

# Studio Babelsberg

Buy (unchanged)

Target: Euro 4.40 (old: Euro 4.00)



14 | May | 08

■ **Price (Euro)** **2.97**  
52 weeks range 3.93 / 1.69

## ■ Key Data

|                             |                               |
|-----------------------------|-------------------------------|
| Industry                    | Real Estate (Special Purpose) |
| Market Segment              | Open Market                   |
| IPO                         | 04/29/2005                    |
| Dividend payout             | 06/17/2008                    |
| Place of business           | Potsdam, (D)                  |
| Internet                    | www.studiobabelsberg.de       |
| Symbol                      | BG1                           |
| ISIN                        | DE000A0D9UR4                  |
| Securities ID-Number        | A0D9UR                        |
| Reuters                     | BG1G.DE                       |
| Bloomberg                   | BG1                           |
| Reporting Standard          | HGB                           |
| Fiscal Year                 | 31/12                         |
| 1 Day Turnover in € / Ø 3M  | 14.947                        |
| Market Cap (EUR million)    | 49.0                          |
| Number of shares (million)  | 16.5                          |
| Free Float                  | 24.5%                         |
| Free Float MarketCap (Mio.) | 12.0                          |

| ■ Multiples      | 2007 | 2008e | 2009e | 2010e |
|------------------|------|-------|-------|-------|
| MarketCap/ Sales | 0.56 | 0.63  | 0.60  | 0.52  |
| PE-Ratio         | 8.1  | 12.0  | 9.8   | 8.6   |
| Dividend Yield   | 6.7% | 6.7%  | 6.7%  | 8.4%  |

| ■ Key Data per Share (Euro) | 2007e | 2008e | 2009e | 2010e |
|-----------------------------|-------|-------|-------|-------|
| Earnings per Share (EpS)    | 0.37  | 0.25  | 0.30  | 0.35  |
| Dividends per Share (DpS)   | 0.20  | 0.20  | 0.20  | 0.25  |

| ■ Financial Data (EUR '000 ) | 2007e   | 2008e   | 2009e   | 2010e   |
|------------------------------|---------|---------|---------|---------|
| Sales revenues               | 87,055  | 78,350  | 82,267  | 94,607  |
| Purchases                    | -57,686 | -50,927 | -52,651 | -60,548 |
| Operating Profit (EBIT)      | 6,428   | 5,489   | 6,721   | 7,804   |
| Pre-tax Profit (EBT)         | 7,059   | 5,640   | 6,871   | 7,954   |
| Net Profit                   | 6,030   | 4,073   | 4,985   | 5,706   |

## ■ Main Shareholders

|   |        |
|---|--------|
| FBB-Filmbetrieb Berlin Brandenburg GmbH | 75.47% |
| RMS Unternehmens-Service GmbH           | 9.09%  |

## ■ Financial Calendar

|     |            |
|-----|------------|
| AGM | 06/16/2008 |
|-----|------------|

## ■ Analyst

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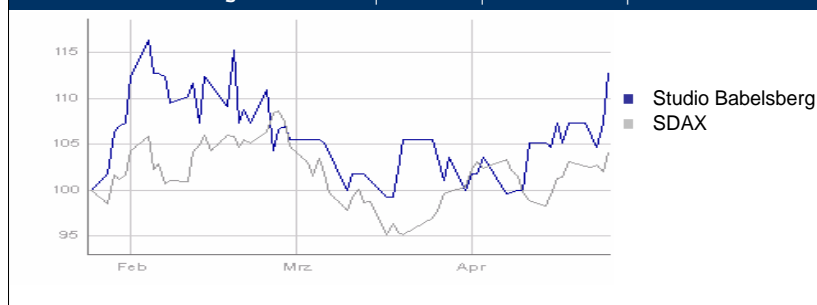
## Studio Babelsberg – Still a top-notch investment

Potsdam-based film-studio Studio Babelsberg published its annual report last week. Released figures exceeded our expectations. Last year was due to the realisation of 12 motion picture films the most successful year since the company was privatised in 1992. Utilization was increased to a top-level. Substantial reasons for this positive development are besides the support of the German Film Financing Fund (DFFF), initiated on 1 January 2007, the expertise and the valuable contacts of today's management, which took over business in 2004. As one of the few film-studios in Europe, SB can afford a focus on international blockbuster production due to its unique position. Thus a major part of last year's revenues could be achieved with international co-productions in particular high-budget productions like "Speed Racer", "Valkyrie" and "The International".

Hence, revenues could be more than quintupled from Euro 16.4m to Euro 87.1m. Indeed in October 2007, we expected in our last published report even higher revenues of Euro 95.9m, which is due to an increased profitability rather negligible. In fact, reported net profit of Euro 6.0m is above our assumption of Euro 4.0m and also above company guidance of Euro 5.0m and results in an outstanding EpS of Euro 0.36. As seen in 2005 and 2006, SB continues with its shareholder-friendly dividend policy. The Management therefore proposes a doubling of the dividend to the annual general meeting in June 2008, to Euro 0.20 per share after Euro 0.10 in 2006.

