



Independent Research

Unabhängige Finanzmarktanalyse GmbH

Investment Research

Elite Model Management Lux. S.A.



**Market Segment: Entry Standard
Sector: Management Services**

Initial Coverage

August 25, 2006

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ELITE MODEL MANAGEMENT 4)

Accumulate
Previous recommendation: -

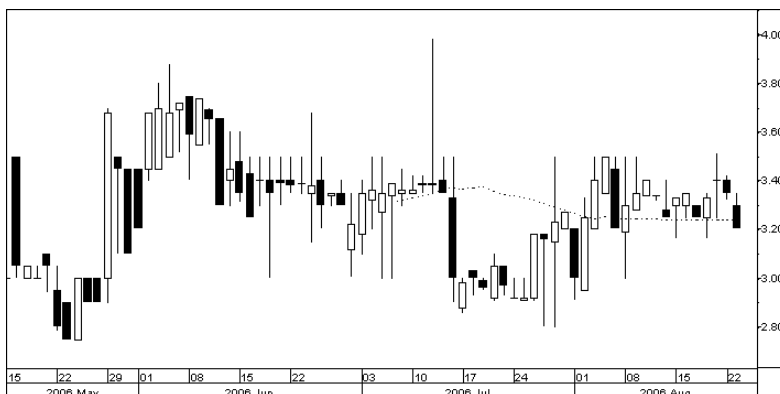
Event:

Initial Coverage

Recommendation:

Buy

IR	2	-	2
Rating	Growth	Investor Relations	Dependability



Author: Dirk Werner (Analyst)

Elite Model Management

- ⇒ **Elite Model Management is one of the largest and most famous modeling agencies in the world. Its core business is model management, moreover the company organises the world's largest modeling contests and gives licenses to consumer and luxury goods producers using Elite's brand name**
- ⇒ **The recent operative development has been driven by growth of product licensing revenues that also caused an increase in margins. We expect further growth due to the huge potential in terms of product extension and regional diversification**
- ⇒ **In our 2007e forecasts we have included the sale of the global TV licensing rights to the modeling contest. A possible sale has a significant impact on the operating income but also to the fair value of the share**
- ⇒ **Based on our peer-group comparison we have derived a price target of EUR3.70. Our initial recommendation is Accumulate**

Elite Model Management		Management Services		Performance (in %)				
Country	LX	Fiscal year	Dec. /31	Rel. 1 Month	4.0			
Shares (m)	19.881	www.elitemodel-world.com		Rel. 3 Months	1.4			
Ø Trading Volume	31,026	Last dividend (USD)	-	Rel. 6 Months	-			
ISIN	LU0252519037	Payable day	-	Rel. 12 Months	-			
Curr. Price (Frankfurt)	3.25 Euro	Market cap. (EURm)	64.6	Beta	-			
08/23/06 1:56 PM		Currency	EUR	Volatility (60 days)	59.0			
52W High	3.98	Date	07/12/06	No index membership				
52W Low	2.75	Date	05/23/06					
Shareholders:	no current shareholder structure available							
Investments:	Subsidiaries in France (100%), Switzerland (100%), UK (100%), Spain (95%), Italy (85%), Netherlands (80%), Czech Republic (60%), Slovakia (60%); Inmod AG (100%); Nathalie SARL (55%)							
FY	Sales	EBIT*	EBT	EAT	EpS	PER	EV/Sales 07e:	1.7
2004*	26.9	-1.0	-1.1	-1.3	-	n.a.	EV/EBIT 07e:	10.7
2005	29.8	1.1	1.1	0.9	-	n.a.	Dividend yield 06e:	0.0%
2006e	31.9	3.1	3.0	2.7	0.13	24.4	CAGR Sales 04-07e:	9.5%
2007e	35.4	5.7	5.7	4.9	0.25	13.1	CAGR EAT 05-07e:	129.7%
Figures in EURm except EpS							AS: Luxembourg GAAP	
* Figures for 2004 unaudited; EBIT 2004 including exceptional items								

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STRENGTHS/OPPORTUNITIES

- **One of the world's largest and most famous modeling agencies**
- **International network of subsidiaries and affiliate model agencies**
- **Many year's expertise and a proven track record**
- **Perfect fit of model management, model contest and product licensing**
- **Globally known brand name**
- **Huge opportunities of exploiting the brand name by product licensing**
- **Organiser of the world's most powerful modeling contest**
- **Possible sale of the TV licensing rights to the model contest**
- **Increased investor relations**

WEAKNESSES/THREATS

- **Loss of US subsidiaries after the New York subsidiary's filing for Chapter 11 and therefore missing representation in the important US market**
- **Fair value of share strongly influenced by the success of the possible sale of the TV licensing rights to the model contest**
- **Highly competitive environment with no market entry barriers**
- **So far no investor relations**
- **Low stock turnover**

1. Company profile

One of the largest and most famous modeling agencies

Elite Model Management is one of the largest and most famous modeling agencies in the world. The company was founded in 1972 by John Casablancas and Alain Kittler in Paris and opened its first agency in New York five years later. Additionally, the company had offices in other major American cities. Over the years an uncountable list of models and "supermodels" launched their careers in fashion and entertainment with the help of Elite. Among them a stars from the catwalk of fashion shows and fashion magazines such as Cindy Crawford, Linda Evangelista, Claudia Schiffer, Heidi Klum or Naomi Campbell and actresses and stars from the entertainment industry such as Uma Thurman, Cameron Diaz or Demi Moore.

Core business: model management

Elite's core business is the management and career development of models. This entails the discovery of new faces by talent scouts, model contests, auditions and open calls or simply by receiving pictures from applicants. Moreover, Elite helps to train the models, get them photo shootings, prepare layout model portfolios and puts together composition photo cards (comp cards) or other printed material. The modeling agency acts as a service provider between the models and customers, which are usually photographers, advertising agencies, publishing companies, and fashion designers. Apart from dealing and making contracts with customers, the modeling agency coordinates the timetables and manages the bookings, and also takes care of promotion and contracts. For providing these services the model agency earns a commission of every job they book on the model's behalf. Elite Model Management currently represents more than 800 models from 5 continents and operates 36 offices including franchises throughout the world.

Organiser of the world's largest model competition

Besides acting as a modeling agent Elite is the organiser of the world's largest model competition. Created in 1983, the so-called "Elite Model Look Contest" has evolved to an international model search with a high reputation and a high-profile media event. The model competition now takes place in over 60 countries around the world. Approximately 350,000 young women participate each year in regional and national contests of which the winners of each regional/national event proceed to the international finals. During the event a jury of celebrities, top models, and professionals in the modeling, fashion and advertising industry select their top picks in a media event consisting of runway instruction, photo shootings, etc. The competition primarily serves as a source for new faces and over the years has brought up current superstars like Giselle Bundchen, Alessandra Ambrosio, Cindy Crawford, Stephanie Seymour, Tatjana Patitz and many other faces.

Exploiting the brand name by granting licenses

Moreover, Elite has established a wholly-owned subsidiary to exploit its high brand name recognition. This basically includes the granting of licenses based on the group's trademarks to distributors of consumer products. This includes fashion-related products like sun-glasses, shoes, clothes and sportswear, underwear, fragrances, accessories such as handbags or watches, and cosmetics and make-up products. The lifestyle products general target young women and have a fashionable design with good quality at an affordable price.

2. Brief company history

More than 30 years of model expertise

Elite Model Management was founded by John Casablancas and Alain Kittler in 1972 in Paris. After only six months the company had roster of about 200 models due to its rapidly developing prestige and recognition and had evolved into a top modeling agency in the fashion world. The company began to develop a worldwide network of local model management companies and opened a modeling agency in New York in 1977 in order to position itself in the attractive American advertising market. Being the top model management company, in 1983 Elite started what has become the world’s most successful talent search contest under the name “Look of the year”, which is today known as the “Elite Model Look Contest”.

Elite discovered many “supermodels”

During the 80s Elite has shaped the concept of a supermodel, a term which had been used before but wasn’t widely recognised. Supermodels are top models in both high fashion and commercial modeling, with worldwide reputation and recognition. Among the list of supermodels are names like Cindy Crawford, Claudia Schiffer, Karen Mulder, Linda Evangelista, Naomi Campbell, Stephanie Seymour, Tyra Banks and others. Using the supermodel concept Elite created brand icons within the industry and made the Elite brand a household name.

In 1998 the company leveraged its brand name recognition by introducing branded products to the top-end of the mass market. By establishing Elite Licensing Company, a

Figure 1:



Source: Elite Model Management

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wholly owned subsidiary, the company developed a distribution strategy for products with the Elite brand name in order to provide the market with lifestyle products aiming at young women. These products include apparel such as sports and street wear but also lingerie and footwear, a broad range of accessories such as bags, sun-glasses or watches as well as cosmetics and franchises such as beauty salons or modeling schools.

