

Date **07/18/2012**

Buy

PT: € 0.90 Initial-Coverage

Changes

	2012E		2013E	
	New	Delta	New	Delta
Sales	11.50	-	12.71	-
EBIT	0.35	-	0.51	-
EPS	0.04	-	0.06	-
EPS*	0.04	-	0.06	-
DPS	0.00	-	0.00	-

*clean

Homepage: www.designhotels.com

Sector: Tourism and Leisure

ISIN: DE0005141006

Bloomberg: LBA:GR

Reuters: LBAG.DE

Price (07/17/2012): € 0.77

Market capitalisation: € 6.9 million

Enterprise Value: € 3.4 million

Ø-Volume (100 days): € 506

52W High: € 0.96

52W Low: € 0.51

Free float: 32.0%

Financial calendar

08/01/2012 H1 2012

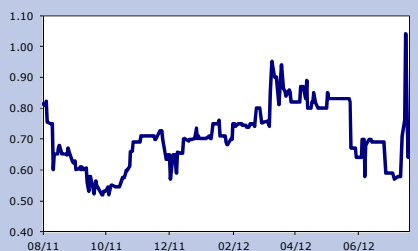
Shareholder structure (Date: 06/2012)

Starwood Hotels & Resorts 49.8%

Management 12.9%

Oliver Schmidt 5.2%

Price Trend



Source: OnVista

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Design Hotels AG

Growth in two dimensions

Over the next few years, Design Hotels will selectively gain new member hotels and offer existing customers additional services in order to sustainably increase sales proceeds per hotel customer. The company is investing in the expansion of its own websites and enhanced IT systems integration. By expanding its range of services, Design Hotels will not only compensate for the commission margins, which are currently under pressure, but will also open up additional growth opportunities for the company. In particular due to increasing booking volumes (10% to 20% p.a.), we anticipate double-digit sales growth in the medium term. The growing portfolio of member hotels (10% net p.a.), will result in scaling effects, which will enable sustainable operating margins of up to 10%. 2012/13 will still be burdened by growth investments. With EV/sales of nearly 0.3 in 2012, we believe that the company's shares are valued too low.

Investment Highlights

- The growth potential has not yet been exhausted through the acquisition of further member hotels. Less than half of the 500 suitable hotels worldwide have joined as members. At the same time, we anticipate strong growth in the boutique hotel sector. Due to the increased IT system integration, Design Hotels will be able to participate more in the overall success of the highest-selling member hotels in the future. As a result, commission proceeds could increase by 10% to 15% per annum. In 2011, the Group's sales increased by 11% to €10.36 million. The result was lower compared to the previous year due to increased personnel and travel expenses and growth investments.
- The connection to Design Hotels' central reservation system offered to hotels is an important element for customer retention and future growth. As a result, room availability and prices are automatically entered into all distribution channels. In turn, Design Hotels can access the entire capacity of the highest-selling member hotels. In combination with the expansion of the service portfolio, we consider it to be more than possible to compensate for the falling commission margins.
- Further investment is planned for 2012 and 2013. The company's own websites will be made more attractive for end customers through targeted marketing campaigns, which will also aim to increase the visibility of the Design Hotels™ brand in the B2C sector.
- The company's management anticipates increasing sales in the double-digit percentage range in 2012 and 2013. With disproportionately low personnel cost development over the next few years, we expect margins to improve gradually.