**The management surprised with an excellent result for 2007. We expect 2008 to come in slightly lower and possibly affected by an actor's strike in the US. Regarding fundamental data like PE-Ratio the share is quite low-priced. With a tax-free dividend yield of 6.7%, the share is a top-notch. Still Buy. Higher target of Euro 4.40 (4.00).**

Studio Babelsberg vs. SDAX | Xetra | 3 months | €



| Reported Figures 2007 compared to previous Year | in Euro million |       |      |       |
|---|-----------------|-------|------|-------|
|   | 2005            | 2006  | 2007 | 2008e |
| Revenues  | 43.2            | 16.4  | 87.1 | 78.3  |
| EBIT  | -2.5            | -5.2  | 6.4  | 5.5   |
| EBIT Margin                                     | neg.            | neg.  | 7.4% | 7.0%  |
| Netprofit                                       | 2.6             | -2.7  | 6.0  | 4.1   |
| EpS   | 0.17            | -0.17 | 0.36 | 0.25  |
| Dividend  | 0.10            | 0.10  | 0.20 | 0.20  |
| Produced Films                                  | 6               | 1     | 12   | 7     |

Source: Company Data, SRC Research

## SWOT Analysis

### Strengths

- With altogether 16 studios and an indoor area of 25.000 sqm, as well as an outdoor area of 17.000 sqm, Studio Babelsberg is the largest connected studio complex in Europe. By renting further objects in the direct vicinity, it is possible to extend the capacity to more than 30.000 sqm
- The former owner, Vivendi Universal, invested more than Euro 250m during its twelve-year engagement and created an outstanding media infrastructure at Babelsberg. Today, this basis, and in addition SB being debt-free, offers an excellent position to prosper in the market
- The company has a high liquidity of currently Euro 19.9m
- By cutting manpower in half to less than 90 employees in 2007, the company brought down personnel expenditures and thus a substantial fixed cost item. Nowadays exceeding demand is supplied through freelancers, thus the company is in the position to act more flexible which is required in the cyclic utilization of the film business

### Weaknesses

- Utilization and financial result, as well as the development of Studio Babelsberg in general, strongly depends on the decisions of a few american film-studios (like Paramount, Warner, Universal, New LINE) to produce their films in Germany
- The project-like character of the film production, connected with the uncertainties concerning production start and production duration complicates planning and utilization of the studio. Only two big budget productions can be handled at the same time
- Since each movie requires renewed acquisition, nearly all revenues are non recurring besides those of TV productions such as series or telenovelas. Therefore the volatility of utilization and earnings is quite high. Long-term TV-productions guarantee a partial utilization and work against the cyclicity of the movie business but are not core business of the company and do not lead into the profit zone

### Chances

- The incentive system for improving the economic conditions for film-production in Germany (Deutscher Filmförderfonds DFFF) is in force since January 2007. The aim to strengthen Germany as media location for film-production could be fulfilled. The price level of production cost thereby is reduced to approximately 20%. Due to recent success and increased attractivity for international productions it is most likely, that the maturity of the fund will be renewed from 2009 to 2012
- World-wide market growth of the entertainment industry and film production leads to increasing numbers of motion picture films, Blockbusters and TV productions and rise the demand for studio capacity and film locations

### Risks

- The German federal film fund (DFFF) is limited currently for three years (until the end of 2009). Even when continuation is most likely, an ending would worsen competitiveness for German film-studios substantially
- Due to the fact that all american film-studios calculate their costs in US-dollar the exchange rate of Euro into Dollar is substantial for the cost calculation. An exchange rate more than Euro 1.60 could deter US majors to produce their movies in Germany at the moment

## Company Profile

### A unique business model combined with Germany's largest studio complex and A-list ranking

Potsdam-based Studio Babelsberg (located in the greater Berlin-area) today is one of the leading production services provider in Europe for domestic and international feature film production. The studio covers all periods and areas of the film production at one location and offers national and international film-producers best conditions. Primary aim of the company is to support film producers in the best possible way and provide the qualitatively highest service at fair prices. The business model is based on five areas of competence in particular: Facility Management, Set Construction, Co-Production, Production Services and Set Dressing & Costumes.

#### Divisions of Studio Babelsberg AG



**Facility Management**  
 Studios & Sound Stages

**Production Services**  
 Studio Babelsberg Motion Pictures GmbH  
 Central Scope Productions GmbH  
 Central Scope Productions s.r.o. Prag  
 Central Scope Productions - NRW GmbH

**Set Construction**  
 Art Department Studio Babelsberg GmbH

**Co-Produktion**  
 Babelsberg Film GmbH

**Set Dressing & Costumes**

Source: Studio Babelsberg

| Independent Studios in Germany | Location         | Founded |
|--------------------------------|------------------|---------|
| Studio Babelsberg              | Potsdam          | 1912    |
| Bavaria Film                   | München          | 1919    |
| MMC Studios and MMC Coloneum   | Hürth and Köln   | 1991    |
| nobeo Studios                  | Hürth            | 1993    |
| Studios of film-producers      |                  |         |
| Constantin Film                | München          | 1979    |
| Studio Hamburg                 | Hamburg and oth. | 1947    |

Source: Wikipedia

| Film-studios worldwide | Country | Founded | Studios |
|------------------------|---------|---------|---------|
| Studio Babelsberg      | D       | 1912    | 16      |
| Pinewood Shepperton    | UK      | 1930s   | 36      |
| Cinecittà Studios      | I       | 1930s   | 22      |
| Barrandov              | CZ      | 1930    | 13      |
| Castel Studios         | RO      | 1992    | 9       |
| Ciudad de la Luz       | E       | 2004    | 6       |
| Fox Studios            | AUS     | 1998    | 8       |
| Leavesdon Studios      | UK      | 1990s   | 6       |
| Warner Roadshow        | AUS     | 1987    | 8       |
| Vancouver Film Studios | CDN     | 1987    | 13      |
| Elstree Studios        | UK      | 1930s   | 9       |
| Ealing Studios         | UK      | 1930s   | 5       |

Source: Wikipedia

In addition to its core business, Studio Babelsberg offers unique production conditions for serial productions of daily, weekly and telenovela formats. Beyond that, there are no further German competitors with a similar business model. All other German studios are mainly used for TV productions, occasionally for cinema productions, or belong to production companies. Altogether, SB owns and operates Germany's largest studio complex. Serious competitors can be found mainly in other European countries. However, SB is on the A-list of European film studios together with Pinewood Shepperton in London and Barrandov Studios in Prague. The focus of Studio Babelsberg's acquisitions efforts regarding potential clients is mainly directed towards "runaway productions" These are productions that are shot abroad because of cost-considerations, script-considerations or the explicit wish of the director.