Providing models for all requirements

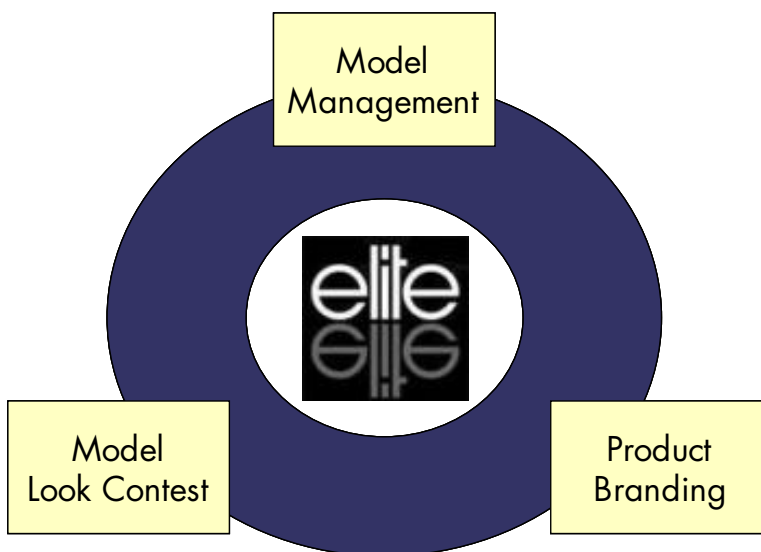
Today Elite operates a fully-integrated modeling platform with a strong international presence. The company offers its clients the whole range of models for any requirement such as Main Board, Catwalk, Catalogue, Celebrity, New Faces and Men. With its broad portfolio of approximately 800 models managed by wholly owned agencies in 9 European countries and franchises in 30 countries spread over the world Elite can identify the ideal model for virtually every event.

3. Business model of Elite Model Management

Perfect fit of model management, product licensing and the contest

As already stated, Elite Model Management is comprised of three different profit centres, which are model management, the "Elite Model Look Contest" and the product branding. While model management is the company's core business, all three business units go together. The model contest primarily serves as a source of new models for model management while simultaneously promoting the brand name. Product branding, on the other hand, is highly dependent on the increased brand awareness by the model management and the Model Look Contest.

Figure 2: "Go together" business units



Source: Independent Research

3.1 Model Management

Discovering prospective "stars"

Elite's core business and steadiest source of recurring revenue is the career development and management of models. The basic idea behind model management is the discovery of young talents and their development into "stars". This process usually starts with the scouting of young talents and integrating them into the Elite network. The respective model managers take an active role in the career development by training the models and giving advice on style. Because the models are often very young they serve as a mentor as well. Apart from that the core competency of the responsible model managers or bookers is getting appropriate jobs for the model, which also includes promoting and negotiating on the model's behalf. These jobs include all areas of professional modeling and the entertainment industry and range from catwalk contracts for fashion shows to main board, jobs for catalogues, commercial advertising, exhibitions, or photo shootings for magazines like Cosmopolitan, Elle, Marie Claire, Vogue, and many others. Accordingly, customers stem from all areas and include leading fashion houses such as Chanel, Dior, Yves Saint Laurent, or Victoria's Secret.

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Figure 3:

Selected customers/clients



Source: Elite Model Management

Gross margins in the modeling business vary between 33%-37% ...

Revenues are normally recognised by a negotiated commission/fee of up to 20% of compensation of the gross amount a model receives for a job. The commission usually depends on the reputation and recognition of the respective model. The more known a model is, the lower the negotiated commissions usually are, which means the share of the compensation the model earns for a job increases as does his or her fame. On the other hand, the absolute level of money a more famous model can earn is much higher which, in turn, provides the modeling agency with higher revenues as well. Additionally, the modeling agency receives a service charge of approximately 20% from the client. This means that gross margins, depending on the contract with client and model can reach up to 40% but usually vary between 33%-37%.

Another way of generating modeling agency revenues happens if Elite does not act as a principal, which means arranging a job with a model of its own roster, but rather as an agent by booking a model from another agency if e.g. a client demands a particular girl but wants to work with Elite. In these cases the commission negotiated for the model is usually shared between the two agencies. This applies to approximately 10%-15% of total revenues in the modeling business.

... but are dragged down by high overhead expenses

While gross margins of the modeling business are quite high, so are costs for providing the management services. Overhead expenses for staff and other operating expenses such consulting fees, legal, or office expenses almost compensate for the commissions received. Moreover, Elite invests money into the development of new talents, but never knows whether the respective model will ever earn money for the agency. All in all this results in quite low operating margins in the modeling business of approximately 3%-5%. Apart from that, revenue growth is strongly linked to the development of the advertising business, which has seen years with only moderate growth, particularly in Europe and North America (cf. chapter 4).

Source of stable revenues

We feel that modeling management is a source of relatively stable revenues and from a strategic point of view a decisive base with respect to the company's plan to increase licensing revenues and promoting the "Model Look Contest". Furthermore, modeling management is the "collecting pond" for new talents and serves as the know-how foundation for developing careers.

Globally known brand name is a competitive advantage

From our point of view, the big advantages of Elite in the model management business is that Elite is one of the most recognised brand names within the modeling industry. The brand name and a proven track record which stands for the expertise of experienced booking managers with the know-how for developing careers make Elite Model Management attractive for clients and models alike. Model in particular should feel more comfortable being part of one big network because it offers more opportunities to work everywhere and has better access to the different jobs appropriate for career development. The international presence with wholly-owned subsidiaries and affiliates guarantees a global sourcing of new talents. Furthermore, it makes Elite an excellent partner for international clients. With a current roster of approximately 800 models Elite can offer the complete range in terms of type of model wanted as well as distinct categories such catwalk or catalogue. We feel that a broad roster increases the likelihood for clients to find the appropriate faces than would be the case for a comparatively smaller agency. Moreover, we feel that the network operated by Elite is more flexible and sensitive to changes in customer needs and is more capable of managing "big deals" than smaller agencies with a regional or categorical focus.

Complete range of modelsNo more "supermodels" in the current roster

On the other hand we feel that Elite has lost some ground compared to other major agencies when it comes to supermodels. Even though times have changed and the supermodel era has come to an end as a result of the increase of the use of actresses or other well-known celebrities on the covers of fashion magazines and ad campaigns, there are still some more prominent characters left such as Laetitia Casta, Gisele Bundchen, Heidi Klum, Kate Moss or Tyra Banks. Apart from Alessandra Ambrosio, who is part of the Elite network, most other „famous“ models are under contract of competitors such as IMG (e.g. Heidi Klum, Giselle Bundchen, Kate Moss), DNA Models (e.g. Linda Evangelista, Adriana Lima, Karolina Kurkova) or 1 Model Management (e.g. Naomi Campbell, Claudia Schiffer). Apart from the fact that the modeling business has changed somewhat towards fewer girls earning less money, we would prefer more "global stars" in the portfolio of Elite. From our point of view it would make the agency more attractive for clients and the stars could also serve as "role models" for young talents.

Figure 4:

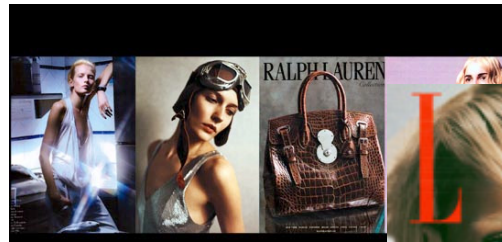
Selected models of current roster



Alessandra Ambrosio



Michaela H



Katia Kokoreva



Chiara B.



Emina Cunmulaj



Yfke Sturm



Sasha G.



Linda Vojtova

Source: Elite Model Management

3.2 Elite Model Look Contest

World's largest modeling competition

Launched in 1983 under the name "Look of the year" und today known as the "Elite Model Look Contest", Elite created the largest model scouting process in the industry. The contest has become one of the most prestigious springboards for talents into the modeling industry. Today the competition is held on a national or regional level in over 60 countries with more than 350,000 participants each year. During the event a jury of celebrities, top models and professionals in the modeling, fashion and advertising industry select their top picks in a media event consisting of runway instruction, photo shootings, etc. The national or regional winners advance to the next stage of the contest, which culminates in a final that has become a highlight in the fashion industry and attracts extensive media attention. The competition has brought up numerous supermodels like Giselle Bundchen, Alessandra Ambrosio, Cindy Crawford, Stephanie Seymour, Tatjana Patitz, and many other faces. Approximately half of the 60-70 contestants of the international finals become part of the Elite network. While only the winners of the regional and national finals advance to the finals, the local competitions still serve as a source in identifying other participants who have the potential of becoming a model.

