RISKS

Our growth projections for Elite's model-management branch are heavily dependent on expected advertising and fashion spending. Extended downward fluctuations in either industry would likely hinder Elite's ability to meet our forecasts. Our licensing projections are largely based on an anticipated increase in demand, especially as production and distribution companies seek to expand into new markets. Should the licencees be unable to successfully expand the Elite name into new and existing markets, or should the Elite name suddenly become unfashionable, Elite's brand-licensing branch would shrink.

The loss of Elite's New York subsidiary in 2004 resulted in Elite SA being unable to engage in model-management activities under the Elite name in the US. This is unfortunate for Elite, as New York is the fashion capital of the US. Although Elite's models are able to work in New York through mother-agency booking, Elite is missing out on significant revenues and in danger of losing its models to competitors with agencies in New York.

There are currently legal proceedings against Elite Model Management Sàrl with regards to a potential violation of a lease agreement and possible non-payment of a former employee's wages. The proceedings are still underway and could have a negative impact on both Elite's finances and reputation.

RECOMMENDATION

At current levels, Elite is an inexpensive way for investors to diversify into the only listed company in model management. The company is an attractive Buy given solid model-management operations, fast-growing brand licensing and Elite Model Look Contest operations and an improving EBIT margin.

In our opinion, a successful model-management agency requires three ingredients: the ability to discover new talent, to fortify relationships in the advertising and fashion industries, and to keep signed models happy. Elite certainly has the first two criteria down with its yearly model-discovery contest and an established list of big-name clients—both of which have helped Elite stay at the top of the model-management industry despite fierce competition. As Elite continues to work on retaining its signed models and developing its rising stars, we expect an even more competitive Elite to emerge. Aside from model management, for several years Elite has profited from licensing out its brand name, which bears witness to the strength of the Elite name and is indicative of management's ability to successfully diversify operations.

We are initiating coverage on Elite with a Buy recommendation and €3.90 price target. At current levels, this implies upside of more than 36%. Our risk rating is High.

INCOME STATEMENT ANALYSIS

All figures in T€	2005	2006	2007E	2008E	2009E	2010E	2011E
Revenues	29,831	32,507	35,589	38,432	41,224	43,596	45,541
Model costs	-18,680	-19,873	-21,396	-22,787	-24,154	-25,362	-26,377
Gross profit	11,151	12,634	14,193	15,644	17,070	18,234	19,165
Personell expenses	-4,006	-3,986	-4,413	-4,746	-5,071	-5,341	-5,556
Other operating income / expenses	-4,317	-5,168	-5,160	-5,380	-5,730	-6,016	-6,239
Depreciation and amortisation	-696	-779	-484	-507	-536	-558	-574
Operating income (EBIT)	2,133	2,703	4,135	5,010	5,733	6,319	6,796
Net financial result	-22	0	85	115	140	161	169
Extraordinary income / expenses	-1,029	-778	0	0	0	0	0
Income before taxes & minority interests	1,082	1,925	4,221	5,126	5,873	6,480	6,964
Other income / expenses	0	0	0	0	0	0	0
Income taxes	-126	-179	-422	-513	-705	-842	-975
Minority interests	-24	-166	-169	-205	-235	-259	-279
Net income / loss	932	1,580	3,630	4,408	4,933	5,379	5,711
EPS€	0.00	0.08	0.18	0.22	0.25	0.27	0.29
Diluted EPS€	0.00	0.08	0.18	0.22	0.25	0.27	0.29
EBITDA	2,829	3,481	4,619	5,518	6,269	6,877	7,370
Ratios							
Gross margin	37.4%	38.9%	39.9%	40.7%	41.4%	41.8%	42.1%
EBIT margin	7.1%	8.3%	11.6%	13.0%	13.9%	14.5%	14.9%
EBITDA margin	9.5%	10.7%	13.0%	14.4%	15.2%	15.8%	16.2%
Net income margin	3.1%	4.9%	10.2%	11.5%	12.0%	12.3%	12.5%
Tax rate	11.6%	9.3%	10.0%	10.0%	12.0%	13.0%	14.0%
Expenses as % of revenues							
Personell expenses	13.4%	12.3%	12.4%	12.4%	12.3%	12.3%	12.2%
Other operating income / expenses	14.5%	15.9%	14.5%	14.0%	13.9%	13.8%	13.7%
Depreciation and amortisation	2.3%	2.4%	1.4%	1.3%	1.3%	1.3%	1.3%
Y-o-y growth							
Total revenues	10.7%	9.0%	9.5%	8.0%	7.3%	5.8%	4.5%
Operating income	469.8%	26.7%	53.0%	21.2%	14.4%	10.2%	7.5%
Net income / loss	169.2%	69.5%	129.8%	21.4%	11.9%	9.0%	6.2%