General difficulty in the business is to reach a high utilization, which is quite challenging to achieve due to strong fluctuations and a cyclic development in the film-business. In addition, the project character of each movie complicates planning and scheduling. Recurring revenues have not been made, therefore the earnings volatility is high. Nevertheless, advantage of SB as compared to its competitors, is a low fixed costs structure and being

**Number of employees cut in half since 2004**

debt-free. Hence no cost of debt has to be earned then. After employee guarantees ran out in 2007, a significant number of staff could be reduced or changed into freelancers, which is more suitable for the film-industry. Currently, 85 employees are working for SB plus temporary employees for individual film projects. That is almost half of the staff which was working for the company compared to the point when today's management took over the business (2004: 169 employees). Thus the company is highly scaleable and in terms of low utilization even sustainable.

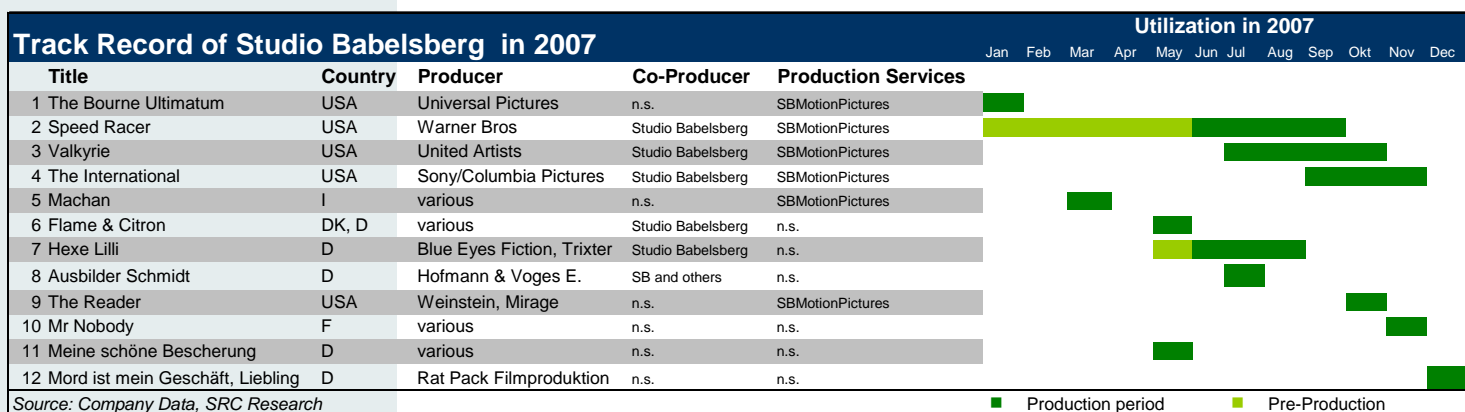
Fiscal Year 2007

**2007 was a record year for Studio Babelsberg**

**Most successful year since privatization for Studio Babelsberg**

Studio Babelsberg looks back to a very successful FY 2007. After only one film production could be realized in 2006 (Die Fälscher), mainly affected due to the new incentive system, which started initially from 2007 on, twelve productions could be realized in the past year. Thus, 2007 was the most successful year since privatization in 1992. In particular the big-budget productions benefited from the incentive scheme of the DFFF. "Speed Racer", starring Susan Sarandon and John Goodman, was the biggest production for Studio Babelsberg in the last year and received a subsidy amount of some Euro 9.0m. Tom Tykwer's "The International" collected about Euro 5.8m, while "Valkyrie", starring Tom Cruise, received incentives of Euro 4.8m. These three US productions of three well-known major labels (Warner, United Artists and SonyColumbia) generated with Euro 75.1m the lion share of the company's revenues. A unique selling point of SB is the ability to handle several productions simultaneously due to the size of the studio complex. Regarding the fact, that two major productions and three to four smaller productions can be handled at the same time, utilization of the 16 Studios with 25.000m<sup>2</sup> in 2007 was quite within the bounds of possibility.

**The three U.S. Blockbusters generated Euro 75.1m of revenues (86%)**



**Big-budget productions are the core business and generate the lionshare of profit at SB.**

As a matter of fact, even when it is pleasant to be engaged in twelve film-productions within one year, the lower-budget productions, which are mainly German productions, are little profitable and in some cases even loss-generating for Studio Babelsberg. The production costs of an average German feature film in the past have run between Euro 2.5m and Euro 5.0m. International productions easily exceed those production costs by several times. Hence, a high number of produced movies is by

**The company is well-prepared for digital cinema and future requirements**

**Cinema of the Future “made in Babelsberg”**

**“Speed Racer” provided work for nine months at SB**

**SBMP handled production services for 10 productions in 2007**

no means an equivalent for a prosperous year. More important is the number of big-budget productions and their days of shooting at SB. Blockbusters are the profit generating core business of the studio and SB is established in the industry after numerous famous productions in the past.