Source of new faces

The Elite Model Look Contest is not a source of substantial revenue or earnings in its current form and in the past the aim has been to simply cover costs related to promoting the show. Still, it is the most important part of the Elite business model in terms of finding

Table 1:

Models discovered during the Elite Model Look Contest

Name	Year	Place
Julie de Gouy	2004	Finalist
Renata Ruiz	2001	1st Runner up
Linda Vojtova	2000	Winner
Yfke Sturm	1997	Winner
Anna Beatriz Barros	1996	1st Runner up
Sandra Wagner	1995	Winner
Irina Bondarenko	1995	1st Runner up
Gisele Bundchen	1994	Finalist
Ingrid Seynhaeve	1991	Winner
Natasha Henslridge	1989	1st Runner up
Karen Mulder	1986	1st Runner up
Elaine Irwin-Mellencamp	1986	Finalist
Frederique Van Der Wal	1985	Winner
Stephanie Seymour	1984	Finalist
Cindy Crawford	1984	Finalist

Source: Elite Model Management

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70% of Elite's models are discovered in the course of the event

new talents. According to company information, approximately 70% of the company's current roster was discovered through the competition. The current level of approximately 350,000 annual contestants provides a huge source of new models and prospective stars. Moreover, because the competition was launched in 1983, it has a proven track record and undoubtedly discovered many stars in the industry. The fact that about 70% of the company's roster stems from the competitions and/or the castings related to it is a clear competitive advantage from our point of view. Even though other agencies hold comparable competitions as well, they generally have a regional or national focus and attract nowhere near as many girls as the Elite Model Look Contest. Rather, they focus on auditions and open calls, a source that works for Elite as well.

No bottom-line income from the model contest yet...

The income of the model contests so far primarily consists of licensing fees from independent competition organizers as well as competition sponsorship. Apart from the fact that the contest mainly serves as a source of new models and of course as a means of increasing brand awareness, we see a good opportunity to raise income via an extended marketing of the TV rights, which are still owned by Elite Model Management. We feel the fact that the competition is well-known all over the world and has a long and successful track record make it attractive as television entertainment, particularly for the target audience of 14-30 year-olds, with huge cross-selling opportunities such as TV voting or ring tone or picture downloads. The attractiveness of this format has been proven, for example by the recent success of a similar TV show in Germany. "Germany's Next Top Model", hosted by Heidi Klum, is a German reality television show which pits contestants against each other in a variety of competitions in order to determine who will win a modeling contract. The show is based on the top-rated series "America's Next Top Model", which was created and co-produced by supermodel Tyra Banks. The reality show was a great success in Germany and had a market share of 23.9% with 3.19m viewers among the 14-49 years-olds in the final held in March 2006. For the more relevant 14-29 year-olds the market share was even 40.8% (source: www.quotenmeter.de). The great success in Germany, but also in the US (where the show is comparatively successful and already running in its 6th season) as well as other countries where the TV show format has been franchised (Australia, France, Russia, the U.K., Thailand, the Philippines, Sweden, Norway and Denmark) has proven that it is a marketable and scalable TV format. Therefore the sale of licensing rights would have a significant impact on revenues and income of Elite. The weak spot of the opportunity of selling the TV rights is in our view the fact that the "... Next Top Model" shows are already running in major markets. The success of this format thus puts pressure on TV producers and indirectly on Elite since the market potential of the show is limited - although room is left in many other countries. Another risk involved with the TV marketing is the very volatile demand for all kinds of TV shows. Being attractive in one year, a format might lose importance the following years or even seasons.

...might be changed by sale of TV licensing rights

However, we feel that a sale of the licensing rights for a TV show bears by far more opportunities than risks, particularly due to the fact that almost no costs are related to a show. Apart from that we think that extended media exposure would have a positive effect on the brand name with respect to the licensing opportunities but also in increasing awareness for Elite as a modeling agency.

Extended media exposure with positive effect on brand name

3.3 Product licensing

Whole range of fashion-related products

In 1998 Elite established the Elite Licensing Company as a wholly-owned subsidiary. The goal is to provide the mass market with products bearing the globally known brand name. These products include apparel such as street and sportswear, tights, lingerie, socks and footwear, the whole range of accessories such as bags, eyeglasses, watches, hair brushes and accessories or manicure and pedicure products, and of course typically used cosmetics such as skincare products, perfumes, lipsticks and countless other make-up products. Moreover, this also includes franchising opportunities like cafés, beauty salons or modeling schools branded with the Elite logo. The lifestyle products generally target young women and have a fashionable design with good quality at an affordable price.

Figure 5:

Selected licensing products



Co-developed products

The products are usually developed together with licensing partners, mainly from the consumer goods industry. The most important thing for Elite is to ensure that the branded products fit Elite's attractive and fashionable image and that the brand image is maintained consistently in appearance. The risks with giving licenses are rather low in our opinion as Elite is neither involved in physical production nor in the distribution.

Benefiting from the well-known brand name

The great advantage of product licensing is the fact that Elite can generate money from licensing fees from their well-known brand image without being exposed to the risks of physical production and distribution. Because revenues are normally earned on the basis

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High brand awareness

of a fixed percentage of the realized turnover or at a fixed minimum amount if higher, Elite will still be interested in the success of the product which, in turn, reduces the risk of wrong product decisions - although wrong decisions can not be ruled out completely in our opinion. On the other hand, only granting licenses reduces the extent to which Elite benefits from the value-added chain. But owing to the fact that Elite has neither expertise nor retail experience in terms of producing and distributing consumer products, we feel that granting licenses is the best way of exploiting the well-known brand name.

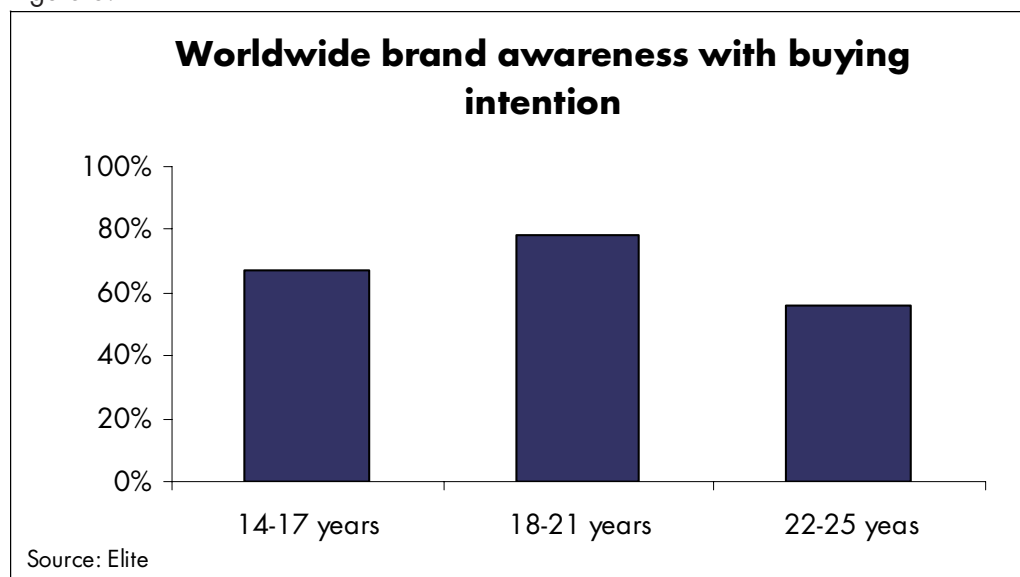
Product licensing has been driver of growth and earnings

So far the decision to develop a mass-market distribution strategy has proven correct. Elite has been able to increase licensing revenues over the past years and they were driver of growth (licensing revenues 2005: +35%; model management for comparison: +8%) and earnings in 2005 as well. The huge potential and growth prospects of the licensing business are particularly convincing if regional revenue distribution is taken into account. Approximately 80% of revenues stem from licensing in France, the remaining 20% largely come from other Western European countries. Because Elite is a globally-known brand name, this offers huge potential in the rest of the world as well, in our opinion, particularly Asia and the US market offer good prospects. On the other hand, Elite as a product brand name at retail level is not yet established on a global basis. Nevertheless, the fact that the strategy worked in France provides an indication of the generally good prospects in other countries as well.

Regional expansion with good prospects

The key success factor of further increases in revenues and income from licensing is significantly dependent on the brand name. According to company information, Elite has an unaided brand awareness of about 31% and even 67% on an aided basis across the target group of 14-25 year-olds. Based on this high recognition, the Elite name is very attractive for many products at the retail level. Everything fashionable could theoretically be associated with the Elite logo.