BALANCE SHEET ANALYSIS

All figures in T€	2005	2006	2007E	2008E	2009E	2010E	2011E
Assets							
Current assets, total	11,449	15,699	18,832	23,734	29,446	35,492	41,794
Cash and equivalents	3,851	6,934	9,650	12,685	13,534	14,436	15,380
Marketable securities	192	324	356	1,922	6,184	10,899	15,940
Trade receivables	5,690	7,072	7,403	7,686	8,245	8,632	8,926
Accruals	735	559	534	480	453	436	410
Others	981	810	890	961	1,031	1,090	1,139
Inventories	0	0	0	0	0	0	0
Non-current assets, total	3,599	1,669	1,762	1,806	1,892	1,953	1,990
PPE	1,495	445	480	500	532	558	578
Intangibles	934	676	641	615	618	610	592
Financial assets	1,170	548	641	692	742	785	820
Total assets	15,049	17,368	20,594	25,540	31,338	37,446	43,785
Shareholders' equity and debt							
Current liabilities, total	9,019	10,040	9,467	9,800	10,430	10,899	11,249
Short-term portion of long-term debt	235	0	0	0	0	0	0
Trade payables	5,094	4,822	4,093	4,227	4,535	4,752	4,918
Accruals and deferred income	1,431	1,329	1,424	1,345	1,402	1,439	1,457
Deferred tax liabilities	1,193	2,853	2,847	3,036	3,215	3,357	3,461
Provisions	876	1,036	1,103	1,191	1,278	1,351	1,412
Other short-term liabilities	190	0	0	0	0	0	0
Long-term liabilities, total	239	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
Shareholders' equity	5,640	7,002	10,632	15,040	19,973	25,352	31,063
Share capital	24,851	24,851	24,851	24,851	24,851	24,851	24,851
Capital reserve	-7,748	-7,748	-7,748	-7,748	-7,748	-7,748	-7,748
Other reserves	203	235	235	235	235	235	235
Retained earnings / loss carried forward	-11,667	-10,337	-6,707	-2,299	2,635	8,013	13,724
Minority interests	151	327	495	700	935	1,195	1,473
Total shareholders' equity and debt	15,049	17,368	20,594	25,540	31,338	37,446	43,785
Ratios							
Current ratio	1.27	1.56	1.99	2.42	2.82	3.26	3.72
Quick ratio	1.27	1.56	1.99	2.42	2.82	3.26	3.72
Equity ratio (as %)	38.5%	42.2%	54.0%	61.6%	66.7%	70.9%	74.3%
Debt to equity ratio (gearing as %)	8.4%	0.0%	0.0%	0.0%	0.0%	0%	0%
Equity per share	0.28	0.35	0.53	0.76	1.00	1.28	1.56
Net debt	3,378	6,934	9,650	12,685	13,534	14,436	15,380
Interest coverage ratio	-12	-43	na	na	na	na	na
Capital employed (CE)	6,030	7,328	11,127	15,740	20,909	26,547	32,536
Return on equity (ROE)	-	24.1%	39.3%	32.8%	26.9%	22.7%	19.3%
Return on capital employed (ROCE)	44.9%	40.5%	44.8%	37.3%	31.3%	26.6%	23.0%
Return on net assets (RONA)	13.2%	17.7%	27.9%	27.4%	28.8%	29.7%	29.9%
Days of inventory turnover	na	na	na	na	na	na	na
Days of sales outstanding (DSO)	76	71	73	71	70	70	69

CASH FLOW ANALYSIS

All figures in T€	2005	2006	2007E	2008E	2009E	2010E	2011E
Net income	932	1,580	3,630	4,408	4,933	5,379	5,711
Depreciation and amortisation	696	779	484	507	536	558	574
Investment in working capital	1,173	1,440	952	157	151	101	71
Others (provisions, non cash expenses, interest, etc.)	-22	0	85	115	140	161	169
Operating cash flow	477	918	3,247	4,874	5,458	5,997	6,382
CAPEX	-539	877	-484	-501	-572	-576	-576
Free cash flow	-63	1,795	2,764	4,373	4,887	5,421	5,806
Financial cash flow	357	1,288	-47	-1,338	-4,038	-4,519	-4,861
Change in cash	295	3,083	2,716	3,035	849	901.95	944.76
Cash, start of the year	3,556	3,851	6,934	9,650	12,685	13,534	14,436
Cash, end of the year	3,851	6,934	9,650	12,685	13,534	14,436	15,380
Cash flow per share in €	0.02	0.05	0.16	0.25	0.27	0.30	0.32
Y-o-y growth							
Operating cash flow	n.a.	92.6%	253.7%	50.1%	12.0%	9.9%	6.4%
Free cash flow	n.a.	-2969.2%	53.9%	58.2%	11.8%	10.9%	7.1%
Financial cash flow	n.a.	260.3%	-103.7%	-2718.6%	-201.8%	-11.9%	-7.6%
Cash flow per share	n.a.	92.6%	253.7%	50.1%	12.0%	9.9%	6.4%