“Speed Racer”, directed by Andy and Larry Wachowski, well-known through the Matrix trilogy, is one such movie. Shot entirely on sound stages with a budget of US-Dollar 120m, SB took the chance to benefit here. The movie was mostly produced by using digital techniques, such as green screen and blue screen photography. Hence, the Wachowski’s were looking for a sizable number of large sound stages for green screen and blue screen photography to provide a quick work-flow on the set. SB offers Europe’s largest contiguous studio complex comprised of 16 sound stages with a combined 270,000sqft and was at least for this reason the perfect match. Finally, SB proofed impressively its ability to handle this kind of high tech shooting and can be classified as well-prepared for digital cinema. It provides the digital infrastructure, modern sound stages and an on-site HD-screening-room at the fx.Center. The production exemplifies that big-budget visual effects intensive films can be shot in Germany as well. Furthermore development shows that digital effects and animation displaces physical, analog sets. Against this background, conventional set construction becomes rather unimportant. Build-up of blue and green screen sets is less challenging, less labor intensive but also consequently less profit generating for the Art Department.

“Speed Racer” is based on the 1960s cult series of the same title. The story revolves around a young race car driver, his family and their adventures in a futuristic world where high-performance race car driving is the top sport. In January 2007 began the first period of pre-production, which took all in all four months. Principal photography commenced immediately thereafter and lasted from June to September 2007. Overall, the shooting took place in twelve sound stages with a crew of about 600 employees from around the world. The movie was served by Studio Babelsberg Motion Pictures concerning Production Services as well. In 2007 the entire production service for a total of 10 productions could be handled by SBMP.

**Blockbusters & Incentives at Studio Babelsberg in 2007**

| Year             | Title                            | Producer                  | Status                 | Release Date (D)        | Genre                   | in €m      | in \$ m       |
|------------------|----------------------------------|---------------------------|------------------------|-------------------------|-------------------------|------------|---------------|
| 2007             | Ausbilder Schmidt                | Hoffmann&Voges            | Post-production        | 2008                    | Comedy                  | 0.8        |               |
| 2007             | Mr. Nobody                       | Caviar Films              | Post-production        | 2009                    | Drama, Sci-Fi           | 1.7        |               |
| <b>2007</b>      | <b>The Bourne Ultimatum</b>      | <b>Universal Pictures</b> | <b>Accomplished</b>    | <b>6 September 2007</b> | <b>Thriller, Action</b> | <b>-</b>   | <b>\$ 138</b> |
| 2007             | Meine schöne Bescherung          | X-Filme                   | Accomplished           | 22 November 2007        | Comedy                  | 0.5        |               |
| 2007             | Mord ist mein Geschäft, Liebling | Rat pack Filmproduktion   | Accomplished           | 12 April 2008           | Comedy                  | 0.9        |               |
| <b>2007</b>      | <b>Speed Racer</b>               | <b>Warner Bros.</b>       | <b>Accomplished</b>    | <b>8 May 2008</b>       | <b>Action</b>           | <b>9</b>   | <b>\$ 120</b> |
| 2007             | Machan                           | Redwave Film              | Accomplished           | 14 August 2008          | Comedy                  | -          |               |
| 2007             | Flame & Citron                   | Wüste Film Ost            | Accomplished           | 4 September 2008        | Crime, Drama            | 0.3        |               |
| <b>2007/2008</b> | <b>The Reader</b>                | <b>Weinstein Company</b>  | <b>Filming</b>         | <b>15 January 2009</b>  | <b>Drama</b>            | <b>3.7</b> |               |
| <b>2007</b>      | <b>Valkyrie</b>                  | <b>United Artists</b>     | <b>Post-production</b> | <b>5 February 2009</b>  | <b>Thriller, War</b>    | <b>4.8</b> | <b>\$ 100</b> |
| 2007             | Hexe Lilli                       | Blue Eyes Fiction         | Post-production        | 19 February 2009        | Children                | 1.25       |               |
| <b>2007</b>      | <b>The International</b>         | <b>Sony Pictures</b>      | <b>Post-production</b> | <b>26 February 2009</b> | <b>Thriller, Action</b> | <b>5.8</b> |               |

■ Blockbusters

Source: Company Data, SRC Research

**SBMP has a solid reputation in the branch and generates most of revenues**

**“Valkyrie” and “The International” shot from July to November**

The Division has a solid reputation for professional production services and was already engaged for Academy-Award-winning movies as “The Constant Gardener”(2005) ,”The Pianist” (2002) and blockbuster hits like “V for Vendetta”(2005), “The Bourne Ultimatum”(2007) or “Around the World in 80 days”(2004).

The second large production was the WWII Drama “Valkyrie” with a reported budget of USD 100m. The exciting thriller tells the story of a resistance group around Claus von Stauffenberg and their failed attempt to assassinate Adolf Hitler on 20 July 1944. Tom Cruise has the leading role as resistance fighter Claus Schenk, Count von Stauffenberg. Studio Babelsberg Motion Pictures handled the entire production service, ranging from pre-production and location scouting to clearing filming permits, staffing the film crew and providing the technical equipment.