Figure 6:



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4. Market

Elite Model Management has only two real profit centres yet, namely model management and product licensing, in which it currently generates revenues and income; the model contest in its current form is more a door opener for the other two units, in our view. We have therefore limited our market considerations to these two areas:

Modeling industry strongly linked to advertising business

The modeling industry is strongly linked to the advertising business because models and celebrities are often used in advertising campaigns in magazines, outdoor locations (e.g. advertising columns or banners at bus stops), and on television.

Wide market for product licensing

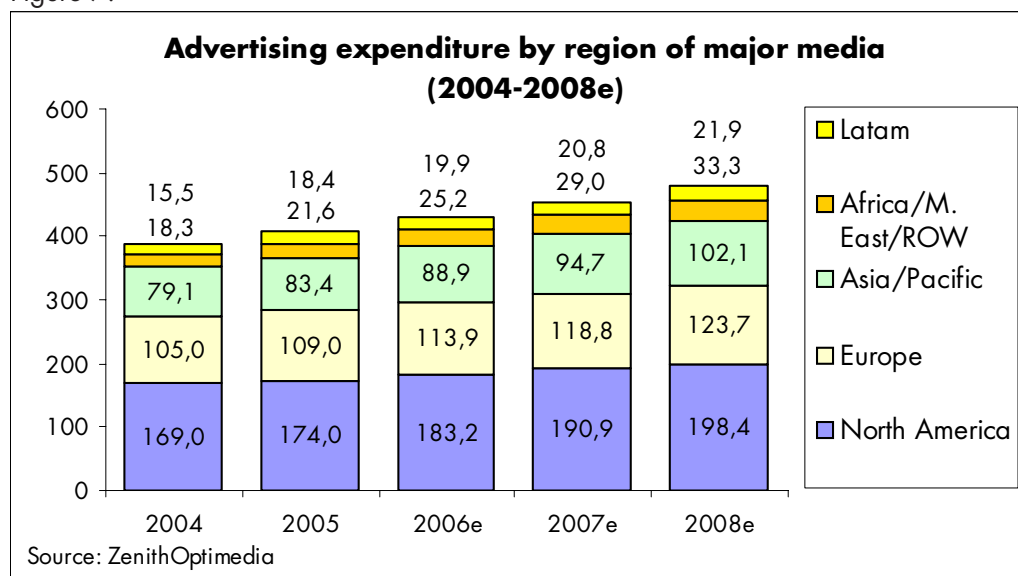
The relevant markets for licensing products are much more difficult to define, as probable products cover a wide range such as watches, cosmetics, and textiles. We feel that the luxury goods market should at least provide an indication on major developments. Moreover, it is very often manufacturers of luxury goods that promote their products and brands with celebrities and models. On the other hand, we feel Elite's licensing products have huge potential with respect to product and particularly regional (80% of current revenues stem from France) diversification.

4.1 Advertising market

North America most important advertising market

The global advertising markets have seen only moderate growth in recent years (+5% over the last ten years) but very distinct regional and structural developments. According to the marketing research company ZenithOptimedia, in 2005 USD406.5bn were spent on advertising on a global basis, which is a 5.1% increase over year-earlier levels (2004: USD386.7bn). The strongest growth was achieved in Latin America (+19.0%) and Africa/Middle East/Rest of the world (+18.3%), but both have only a minor share of the world market (5.3% and 4.5%, respectively). North America (+3.0% to USD174.0bn; share of market volume: 42.8%), Europe (+3.9% to USD109.0bn; share of market volume: 26.8%) and Asia/Pacific (+5.5% to USD83.4bn; share of market volume: 20.5%) remain the

Figure 7:

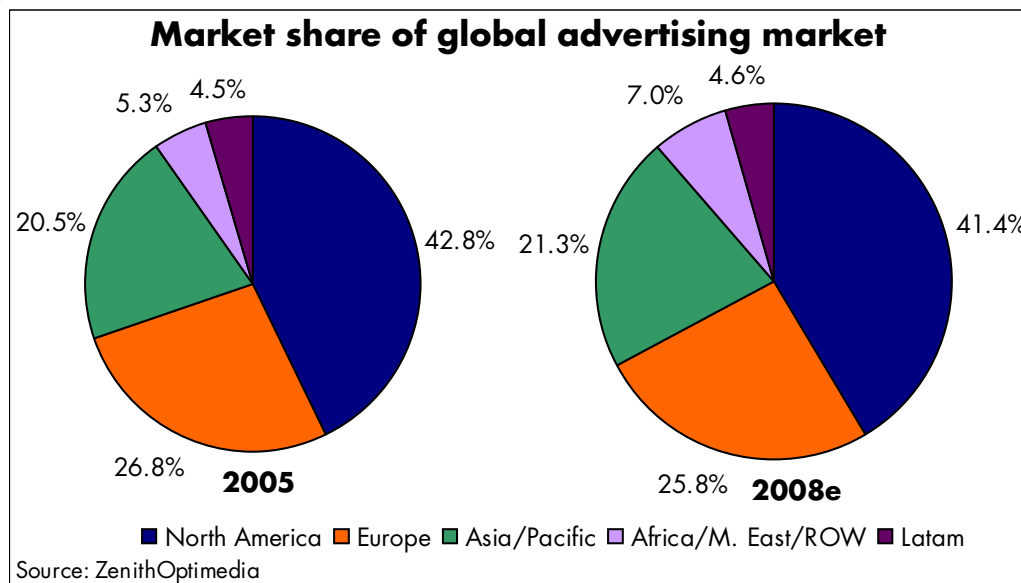


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Stronger growth in Asia

most important regions. Within the different regions there have been very distinct developments. While for example the German market only grew by 1.1% to EUR29.6bn (about USD36.7bn; 2006e: +2%; Source: Zentralverband der deutschen Werbewirtschaft (ZAW)) and thus was below European growth, the Chinese market has been showing strong increases of about 20% annually in recent years, to a volume in 2005 of USD18.7bn (Source: www.chinanews.com), which clearly surpasses Asian growth.

Figure 8:

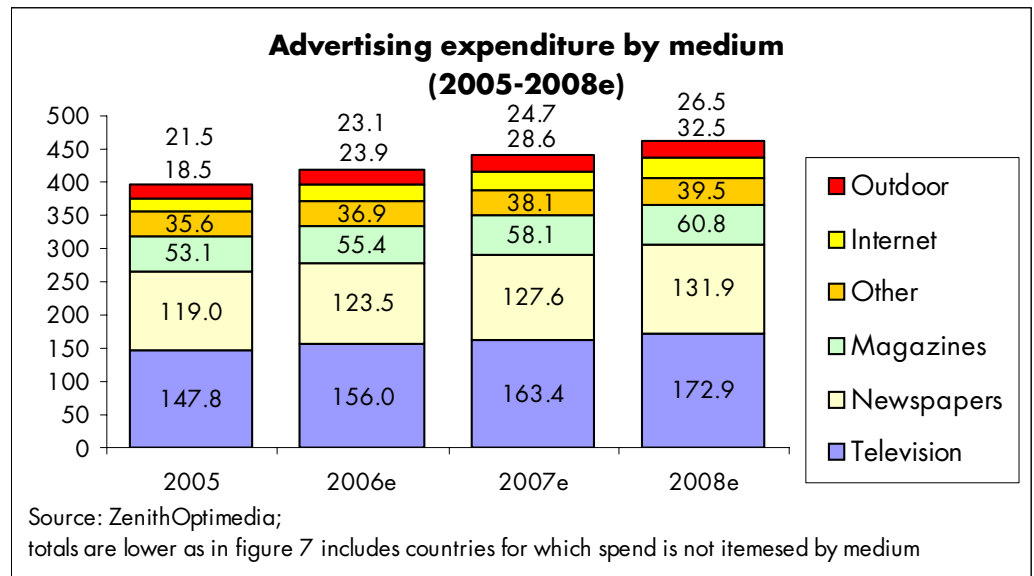


For upcoming years ZenithOptimedia predicts growth rates comparable to those of 2005. Global ad expenditure is to grow by 6.1% in 2006 with a recovery of growth in the US (+5.4%; North America: +5.3%) and in Europe (+4.4% vs. 3.9% in 2005). For 2007 ZenithOptimedia predicts global ad expenditure to grow by 5.3% and by 5.6% in 2008. Although growth is forecasted to be somewhat stronger in Asia/Pacific and Africa/Middle East/ROW, there are no significant structural changes within the regions, with the exception of the Asia/Pacific gaining slight importance.