DCF VALUATION

Our discounted-cash-flow (DCF) model is two-staged. Using First Berlin methodology, which takes into account company-specific risk factors, we have derived a Cost-of-Equity (COE) of 13.9% for the company. Given a forecast debt-to-equity level of 50:50, and that management are able to secure debt at 5% interest, our WACC is 9.1%.

Adjusting our enterprise value for FY06 net cash and minority values, we arrived at a market capitalisation of €88.1m. With 19.9m shares outstanding, this equates to a fair value share price of €4.43. Our ten-factor risk analysis produces a High risk rating.

Free cash flow calculation	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Total sales	35,589	38,432	41,224	43,596	45,541	47,054	48,559
y-o-y change	9%	8%	7%	6%	4%	3%	3%
Operating profit	4,135	5,010	5,733	6,319	6,796	7,186	7,553
operating margin	12%	13%	14%	14%	15%	15%	16%
NOPLAT	3,713	4,498	5,028	5,477	5,821	6,082	6,393
+ depreciation	484	507	536	558	574	583	592
Net operating cash flow	4,197	5,005	5,564	6,035	6,395	6,666	6,985
- Total investments	-1,436	-658	-723	-677	-647	-636	-640
Capex	484	501	572	576	576	571	576
Working capital	952	157	151	101	71	66	64
Free cash flows	2,762	4,347	4,841	5,357	5,747	6,029	6,345
PV of FCF	2,644	3,816	3,896	3,952	3,887	3,738	3,607

All figures in T€	
PV of FCFs in explicit period	46,894
PV of FCFs in terminal period	36,472
Enterprise value	83,366
+net cash / -net debt	6,934
+investments / -minorities	-2,201
Shareholder value	88,100
Number of shares outstanding	19,881
WACC	9.1%
cost of equity	13.9%
pre-tax cost of debt	5.0%
normal tax rate	15.0%
after-tax cost of debt	4.3%
share of equity	50.0%
share of debt	50.0%
Fair value per share	4.43

Fair value per share

WACC	Terminal-EBIT margin 12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%
5.1%	10.22	10.87	11.52	12.17	12.82	13.48	14.13
6.1%	7.21	7.60	7.99	8.37	8.76	9.15	9.53
7.1%	5.65	5.91	6.17	6.42	6.68	6.94	7.19
8.1%	4.69	4.87	5.05	5.23	5.42	5.60	5.78
9.1%	4.03	4.16	4.30	4.43	4.57	4.70	4.83
10.1%	3.55	3.65	3.75	3.85	3.95	4.06	4.16
11.1%	3.18	3.25	3.33	3.41	3.49	3.57	3.65
12.1%	2.88	2.94	3.01	3.07	3.13	3.19	3.26

DISCOUNTED P/E VALUATION

Our discounted P/E model is risk-adjusted, using the same methodology to find the WACC as in our DCF valuation (9.1%).

Our valuation is based on our median peer group 2008 P/E multiple of 18x, which we have discounted by 10% given Elite's small size. This equates to a 2008 P/E multiple of 16.2x earnings per share, which we then discount to the present using our 9.1% discount rate.

Our discounted P/E valuation yields a €3.25 price target.

Forecast year	2007E	2008E	2009E	2010E	2011E	2012E	2013E
EPS	0.18	0.22	0.25	0.27	0.29	0.30	0.32

Valuation year	2007
P/E year	2008
WACC from risk-rating model:	9.1%

Fair value share price in €

Multiple	Discount rate 6.1%	7.1%	8.1%	9.1%	10.1%	11.1%	12.1%
13	2.72	2.69	2.67	2.64	2.62	2.59	2.57
14	2.93	2.90	2.87	2.85	2.82	2.79	2.77
15	3.14	3.11	3.08	3.05	3.02	2.99	2.97
16	3.34	3.31	3.28	3.25	3.22	3.19	3.17
17	3.55	3.52	3.49	3.46	3.42	3.39	3.36
18	3.76	3.73	3.69	3.66	3.63	3.59	3.56
19	3.97	3.93	3.90	3.86	3.83	3.79	3.76
20	4.18	4.14	4.10	4.07	4.03	3.99	3.96

PEER GROUP COMPARISON

To our knowledge Elite has no listed peers in the model-management industry. While this makes a pure peer comparison impossible, we were able to draw on similarities with companies involved in advertising, fashion, cosmetics and brand licensing in order to establish two peer groups. We average the multiples of group one and two to find a total peer group average for key multiples like EV/Sales, EV/EBIT and P/E ratios. We then compare the summed average with Elite to establish whether Elite is trading at a premium or discount to the peer group.