Third US major production was “The International” directed by the German director Tom Tykwer, famous through “Run Lola Run” (1998) or recently “Perfume: The Story of a Murderer” (2006). Studio Babelsberg served as unit base for the production. The production services, i.e. the entire staffing and operations of the crew, were handled once more by Studio Babelsberg Motion Pictures. The movie tells the story of Interpol-agent Louis Salinger (Clive Owen) and New York district attorney Eleanor Whitman (Naomi Watts), who set out to take down one of the world’s most powerful banks.

| Sales after division in Euro m              | 2006  | 2007   | Change  |
|---|-------|--------|---------|
| Production Services                         | 1,514 | 77,637 | ↑ 5028% |
| Set Dressing / Wardrobe                     | 7,921 | 5,159  | ↓ -35%  |
| Facility Management                         | 3,575 | 3,030  | ↓ -15%  |
| Lab/Sound Dept./Post Production (sold unit) | 2,083 | 158    | ↓ -92%  |
| Dubbing Dept. (sold unit)                   | 708   | 0      | ↓ -100% |
| Other Sales                                 | 569   | 1,071  | ↑ 88%   |

Source: Company Data, SRC Research

**Re-construction of the Guggenheim Museum for “The International” was challenging but also profit generating**

The re-construction of the New York Guggenheim Museum for “The International” was one of the most challenging and most ambitious attempts the Art Department ever undertook, but also a unique opportunity to generate good revenues. With its Division “Art Department” the company offers professional Set Construction to its clients. It is a unique selling point and leads to a competitive edge for the whole company. At present, 32 employees are working for the department plus temporary employees for individual film projects. The engagements for major label productions, e.g. for “Speed Racer”, “Valkyrie”, “The Reader” or “ The International” in 2007, show the high standard and the professional level of the Set Construction, which meets and satisfies highest needs.

**The DFFF demands that two-thirds of the movie are produced in Germany and German actors, cinematographer or production designer are involved**

Also “The International” received Euro 5.8m from the German Federal Film Fund, based on the DFFF board's assessment that two-thirds of the movie would be produced in Germany and that the film involved German talent like actors Armin Mueller-Stahl and Axel Milberg, cinematographer Frank Griebe, and production designer Uli Hanisch. In particular in case of demanded incentives of the DFFF, SB acts as Co-Producer to apply for this support and offers extended services. However, after completion of a movie, copyrights

**SB plans to extend financing and co-producing activities**

are assigned, since it is not the intention of major labels to share profits. SB receives an amount according to its costs, thus no further profits are generated in the field of co-production with U.S. majors.

Nevertheless SB plans to expand its co-production and financing activities. For instance concerning smaller German or European productions, the company wants to act as co-producer and build-up a content-library (containing Copyrights) to improve its company assets.

**The DFFF lowers costs for film-production in Germany by some 20%**

**The German federal film fund - 99 promoted movies in 2007**

The German Federal Film Fund (DFFF) was put in place to enhance the economic conditions for Germany's film industry and to increase Germany's ability to compete internationally. Essentially, production companies filming in Germany are able to receive a 20% refund on production costs, due to the new incentive scheme. The overall effect for the German film industry is a noticeable push in production activity as compared to international trends.

The incentive scheme receives Euro 60m funding annually and is currently limited to three years. Both, the Federal Finance Minister, Peer Steinbrück,

and State Minister for Cultural Affairs, Bernd Neumann, have made promising remarks about the extension of the DFFF beyond 2012. As a matter of fact, such incentive schemes are in place in more than 60 nations worldwide in order to attract big-budget productions. In the U.S.A. alone, around 40 states have implemented tax credits for film productions. Nowadays, Hollywood-productions can be shot in almost any country in the world, thus making it truly a global film business. Anyhow, Germany's incentive scheme is competitive and in combination with other local advantages highly attractive. Every movie has to pass a cultural

| DFFF promoted Movies with highest incentives in 2007 |                            |                 |
|--|----------------------------|-----------------|
| Title  | Producer                   | Incentive in €m |
| 1 Speed Racer  | Warner Bros                | 9.0             |
| 2 The Internsational                                 | SonyColumbiaPictures       | 5.8             |
| 3 Valkyrie   | United Artists             | 4.8             |
| 4 Der Baader-Meinhof Komplex                         | Constantin Film Produktion | 2.7             |
| 5 Buddenbrooks                                       | Bavaria Film               | 2.3             |
| 6 Anonyma - Eine Frau in Berlin                      | Constantin Film Produktion | 1.4             |
| 7 Hexe Lilli   | blue eyes fiction          | 1.3             |
| 8 Urmel im Wunderland                                | Constantin Film Produktion | 1.2             |
| 9 John Rabe  | Hofmann & Voges            | 1.2             |
| 10 Effi  | Constantin Film Produktion | 1.1             |
|  |                            | <b>31</b>       |
| ■ SB Co-Productions                                  |                            |                 |

Source: DFFF, SRC Research

test consisting of three elements: one is the cultural hub which gives points for where the film is physically produced and secondly, points for the key people involved – and the third part is concerned with the story and the cultural background of the script. Normally, an amount up to Euro 4m per film is usually, but if a production spends more than 35% of the overall film budget in Germany, then it can get an exception up to €10 million. Hence, "Speed Racer" got very near to the maximum (Euro 9m)". For this reason there is more interest from abroad in the DFFF and the news has arrived in the U.S.

| DFFF - SB vs. total volume              | 2007 | 2008* |
|---|------|-------|
| Total number of promoted movies         | 99   | 25    |
| Cumulated amount of subsidy in €m       | 59.4 | 14.7  |
| Number of promoted SB movies            | 8    | 2     |
| Subsidy amount for SB productions in €m | 23.4 | 5.4   |
| * Status April 30, 2008                 |      |       |

Source: DFFF, SRC Research

Eight movies been shot at SB received, according DFFF, a subsidy amount of some Euro 23.4m in 2007. Indeed two more movies, which were already shot in last year but promoted in 2008 ("The Reader" in '07 and '08), received a subsidy amount of Euro 5.4m. That is a cumulated incentive for SB connected movies of Euro 28.8m, which is almost half of the total subsidy volume.