Focusing on advertising expenditure (adspend), television (market share 2005: 37.4%) and newspapers (30.1%) remain the most important media (no growth rates for 2005 available) with the strongest growth predicted for internet advertising (CAGR 2005-2008e: 20.7%), which is to surpass outdoor advertisement volume in 2006e for the first time. From our point of view the most relevant media are magazines, outdoor, and to a lesser extent television. At USD53.1bn magazines had a share of 13.4% in 2005 as the third most important medium. Until 2008e annual average growth is to reach 4.6%, which is below the 5.5% for the total market. Outdoor adspend is to increase by 7.2%, while television is to gain 5.4% in terms of annual average growth from 2005-2008e.

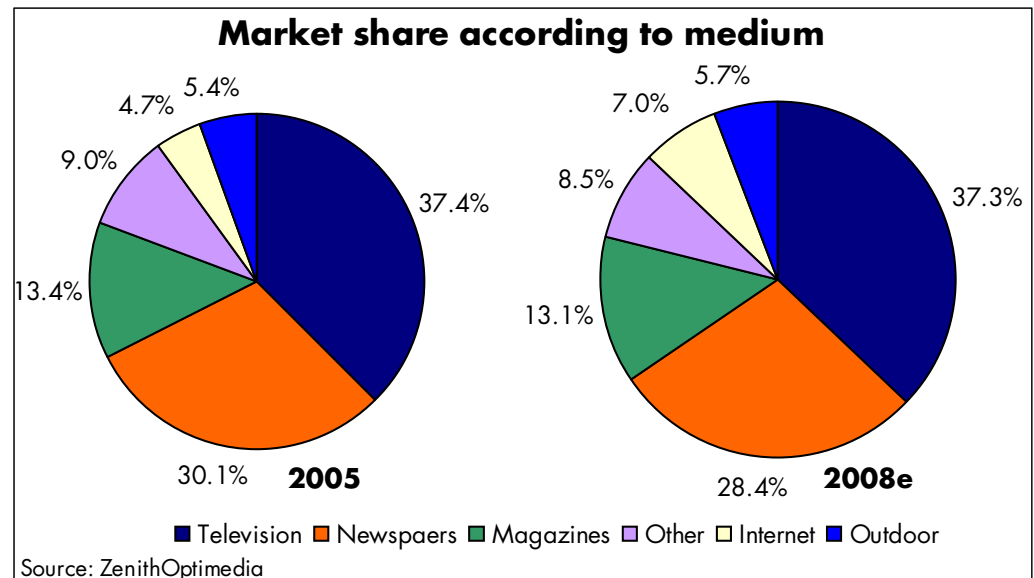
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Figure 9:



While regional development shows no major changes, growth and market share for adspend by medium show more significant changes. While advertising expenditure is to grow by between 3.5% (newspapers) and 7.2% (outdoor), Internet spending is going to clearly outpace the other media, which is the reason for slight loss of all other media and the rising importance of the Internet.

Figure 10:



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4.2 Market for licensing products

Market difficult to define

Apparently the global market for luxury goods is difficult to define, as often goods such as planes, yachts or houses are included as well. Accordingly, there is no research available on the „luxury goods market“ as it covers a huge spectrum of goods. Moreover, Elite’s licensing opportunities are limited to rather fashion-related products such as cosmetics, fashion and accessories and are due to their pricing not necessarily luxury goods in the sense of e.g. a EUR3,000 watch or a premium class car.

Market volume and growth difficult to define..

Studies of the luxury goods market vary greatly depending on the study and market segments included. According to a research report by Lehman Brothers, the luxury goods industry had a market volume in 2005 of EUR61.5bn and grew by 7.2% over the previous year, with strong growth from Asia. For the current year an increase of 8.4% is predicted by Lehman Brothers. Dresdner Bank on the other hand, estimates an annual volume of the luxury goods market of about USD170bn (approximately EUR130bn) and claims that demand is driven by Asia and Russia. Moreover, more than 70% of luxury goods are already sold outside Europe. A third study by Vontobel estimates total market volume of between USD120bn and USD150bn, adding that China’s current 12% share is going to increase to about 20% by 2008.

...therefore taking a look at relevant peers

Due to the huge variation of the above mentioned studies and the missing of predicted growth rates in conjunction with the consumer goods character of Elite’s licensing products, we consider forecasts of peer-group companies (c.f. chapter 7) to be more relevant for indicating possible growth and earnings opportunities for Elite.

On the other hand, most of the companies listed in the table on the next page are much larger in terms of sales volume and do have a longer company history with respect to fashion-related products. However, sales growth for 2005 reached 15.8% on an average basis with most companies being in a quite narrow range. Growth rates for 2006e of 12.2% and of 9.3% in 2007e are below that of 2005 but indicate that the industry is still growing at a solid pace.

Table 2:

Overview of peer-group companies										
Companies	Currency	Fiscal year	Sales (in millions)				Sales growth			
			2004	2005(e)	2006e	2007e	2004	2005(e)	2006e	2007e
Bijou Brigitte	EUR	Dec. 31	223.4	301.6	360.9	421.1	-	35.0%	19.6%	16.7%
Bulgari	EUR	Dec. 31	827.7	905.0	1,005.8	1,094.7	-	9.3%	11.1%	8.8%
Burberry	GBP	June 30	715.5	742.9	823.8	885.2	-	3.8%	10.9%	7.5%
Calida Holding	CHF	Dec. 31	126.9	163.9	200.8	210.2	-	29.2%	22.5%	4.7%
Christian Dior *	EUR	Dec. 31	13,060.0	14,556.0	15,699.6	16,838.9	-	11.5%	7.9%	7.3%
Compagnie Financiere Richemont	CHF	March 31	3,717.0	4,308.0	4,784.9	5,123.0	-	15.9%	11.1%	7.1%
Estée Lauder	USD	June 30	5,790.4	6,336.3	6,432.2	6,744.7	-	9.4%	1.5%	4.9%
Guess	USD	Dec. 31	729.3	936.1	1,121.8	1,271.3	-	28.4%	19.8%	13.3%
Hermes International	EUR	Dec. 31	1,427.4	1,331.4	1,526.1	1,654.0	-	-6.7%	14.6%	8.4%
Hugo Boss	EUR	Dec. 31	1,168.4	1,309.4	1,461.2	1,583.7	-	12.1%	11.6%	8.4%
IC Companys	DKK	June 30	2,612.2	2,819.4	3,130.8	3,541.4	-	7.9%	11.0%	13.1%
Inter Parfums	USD	Dec. 31	236.1	273.5	301.4	345.6	-	15.9%	10.2%	14.7%
Luxottica	EUR	Dec. 31	3,255.3	4,370.7	4,767.2	5,097.8	-	34.3%	9.1%	6.9%
LVMH	EUR	Dec. 31	12,481.0	13,910.0	15,133.7	16,310.1	-	11.4%	8.8%	7.8%
New Wave Group	SEK	Dec. 31	2,302.2	3,059.0	3,765.9	4,343.8	-	32.9%	23.1%	15.3%
Phillips-Van Heusen	USD	Jan. 31	1,641.4	1,908.9	1,991.7	2,078.7	-	16.3%	4.3%	4.4%
Stefanel	EUR	Dec. 31	237.1	267.4	309.5	345.2	-	12.8%	15.7%	11.6%
Valentino Fashion Group	EUR	Dec. 31	1,550.6	1,728.0	1,917.5	2,086.9	-	11.4%	11.0%	8.8%
Van de Velde	EUR	Dec. 31	101.7	111.9	121.8	130.2	-	10.0%	8.8%	6.9%
Average	-	-	-	-	-	-	-	15.8%	12.2%	9.3%