The first peer group consists purely of large players in the US and European advertising industries. Model management is highly correlated with the advertising industry. Both are service industries concerned with brand and image, and advertisement agencies rank among the largest clients of model services.

The second peer group encompasses the relationship between Elite and companies involved in fashion and cosmetics. Fashion houses and cosmetic companies are also clients of model services and, like Elite, are affected by trends in fashion and consumer spending. This second group consists primarily of European companies involved in fashion and cosmetics. Some, such as Burberry and Hugo Boss, even engage in brand licensing for various products, such as perfume or jewellery. The addition of such companies in the peer group helps capture Elite's brand-licensing operations.

We use 2008 EV/Sales and EV/EBIT multiples in our comparison. When comparing Elite multiples (at current share price) with the combined group one and two averages, Elite is trading at a 23% discount to group 2008 EV/sales and an 11% discount to 2008 EV/EBIT. This results in an EV/sales-based price target of €4.35 and an EV/EBIT-based price target of €3.47.

Group 1: Advertising	Market cap.	EV	EV/Sales 07	EV/Sales 08	EV/EBIT 07	EV/EBIT 08	EV/ EBITDA 07	EV/ EBITDA 08	P/E 2007E	P/E 2008E
Havas	1,766	2,112	1.40	1.34	12.75	10.62	10.26	8.88	22.58	17.34
JC Decaux	5,197	5,873	2.80	2.67	16.85	15.38	10.73	9.98	23.65	21.17
Omnicom Group, Inc.	17,527	18,664	1.51	1.40	11.41	10.42	10.21	9.43	8.87	8.04
WPP Group	9,015	9,829	1.60	1.50	11.02	10.02	9.44	8.60	16.37	14.20
Interpublic Group Companies, Inc.	5,195	5,526	0.80	0.83	14.70	8.78	8.95	6.53	59.25	20.22
Publicis Groupe	6,434	6,628	1.38	1.28	8.65	7.80	7.39	6.74	15.66	13.48
Mean			1.58	1.50	12.56	10.50	9.50	8.36	24.40	15.74
Median			1.45	1.37	12.08	10.22	9.83	8.74	19.48	15.77

Group 2: Fashion & Cosmetic	Market cap.	EV	EV/Sales 07	EV/Sales 08	EV/EBIT 07	EV/EBIT 08	EV/ EBITDA 07	EV/ EBITDA 08	P/E 2007E	P/E 2008E
L'Oreal	54,348	57,677	3.38	3.16	20.44	18.99	17.01	15.79	25.52	22.90
Esteé Lauder	8,864	9,016	1.29	1.22	11.59	10.74	9.28	8.64	20.79	18.55
Christian Dior	16,441	20,988	1.22	1.13	5.94	5.29	5.00	4.50	18.48	15.86
Valentino Fashion Group	2,559	2,900	1.36	1.25	11.01	9.60	8.84	7.86	23.33	19.73
Burberry	2,948	2,945	3.49	3.11	17.44	14.51	14.66	12.52	25.47	21.29
Hugo Boss	3,375	3,492	2.13	1.96	16.60	14.80	13.16	11.83	23.51	20.36
Mean			2.15	1.97	13.84	12.32	11.33	10.19	22.85	19.78
Median			1.75	1.60	14.10	12.62	11.22	10.24	23.42	20.04

Group 1 & 2			EV/Sales 07	EV/Sales 08	EV/EBIT 07	EV/EBIT 08	EV/ EBITDA 07	EV/ EBITDA 08	P/E 2007E	P/E 2008E
Mean			1.81	1.69	13.08	11.26	10.31	9.17	23.38	17.48
Median			1.48	1.38	12.32	10.46	9.66	8.69	22.96	17.95

Elite (current price)	Market cap.	EV	EV/Sales 07	EV/Sales 08	EV/EBIT 07	EV/EBIT 08	EV/ EBITDA 07	EV/ EBITDA 08	P/E 2007E	P/E 2008E
	57	50	1.42	1.31	12.19	10.06	10.91	9.13	15.66	12.90
Premium / discount to peer group			-22%	-23%	-7%	-11%	6%	5%	-33%	-26%

Source: Thomson, Bloomberg, As of 10 July, 2007

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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.

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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.

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