## Outlook 2008

**The film-industry is growing worldwide despite decreasing moviegoers.**

**Meanwhile the movie industry earns more money with DVD selling and movie rental.**

### Tempelhof as scenery

- 1948 Eine auswärtige Affäre
- 1949 Es begann mit einem Kuß
- 1961 Eins, zwei, drei
- 1963 Die endlose Nacht
- 1969 Der Herren mit der weißen Weste
- 1988 Ein Richter für Berlin
- 1992 ...und der Himmel steht still
- 1993 In weiter Ferne, so nah!
- 1994 Eine französische Frau
- 1997 Comedian Harmonists
- 2001 Was tun, wenns brennt?
- 2002 Equilibrium
- 2004 The Burn supremacy
- 2005 Die Luftbrücke
- 2007 Warum Männer nicht zuhören,...
- 2007 Valkyrie
- 2007 Armer schwarzer Kater

Source: Wikipedia

### Outlook and Market for 2008 and coming years

Even when worldwide moviegoers are decreasing in number, the movie industry is booming. Today, the lion's share of profits is made through DVD sales and movie rental. In the future, when the technical infrastructure is sufficient, modern distribution channels like video-on-demand, pay-per-view and pay-TV, will become more important and will displace movie rental eventually. The entertainment industry is expected to see a continuing dynamic growth process as new technologies increase customer demand for entertainment content. In addition three general trends determine the market development for European film studios and production service providers marketing towards big-budget productions: the growing number of big-budget films shot every year (Blockbusters increase by 33% from 1998 to 2005), the continuing trend of US majors to produce films outside the US (more than half of US feature film production is shot outside the US), and, last but not least, the growing number of international co-productions. All these trends strengthen the position of SB. The first Warner Bros big-budget production "Ninja Assassin" could be acquired for 2008. Two more big-budget productions are planned for this year. But a decision on this is strongly affected by a possible actors strike in the US, as well as by further development of the US-Dollar. Due to the fact that all American film-studios calculate their costs in US-dollar, the exchange rate of Euro to Dollar is substantial for the cost calculation. An exchange rate above Euro 1.60 could deter US majors to produce their movies in Germany. Due to these uncertainties, no further company guidance is given by the management.

The referendum about the future of Berlin Tempelhof at the end of April resulted in a closing of the airport, because the necessary boundary value of 25% of legitimated voters could not be reached. The management of SB announced serious interest to transform the connected hangars into soundstages to shoot movies and begun negotiations with Berlin's senate, already. Due to the relatively high ceilings hangars are perfect for film-shootings. About 300.000 square meters are covered through airport connected hangars. Many shootings in the past – even international ones - proof feasibility of the idea. The cinematic history of Berlin Tempelhof is quite rich. In 1992 John Schlesinger shot "...und der Himmel steht still", 1997 a scene of "Comedian Harmonists" was shot in Tempelhof as also scenes for the latest Babelsberg movie Valkyrie. Four years ago, scenes with Matt Damon in "The Bourne Supremacy" were shot here and many more. In the end, the Senat of Berlin has to decide on this issue. As a matter of fact, if SB could use even a part of Tempelhof's facilities, the often mentioned argument of limited space and therewith limited growth prospects would disappear. Both locations, SB and Berlin Tempelhof, are approximately 30km apart. Tempelhof is located in the south of Berlin, while Potsdam is in the southwest of the hinterland. In case of a positive decision on this issue for SB, further investments to build-up the hangars to a movie production conform standard would be necessary. Thus the new location would have an impact on the company's business earliest 2009/2010.

### The highest dividend yields in the German equity market '08

A selection out of SRC Coverage

| Company                    | Price, as of<br>05/04/08 | Market Cap m € | Dividend €  | Div.Yield '08 | AGM               | SRC Rating |
|----------------------------|--------------------------|----------------|-------------|---------------|-------------------|------------|
| Franconofurt               | 7,20                     | 63,36          | 0,75        | 10,4%         | 05.06.2008        | Hold       |
| sino*                      | 13,35                    | 32,04          | 1,28        | 9,6%          | 18.03.2008        | Accumulate |
| Lloyd Fonds                | 15,69                    | 199,73         | 1,30        | 8,4%          | 10.06.2008        | Buy        |
| MPC Capital*               | 44,63                    | 473,08         | 3,50        | 7,8%          | 22.04.2008        | Accumulate |
| <b>Studio Babelsberg**</b> | <b>2,99</b>              | <b>49,34</b>   | <b>0,20</b> | <b>6,7%</b>   | <b>18.06.2008</b> | <b>Buy</b> |

\* Dividend already paid out

\*\* Dividend is tax-free

Source: SRC Research

### Studio Babelsberg offers one of the highest dividends – tax free !

With a dividend yield of some 6.7% SB belongs to the shares with the highest dividend yields paid to shareholders in 2008 in the German market. In addition the dividend is free of tax. Which means, investors don't have to pay any kind of tax after claiming the dividend. On account of this, the final yield is even higher. Therewith SB continues with its shareholder-friendly dividend policy. The company already paid in the past 2 years to its shareholders, even when net profit was negative in 2006. Nevertheless tax exemption of the dividend will end with the next dividend payout in 2009 at least partially, perhaps completely.