Companies	Operating profit/EBIT				Operating profit/EBIT-margin			
	2004	2005	2006e	2007e	2004	2005	2006e	2007e
Bijou Brigitte	73.5	112.1	129.8	150.6	32.9%	37.2%	36.0%	35.8%
Bulgari	134.2	142.8	162.0	185.9	16.2%	15.8%	16.1%	17.0%
Burberry	160.1	153.7	171.3	210.1	22.4%	20.7%	20.8%	23.7%
Calida Holding	6.0	8.5	16.2	19.5	4.7%	5.2%	8.1%	9.3%
Christian Dior Group *	2,413.0	2,791.0	3,250.0	3,675.4	18.5%	19.2%	20.7%	21.8%
Compagnie Financiere Richemont	505.0	713.0	878.7	988.0	13.6%	16.6%	18.4%	19.3%
Estée Lauder	644.0	720.6	690.0	761.1	11.1%	11.4%	10.7%	11.3%
Guess	55.5	101.8	152.5	178.2	7.6%	10.9%	13.6%	14.0%
Hermes International	357.1	383.5	414.6	461.1	25.0%	28.8%	27.2%	27.9%
Hugo Boss	135.3	163.8	184.5	205.3	11.6%	12.5%	12.6%	13.0%
IC Companys	-187.8	150.2	347.7	463.1	-7.2%	5.3%	11.1%	13.1%
Inter Parfums	32.5	31.4	34.3	41.1	13.8%	11.5%	11.4%	11.9%
Luxottica	492.8	602.6	761.1	873.6	15.1%	13.8%	16.0%	17.1%
LVMH	2,173.0	2,522.0	3,105.7	3,454.4	17.4%	18.1%	20.5%	21.2%
New Wave Group	262.4	295.7	398.4	488.8	11.4%	9.7%	10.6%	11.3%
Phillips-Van Heusen	129.1	206.9	238.0	266.8	7.9%	10.8%	11.9%	12.8%
Stefanel	11.7	23.7	18.7	21.2	4.9%	8.9%	6.0%	6.1%
Valentino Fashion Group	146.7	195.2	230.3	261.7	9.5%	11.3%	12.0%	12.5%
Van de Velde	31.1	35.7	38.2	40.7	30.6%	31.9%	31.3%	31.3%
Average	-	-	-	-	14.1%	15.8%	16.6%	17.4%

* figures include revenues and operating income of LVMH

Source: Bloomberg; IBES estimates

¹⁾²⁾³⁾⁴⁾ Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

5. Competition

Fragmented market without industry information

The market for modeling agencies is very fragmented and there is no industry data available. Moreover, it is even impossible to find a reliable number of modeling agencies in the world. Even though a few industry associations exist, e.g. N.A.M.A. - North American Modeling Association, IMTA - International Modeling and Talent Association or the German industry association VELMA, there is no general industry information available. Since there are neither governmental nor any other restrictions imposed on opening an agency, there exist virtually no market entry barriers.

Among the top modeling agencies

As the market is comprised only of privately-held companies, there is no information available on sales volume or any other relevant information on industry competitors. Most modeling agencies do not even provide figures on the number of models they represent. Apart from this lack of industry data, there are only a few modeling agencies that play in the same league as Elite does, from our point of view. Various homepages such as models.com or modelscouts.com do provide "ranking lists" on which the big players can always be found. Among the biggest US players are Wilhelmina, Ford, Next, MC2, IMG, Marilyn and probably a few others as well. Although most of these companies have a European division, they are better known in North America. In Europe, competitors like Storm, Models1 or Select have to be mentioned but, as in the US, a countless number of other agencies are in the business as well. There is no clear differentiation possible as most of them operate very similar divisions such as women, man, celebrities, etc. Some of them do have a broader range (e.g. Ford and Wilhelmina do have a children's section) but in general they manage models for all the available industry requirements and thus have to be considered as competitors. From our point of view, the biggest disadvantage is Elite's lack of representation in the U.S. In 2003 a number of models registered a complaint against several modeling agencies in New York (among others Ford Models and Wilhelmina Models) including Elite Model Management Corp NY, which at that time was a subsidiary of Elite Model Management SA Fribourg. In 2004 the New York office filed for Chapter 11 after lawsuits filed by former employees and models drained the agency of cash. Its assets, including Elite Los Angeles, Elite Miami, and other North American subsidiaries, were put up for sale and subsequently purchased by the investor Creative World Management for nearly USD8m. Even though the American ex-subsidiary is still operating and providing the same services as the Elite modeling agency and its subsidiaries under the same brand name/logo, there is neither a legal nor an operational nor a financial link between the two agencies. Particularly with respect to New York still being the # 1 city of the fashion industry in the world and the huge American advertising market, we feel that the lack of presence there is a competitive disadvantage. From our point of view it is therefore necessary that Elite establishes a branch in New York. This could be done by means of a takeover of another already operating agency or by opening a new own agency. However, the new branch would not be able to operate under the Elite name as the rights of the brand name and logo related to the modeling business are owned by Creative World Management. On the other hand, the rights Creative World Management owns, are purely for the modeling business. Therefore, there are no limits to product licensing in the attractive US market.

Loss of US subsidiaries and therefore missing US representation

6. Operative development and forecasts

The current holding company is traded on the Entry Standard of the Frankfurt Stock Exchange after a private placement on May 15, 2006. Due to the private placement there is no IPO prospectus therefore there is only limited access to financial information regarding past development.

No more exceptional charges related to the complaint

As already explained, in 2003 a number of models registered a complaint against several modeling agencies in New York, including Elite Model Management Corp NY, which at that time was a subsidiary of Elite Model Management SA Fribourg. In 2004 the New York office filed for Chapter 11 after lawsuits filed by former employees and models drained the agency of cash. After that the plaintiffs took legal action against the parent company. Elite Model Management SA Fribourg proposed a settlement through the payment of a lump sum in order to terminate all current and future legal procedures. By now the final agreement has been signed by the parties and has been approved by the American Court of Justice for an amount of USD1.4m (approximately EUR1.2m). After an initial payment during 2005, a provision had been made for the balance which has become payable in 2006. Therefore the income statements for 2005 and 2004 contain exceptional charges related to the class action suit, whereas no further amounts will be payable in relation to this litigation.

After years of losses burdened by the exceptional charges in connection with the litigation proceeds in the US and the subsequent liquidation of the US subsidiary, Elite Model Management was able to post a positive net result despite further exceptional charges in 2005 (EUR1.029m (2004: EUR1.410m)).

Revenues driven by product licensing

Total revenues in 2005 increased by 10.7% to EUR29.830m (EUR26.940m) and were driven mainly by the strong increase in licensing revenues (+34.9% to EUR3.298m) but also by a solid increase in model fee revenues (+8.3% to EUR26.532m). Due to a

Table 3:

Elite Model Management Lux. S.A. Profit and loss account 2004* and 2005

Unit: EURm Fiscal year: December 31 Accounting standard: Luxembourg GAAP	2004*	2005
Total revenues	26.940	29.830
YoY-growth		10.7%
Gross margin	8.920	11.151
As percentage of revenue	33.1%	37.4%
EBITDA	1.104	2.829
EBIT before exceptional charges	0.374	2.133
Exceptional charges	1.406	1.029
EBIT after exceptional charges	-1.032	1.104
Net profit/loss after minority interest	-1.347	0.932

* unaudited

Source: Elite Model Mangement

¹⁾²⁾³⁾⁴⁾ Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

Boost in operating income

disproportionate increase in model fees and commission expenses (+3.7% to EUR18.679m) Elite was able to significantly extend its gross margin to EUR11.151m (8.920m) or 37% (33%). Overhead expenses increased by 6.5% to EUR8.323m (EUR7.816m), which resulted in a significant boost to EBITDA (EUR2.829m (EUR1.104m)) and EBIT before exceptional items (EUR2.133m (0.374m)). Exceptional items in 2005 amounted to (EUR1.029m (2004: EUR1.410m)); accordingly, EBIT after exceptional items reached EUR1.104m (EUR1.032m)). After taxes and minority interests net profit in 2005 reached EUR0.932 after a net loss of EUR-1.347m in 2004.

Our forecasts for 2006e and 2007e are based on the market data for the advertising market for the modeling agency business and related to relevant peer-group companies of luxury and fashion brands with licensing revenues at their ramp-up stage for our licensing revenues forecasts. Moreover, we have made assumptions for the sale of the worldwide TV licensing rights, with first revenues and income in 2007e.

Solid growth for modeling business predicted

Our forecast for the 2006e modeling agencies provides for an increase of model fees revenue of 3.9% to EUR27.567m, which is even below the predicted market growth of 6.1% of global adspend due to a higher share of revenues generated in the European business. For 2007e we expect an increase of 3.7% to EUR28.587m.

Taking a look at peers with licensing revenues as well

As already mentioned, our assumptions for licensing revenues are based on the past development of licensing revenues of companies with a comparable brand image and based on the projected growth rates of the companies mentioned in chapter 5. There was no data available on companies at a comparable ramp-up stage. We have therefore focused on Burberry and Phillips-Van Heusen, which are both part of our peer-group and grant licenses to consumer goods producers like Elite does. Although information given on revenue development and margins of the companies cannot be completely transferred to the opportunities of Elite licensing, they provide solid indication from our point of view.

British Burberry group, an international luxury apparel and accessories brand, has been giving licenses, particularly for fragrances, eyewear, timepieces and children's apparel mainly in Asian markets (70% of current licensing income stems from Japan) for several years. Although current overall volume (GBP81.1m corresponding to about 11% of total sales volume in 2005/06) is much higher and therefore difficult to compare with our forecasts for Elite, the historic development has shown impressive growth at continually high operating margins. Starting with GBP30.8m (UK GAAP) in the 1999/2000 fiscal year (previous data not available) and thus already at a high level, license revenues have increased to GBP81.1 (IFRS) in the past fiscal year 2005/06. This corresponds to a CAGR for the same period of time of 17.5% with significant growth in the first year (+48% also due to consolidation effects). Moreover, the operating margins of the licensing business are very high and even improved over the time period. The operating margin of the 1999/2000 business year reached 81.5% and even increased at 85.6% until 2005/06, being quite stable over the years.

¹⁾²⁾³⁾⁴⁾ **Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document**

The other example we have chosen and which we consider to be comparable with Elite is Phillips-Van Heusen. Phillips-Van Heusen Corporation is one of the world's largest apparel companies. It owns and markets the Calvin Klein brand worldwide. It is the world's largest shirt company and markets a variety of goods under its own brands, Van Heusen, Calvin Klein, IZOD, etc., and owns licensed brands such as Geoffrey Beene, Kenneth Cole New York, Kenneth Cole Reaction, etc. As for Burberry there is no data available on historic licensing revenue development. But the current figures show that there is high growth potential for licensing revenues even at an already high level of revenues. In 2003 Phillips-Van Heusen acquired the Calvin Klein company and was able to increase revenues and operating income of an already established brand name. Consolidated for the first time in 2003, royalties and other revenues from Calvin Klein represented USD149.8m, which corresponds to 8.2% of the company's total revenues. In the following two years Phillips-Van Heusen was able to increase corresponding revenues to USD160.5m (+7.2%) in 2004 and USD179.7m (+12%) in 2005. Although operating margins aren't as high as Burberry licensing, with 34.3% (adjusted for integration costs) in 2003, 39.4% in 2004 and 41.6% in 2005, they still reach an attractive level.

Conservative assumptions with respect to huge potential

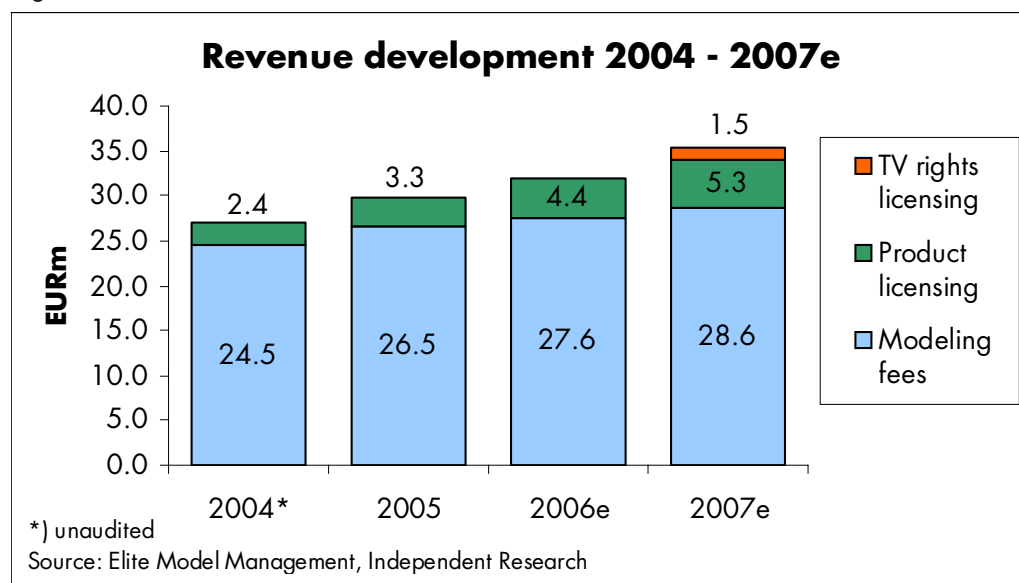
Based on our assumptions we have made conservative forecasts for product licensing revenue development. For 2006e we assume an increase of 32% to EUR4.353m, which is below the previous year's growth rate of 34.8%. For 2007e we forecast product licensing revenues of EUR5.310m, which corresponds to a significantly lower growth rate of 22%. We feel that there is room for higher growth rates, particularly with respect to the current sales portion of approximately 80% of revenues earned in France and thus the prospects of regional sales diversification as well as a diversification via the extension of the product range, but we are sticking by our more conservative assumptions.

Inclusion of proceeds for the sale of TV licensing rights

For 2007e we have included gross proceeds of EUR1.5m for the sale of the worldwide TV licensing rights. Due to lack of data of prices for full buyouts of TV shows with a comparable format such as "... Next Top Model" or "Pop Idol" it is difficult to verify a reliable price. According to management information a sum of EUR2m has already been offered for the worldwide TV licensing rights. We feel that this is a high price but justified with respect to the well-known brand name of Elite, the recent successes of comparable reality shows, and the proven track record of the contest in the past. Related to the proceeds we have also included costs of EURO.1m based on possible start-up costs such as manpower needed for developing the show and legal expenses for handling the transfer of rights, etc. Even though assumed proceeds of EUR1.5m for 2007e are already quite high, we feel that there is a good chance that this figure could increase in the following years even further. Once the show has been fully developed by a prospective buyer the scalable format as well as the opportunity of global broadcasting leave room for even higher proceeds.

Consolidating our forecasts to group level, we predict revenue growth of 7.0% (10.7%) to EUR31.920 (29.830) for 2006e, mainly driven by product licensing revenues (+32.0% to EUR4.353m), while revenues from modeling fees are expected to increase by 3.9% to EUR27.567m. For 2007e we forecast EUR35.3m of total revenues corresponding to an increase of 10.9%. Excluding the sale of the TV licensing rights our revenue forecast calls for EUR33.897m, which would be 6.2% higher than the 2006e level.

Figure 11:



Gross margin is expected to increase to 39.4% (37.4%) in 2006 based on the higher growth of the higher-margin licensing revenues and to 44.1% in 2007e, including the sale of the TV licensing rights. Excluding TV licensing rights, gross margin would reach 41.9% based on our forecasts.

At disproportional growing overhead expenses, we expect EBIT for 2007e and 2007e to increase to EUR3.071m and EUR5.678m, respectively. This corresponds to EBIT margins of 9.6% in 2006e and 16.0% in 2007e. Excluding the sale of the TV rights, EBIT would reach EUR4.313 or a margin of 12.7%. These forecasts are still significantly below the margins of our peer-group companies of 16.6% for 2006e and 17.4% for 2007e mainly due to the high share of the low-margin modeling business.

Our net profit forecasts including the sale of the TV licensing rights call for EUR2.652m or EPS of EURO.13 for 2006e and EUR4.917m or EPS of EURO.25 for 2007e.

Table 4:

Elite Model Management Lux. S.A.
Profit and loss account

Unit: EURm Fiscal year: December 31 Accounting standard: Luxembourg GAAP	2004*	2005	2006e	2007e
Total revenues	26.940	29.830	31.920	35.397
YoY-growth		10.7%	7.0%	10.9%
Model fees revenue	24.495	26.532	27.567	28.587
YoY-growth		8.3%	3.9%	3.7%
Product licensing revenues	2.445	3.298	4.353	5.310
YoY-growth		34.9%	32.0%	22.0%
Revenues from sale of TV licensing rights		-	-	1.500
YoY-growth		-	-	-
Model fees and commissions	18.020	18.679	19.351	19.699
YoY-growth		3.7%	3.6%	1.8%
As percentage of revenue	66.9%	62.6%	60.6%	55.7%
Costs related to sale of TV licensing rights			-	0.100
Gross margin	8.920	11.151	12.569	15.598
As percentage of revenue	33.1%	37.4%	39.4%	44.1%
Overhead expenses	7.816	8.323	8.764	9.105
YoY-growth		6.5%	5.3%	3.9%
As percentage of revenue	29.0%	27.9%	27.5%	25.7%
EBITDA	1.104	2.829	3.805	6.493
As percentage of revenue	4.1%	9.5%	11.9%	18.3%
Depreciation & Amortisation	0.730	0.696	0.734	0.814
As percentage of revenue	2.7%	2.3%	2.3%	2.3%
EBIT before exceptional charges	0.374	2.133	3.071	5.678
As percentage of revenue	1.4%	7.1%	9.6%	16.0%
Exceptional charges	1.406	1.029	0.000	0.000
EBIT after exceptional charges	-1.032	1.104	3.071	5.678
As percentage of revenue	-3.8%	3.7%	9.6%	16.0%
Financial result	-0.028	-0.022	-0.025	-0.025
EBT	-1.060	1.081	3.046	5.653
As percentage of revenue	-3.9%	3.6%	9.5%	16.0%
Taxes	0.251	0.126	0.366	0.707
As percentage of EBT	-23.6%	11.7%	12.0%	12.5%
Net profit/loss before minority interest	-1.311	0.955	2.680	4.947
As percentage of revenue	-4.9%	3.2%	8.4%	14.0%
Minority interest	-0.036	-0.024	-0.028	-0.030
Net profit/loss after minority interest	-1.347	0.932	2.652	4.917
As percentage of revenue	-5.0%	3.1%	8.3%	13.9%
Number of shares	-	-	19,881	19,881
Earnings per share	-	-	0.13	0.25

* unaudited

Source: Elite Model Management; Independent Research

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7. Valuation

Peer-group analysis

Two different peer-groups:

For our valuation of the Elite share we have used a peer-group comparison. As Elite's business model comprises of two business units in which the company currently generates revenues and income we have used two different peer-groups for our valuation.