## Evaluation

### DCF-analysis results in an enterprise value far above 4.00 Euros

We evaluate Studio Babelsberg with a DCF-analysis. As cost of equity we assume 12% (4,5% risk free rate, 5.0% risk premium with a beta of 1.5%). We set our WACC rate at 11.8%. The long-term rate of equity in the business financing we calculate with 95%. The final growth rate is assumed at 1.0%.

With our detailed calculations we come up with a fair value of Studio Babelsberg that is about Euro 73m or Euro 4.45 per share with the current number of 16.5 million Studio Babelsberg shares outstanding.

**With a current share price of some 3 Euro there is an upside potential for share price of almost 50%. For this reason we confirm our Buy-rating for the Studio Babelsberg share with a new Euro 4.40 target on a 6-12 months horizon (old target: Euro 4.00).**

### DCF-Modell for Studio Babelsberg AG (Entity WACC method)

|  |              |            |              |
|--|--------------|------------|--------------|
| <b>Weighted Average Cost of Capital (WACC)</b> | <b>11.8%</b> | <b>CoE</b> | <b>12.0%</b> |
| years until first pay-out                      | 0.53         | <b>CoL</b> | <b>7.0%</b>  |
| Terminal value growth rate                     | 1.0%         |            |              |

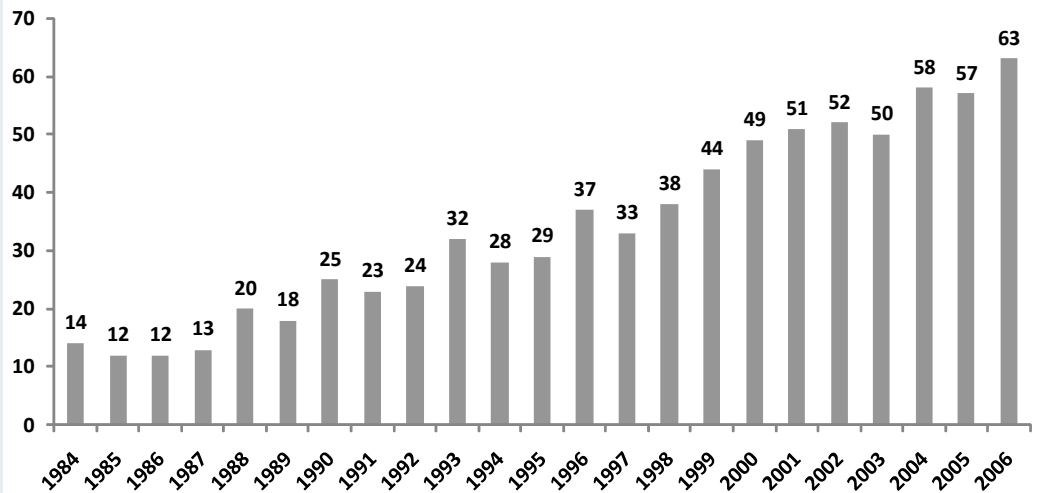
  

| Euro m   | 2008e         | 2009e       | 2010e       | 2011e       | 2012e       | Perpetuity  |
|--|---------------|-------------|-------------|-------------|-------------|-------------|
| <b>Sales revenues</b>  | <b>78.3</b>   | <b>82.3</b> | <b>94.6</b> | <b>95.6</b> | <b>96.5</b> | <b>97.5</b> |
| Sales growth   | 0.0%          | 5.0%        | 15.0%       | 1.0%        | 1.0%        | 1.0%        |
| EBIT margin  | 7.2%          | 8.4%        | 8.2%        | 7.5%        | 7.5%        | 7.5%        |
| <b>EBIT</b>  | <b>5.6</b>    | <b>6.9</b>  | <b>8.0</b>  | <b>7.2</b>  | <b>7.2</b>  | <b>7.3</b>  |
| Tax on EBIT  | 27.8%         | 27.5%       | 28.3%       | 28.0%       | 28.0%       | 30.0%       |
| <b>Net operating profit after tax (NOPAT)</b>                          | <b>4.1</b>    | <b>5.0</b>  | <b>5.7</b>  | <b>5.2</b>  | <b>5.2</b>  | <b>5.1</b>  |
| + Depreciation SAV/ immat. AV  | 2.0           | 2.1         | 2.1         | 2.1         | 2.1         | 2.1         |
| +/- Changes in working capital   | 1.1           | 1.1         | 1.2         | 1.2         | 1.2         | 1.2         |
| +/- Changes in current assets  | 0.0           | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| - net investments in tangible assets                                   | -1.4          | -1.6        | -1.7        | -1.8        | -1.8        | -1.9        |
| <b>Free Cash Flow</b>  | <b>5.8</b>    | <b>6.6</b>  | <b>7.3</b>  | <b>6.7</b>  | <b>6.7</b>  | <b>6.6</b>  |
| <b>Present value of free cash flows</b>                                | <b>4.4</b>    | <b>4.4</b>  | <b>4.4</b>  | <b>4.0</b>  | <b>4.1</b>  | <b>33.4</b> |
| <b>Sum of free Cash Flows</b>  | <b>54.8</b>   |             |             |             |             |             |
| + Market value of assets that are not necessary for operating business | 0             |             |             |             |             |             |
| + Cash / cash equivalents  | 19.9          |             |             |             |             |             |
| Financial debt   | 0.0           |             |             |             |             |             |
| <b>Enterprise value</b>  | <b>74.7</b>   |             |             |             |             |             |
| - interest bearing liabilities / long-term provisions                  | -1.3          |             |             |             |             |             |
| <b>Market value of equity</b>  | <b>73.4</b>   |             |             |             |             |             |
| Number of shares (million)   | 16.5          |             |             |             |             |             |
| <b>Fair market value per share</b>                                     | <b>4.45 €</b> |             |             |             |             |             |