The first with advertising agencies

Our first peer-group contains major advertising agencies as the model management is strongly linked to the advertising business. For our valuation we have used the multiples EV/Sales, EV/EBIT and P/E ratio which are equally weighted.

Table 5:

Peer-Group: Advertising agencies						
Companies	EV/ Sales		EV/ EBIT		P/E ratio	
	2006e	2007e	2006e	2007e	2006e	2007e
Aegis	1.6	1.5	12.1	11.0	18.4	16.6
Havas	1.3	1.3	11.4	10.0	19.0	15.8
Huntsworth	1.6	1.5	4.4	4.1	12.8	11.8
Interpublic	0.7	0.7	22.3	9.6	-	-
JC Decaux	2.6	2.5	14.8	13.5	21.0	19.0
Omnicom	1.5	1.4	11.9	11.0	17.6	15.8
WPP	1.5	1.4	10.7	9.9	15.3	13.8
Average	1.5	1.5	12.5	9.9	17.4	15.5
Median	1.5	1.4	11.9	10.0	18.0	15.8
Elite Model Management	1.9	1.7	19.7	10.7	24.4	13.1

Source: Own estimates; IBES estimates

The table above shows that Elite is significantly overvalued in peer-group comparison in 2006e but shows upside potential based on the 2007e estimates. This is of course due to the additional value the sale of the TV licensing rights would cause and thus at the same time shows the risk involved with a possible successful deal.

The second with manufacturers of fashion-related consumer goods

Our second peer-group contains the companies already mentioned in chapter 4 concerning the market. As for the advertising agencies we have used the same multiples for comparable peers with respect to product licensing revenues. The peers are mostly well-known companies within the consumer goods and luxury market that largely market comparable products.

Table 6:

Peer-Group: Brand licensing companies						
Companies	EV/ Sales		EV/ EBIT		P/E ratio	
	2006e	2007e	2006e	2007e	2006e	2007e
Bijou Brigitte	4.4	3.8	13.5	11.6	20.3	17.5
Bulgari	2.9	2.7	18.7	16.3	21.6	18.7
Burberry	2.5	2.4	12.0	9.8	18.1	15.0
Calida Holding	0.9	0.9	10.6	9.4	15.1	13.2
Christian Dior	1.8	1.7	7.8	6.9	17.4	15.2
Compagnie Financiere Richemont	4.3	4.0	21.0	18.7	15.8	14.6
Estée Lauder	1.3	1.2	15.0	12.5	19.9	17.9
Guess	1.7	1.5	21.2	17.7	22.9	19.6
Hermes International	4.3	4.0	17.0	15.3	26.1	23.3
Hugo Boss	1.7	1.5	13.7	12.3	19.1	16.8
IC Companys	2.1	1.9	15.6	11.7	24.7	18.2
Inter Parfums	1.6	1.4	10.6	9.3	19.0	16.7
Luxottica	2.4	2.2	15.6	13.6	21.6	19.0
LVMH	1.6	1.5	13.2	11.7	20.4	18.1
New Wave Group	1.8	1.5	19.6	15.6	19.6	15.6
Phillips-Van Heusen	1.1	1.0	10.0	9.5	14.6	12.9
Stefanel	1.0	0.9	16.8	14.8	17.0	14.1
Valentino Fashion Group	1.2	1.1	9.1	8.0	19.0	16.2
Van de Velde	3.5	3.3	9.9	9.3	16.4	15.2
Average	2.6	2.4	16.9	14.6	23.0	14.1
Median	1.8	1.5	13.7	11.7	19.1	16.7
Elite Model Management	1.9	1.7	19.7	10.7	24.4	13.1

Source: Own estimates; IBES estimates

Comparing the multiples of relevant peers shows a similar picture as the comparison between Elite and advertising agencies. Considering 2006e forecasts the Elite share based on our forecasts is overvalued except for the EV/Sales multiple but shows again moderate upside potential when it comes to 2007e forecasts. This underpins again the significant effect the sale of TV rights would have.

Table 7:

Overall peer-group comparison			
	EV/ Sales 2007e	EV/ EBIT 2007e	P/E ratio 2007e
Peer-group average: advertising agencies	1.5	9.9	15.5
Peer-group average: product licensing	2.4	14.6	14.1
Peer-group average	1.9	12.2	14.8
		2007e	
	Sales	EBIT	EPS
Elite Model Management	35.397	5.678	0.25
Fair enterprise value	68.6	69.5	
Cash/liquid funds	4.0	4.0	
Fair market capitalisation	72.6	73.6	
Number of shares (m)	19.881	19.881	
Fair value per share per each multiplier (EUR)	3.65	3.70	3.66
Fair value per share (EUR)	3.67		

Source: Independent Resarch

Fair value of EUR3.67

For our overall valuation we have calculated the average multiples of both peer-groups equally weighted. For deriving our fair value we have only focused on the 2007e estimates as more than half of the year is already over and at this state of the year investors tend to favour 2007e forecasts. Based on our premises we have derived a fair value of EUR3.67, which is slightly above the current share price.

Fair value strongly influenced by sale of TV licensing rights

However, we want to point out again the high risk is involved regarding the inclusion of additional licensing revenues in 2007 for the sale of the international TV rights. Although we likely consider them to occur and we feel we have assumed comparatively low proceeds, it can not be ruled out that the sale fails, which in result would lead to a clearly lower fair value per share.

Price target: EUR3.70
Recommendation: Buy

Despite the high risk involved with the sale of the TV rights our price target is EUR3.70. Our initial recommendation is Accumulate.

8. Conclusion

Major player in the modeling industry

Elite Model Management is one of world's most famous modeling agencies and has been a major player in the industry for more than 30 years. Elite core competency is the management of models. Moreover, the company is benefiting from its globally known brand name by granting licenses to consumer goods producer that provide the market with fashion-related products wearing the Elite logo. Additionally, Elite is the organiser of the world's largest model competition that has been created in 1983. With more than 350,000 annual participants the contest serves as the main source of new faces for Elite.

Perfect fit of the three "business units"

While model management, product licensing and the model contest are operated independently, the three different divisions only go together and are comparable to the word "triple play" often used in the telecommunications industry. The model contest primarily serves as a source of new models for model management while simultaneously promoting the brand name. Product branding on the other hand is very much depending on the increased brand awareness by the model management and the model contest.

Huge growth opportunities of extended product licensing

Model management is a source of steady and recurring revenues but is only contributing a minor portion to income. An increased differentiation of product licensing by extending the product range and particularly the regional expansion is one of the key success factors for increasing revenues and earnings significantly. The well-known brand name and product licensing so far limited mainly to France leave a lot of room for sustainable growth in our opinion. Elite is the owner of the licensing rights to the "Elite Model Look Contest". A possible sale of the TV licensing rights would significantly raise revenues and earnings for Elite at comparatively low cost. Moreover, a TV broadcasting would clearly increase Elite's brand awareness and thus serve as an additional trigger for product licensing.

Trigger: sale of TV rights to the model contest

We have based our valuation on two peer-groups. The first contains major advertising agencies as the model management business is highly correlated with the advertising business. The second peer-group aims at the company's product licensing and contains luxury goods and consumer goods producer mainly from the fashion and luxury goods industry. Based on our premises we have derived a fair value of EUR3.67. Nevertheless, the fair value of the share is strongly linked to the possible sale of the TV licensing rights that we have assumed for 2007e. A failure of the sale would significantly lower the fair value. At a price target of EUR3.70 our recommendation is Accumulate.

At a price target of EUR3.70 we recommend to Accumulate

Disclaimer

Recommendation shares - Single Issuer -:

Buy:	According to our assessment, the stock should register an absolute profit of at least 15% within a 6-month period.
Accumulate:	According to our assessment, the stock should register an absolute profit between 0% and 15% within a 6-month period.
Reduce:	According to our assessment, the stock should register an absolute loss between 0% and 15% within a 6-month period.
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