Source: SRC Research

## Appendix

Number of  
Blockbuster Movies



### Studio Babelsberg

31/12 HGB (TEUR)

|                                    | 2005          | 2006          | 2007          | 2008e         | 2009e         | 2010e         | CAGR<br>'06 - '09e | CAGR<br>'07 - '10e |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|--------------------|
| <b>Revenues</b>                    | <b>43,214</b> | <b>16,370</b> | <b>87,055</b> | <b>78,350</b> | <b>82,267</b> | <b>96,252</b> | <b>71%</b>         | <b>3%</b>          |
| Change in inventories              | -510          | -99           | 6,493         | 0             | 0             | 0             |                    |                    |
| Own work capitalized               | 762           | 225           | 109           | 350           | 350           | 350           |                    |                    |
| Cost of sales                      | -32,729       | -8,248        | -57,686       | -50,927       | -52,651       | -59,676       |                    |                    |
| in % of revenues                   | 76%           | 50%           | 66%           | 65%           | 64%           | 62%           |                    |                    |
| <b>Gross profit</b>                | <b>10,737</b> | <b>8,248</b>  | <b>35,971</b> | <b>27,772</b> | <b>29,966</b> | <b>36,926</b> | <b>54%</b>         | <b>1%</b>          |
| Other income                       | 2,347         | 921           | 2,624         | 2,800         | 2,800         | 2,900         |                    |                    |
| Personnel expenses                 | -8,597        | -7,909        | -24,794       | -17,237       | -18,099       | -21,176       |                    |                    |
| Other operating expenses           | -4,602        | -4,555        | -5,479        | -5,806        | -5,856        | -6,201        |                    |                    |
| <b>EBITDA</b>                      | <b>-115</b>   | <b>-3,295</b> | <b>8,322</b>  | <b>7,529</b>  | <b>8,811</b>  | <b>12,449</b> | <b>neg.</b>        | <b>14%</b>         |
| Depreciation                       | -2,336        | -1,923        | -1,894        | -2,040        | -2,090        | -2,490        |                    |                    |
| <b>EBIT</b>                        | <b>-2,451</b> | <b>-5,218</b> | <b>6,428</b>  | <b>5,489</b>  | <b>6,721</b>  | <b>9,959</b>  | <b>neg.</b>        | <b>16%</b>         |
| <i>EBIT margin</i>                 | <i>neg.</i>   | <i>neg.</i>   | <i>7.4%</i>   | <i>7.0%</i>   | <i>8.2%</i>   | <i>10.3%</i>  |                    |                    |
| Financial result                   | 358           | 150           | 631           | 150           | 150           | 150           |                    |                    |
| <b>Earnings before taxes (EBT)</b> | <b>-2,093</b> | <b>-5,068</b> | <b>7,059</b>  | <b>5,640</b>  | <b>6,871</b>  | <b>10,109</b> | <b>neg.</b>        | <b>13%</b>         |
| Extraordinary income               | 5,961         | 5,937         | 80            | 0             | 0             | 0             |                    |                    |
| Extraordinary expenses             | -870          | -3,491        | -80           | 0             | 0             | 0             |                    |                    |
| Income tax                         | -94           | -35           | -779          | -1,466        | -1,787        | -2,730        |                    |                    |
| other tax                          | -255          | -90           | -250          | -100          | -100          | -100          |                    |                    |
| <i>Tax rate</i>                    | <i>17%</i>    | <i>2%</i>     | <i>-15%</i>   | <i>-28%</i>   | <i>-27%</i>   | <i>-28%</i>   |                    |                    |
| <b>Net profit</b>                  | <b>2,649</b>  | <b>-2,747</b> | <b>6,030</b>  | <b>4,073</b>  | <b>4,985</b>  | <b>7,280</b>  | <b>neg.</b>        | <b>6%</b>          |
| Number of shares (million)         | 15.3          | 16.5          | 16.5          | 16.5          | 16.5          | 16.5          |                    |                    |
| Earnings per Share (EpS)           | 0.17          | -0.17         | 0.37          | 0.25          | 0.30          | 0.44          |                    |                    |
| Dividends per Share (DpS)          | 0.10          | 0.10          | 0.20          | 0.20          | 0.20          | 0.25          |                    |                    |
| Book Value per Share (BvpS)        |               |               |               |               |               |               |                    |                    |
| Shareholders' Equity               | 38,748        | 34,350        | 38,783        | 41,206        | 44,541        | 48,521        |                    |                    |
| RoE after tax                      | 3.4%          | neg.          | 4.1%          | 2.5%          | 2.9%          | 3.9%          |                    |                    |

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| Rating Chronicle  | Date            | Rating | Former Price | Former Target |
|-------------------|-----------------|--------|--------------|---------------|
| Studio Babelsberg | October 8, 2007 | Buy    | 3.01 €       | 4.00 €        |

**Please note:**

The Studio Babelsberg share price mentioned in this report is from closing of May 13, 2008. Studio Babelsberg mandated SRC Research for mentoring the Studio Babelsberg share.

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