Key Figures

	Sales	adj. net	adj. EPS	P/E ratio	EV/ Sales	EV/ EBIT	EBIT margin	ROE (%)
2010	9.4	0.1	0.01	65.3	0.51	13.18	3.9%	2.5%
2011	10.4	0.7	0.07	11.5	0.39	26.96	1.4%	12.5%
2012e	11.5	0.4	0.04	19.6	0.29	9.76	3.0%	6.2%
2013e	12.7	0.5	0.06	13.6	0.27	6.62	4.0%	8.3%
2014e	14.0	0.7	0.08	10.0	0.24	4.82	5.0%	10.2%

Source: Company information / Vara Research GmbH

Company Profile

Design Hotels, headquartered in Berlin, markets a selective range of more than 230 owner-managed hotels and small hotel groups based in over 40 countries. Design Hotels offers integrated services to these companies in the new luxury segment, such as design, positioning, marketing, sales and measures to improve sales. Design Hotel provides sophisticated end groups with access to its portfolio of boutique hotels on a shared reservation platform, and also conducts marketing and communication activities. The brand Design Hotels™ and the internet portal www.designhotels.com play a central role in marketing.

Corporate Information

Year of foundation	1993
IPO	10.12.1999
Admission segment	m: access
Index membership	none
Financial year	1.1. - 31.12
Reporting	semi-annually
Share buy-backs	no
IR Contact	Claus Sendlinger
Management Board	Claus Sendlinger
Contract term of CEO	30.06.2015
Supervisory Board	Dr. Holger Peres (Chair), Oliver Bonke, Adam Diamond, Daniel Ruff, Roeland Vos, Axel Weber

Profit and Loss Calculation

(in € millions)	2010	2011	2012	2013	2014
Sales	9.4	10.4	11.5	12.7	14.0
Gross profit	6.9	7.3	8.2	9.2	10.2
EBITDA	0.6	0.4	0.6	0.8	1.0
EBIT	0.4	0.1	0.3	0.5	0.7
Pre-tax result	0.4	0.2	0.4	0.5	0.7
Annual excess	0.1	0.7	0.4	0.5	0.7
Adjusted net income	0.1	0.7	0.4	0.5	0.7
EPS (in €)	0.01	0.07	0.04	0.06	0.08
Adjusted EPS (in €)	0.01	0.07	0.04	0.06	0.08
DPS (in €)	0.0	0.0	0.0	0.0	0.0

Source: Design Hotels AG / Vara Research GmbH

Balance sheet

(in € millions)	2010	2011	2012	2013	2014
Intangible assets	0.3	0.2	0.2	0.2	0.2
Receivables and inventories	2.1	2.9	3.4	3.7	4.1
Cash and securities	3.3	3.5	3.4	3.6	4.0
Total assets	7.0	8.3	8.8	9.5	10.4
Shareholders' equity	4.9	5.6	5.9	6.4	7.1
Reserves	0.5	1.0	1.1	1.1	1.1
Interest-bearing VB	0.0	0.0	0.0	0.0	0.0
Non-interest-bearing VB	1.6	1.1	1.3	1.4	1.5
Total liabilities	7.0	8.3	8.8	9.5	10.4

Source: Design Hotels AG / Vara Research GmbH

Key figures

	2010	2011	2012	2013	2014
EV/sales	0.51	0.39	0.29	0.27	0.24
EV/EBITDA	7.65	9.02	5.85	4.42	3.44
EV/EBIT	13.18	26.96	9.76	6.62	4.82
P/E adjusted	65.33	11.54	19.55	13.58	9.98
PCPS	16.72	6.06	11.26	8.70	6.88
Price / book value	1.64	1.36	1.17	1.08	0.97
Dividend yields (in %)	0.00	0.00	0.00	0.00	0.00
Gross margin (in %)	73.5	68.2	71.3	72.3	73.3
EBITDA margin (in %)	6.7	4.3	5.0	6.0	7.0
EBIT margin (in %)	3.9	1.4	3.0	4.0	5.0
Net margin (in %)	1.3	6.3	3.1	4.0	4.9
ROE in %	2.5	12.5	6.2	8.3	10.2
ROCE (in %)	11.9	4.2	7.5	9.9	12.6
Sales / employee (in thousand €)	133.7	138.2	147.5	155.0	170.5
Net result / employee (in thousand €)	1.8	8.7	4.5	6.2	8.4
Equity-to-assets ratio (in %)	70.4	67.1	66.8	67.4	68.5

Source: Design Hotels AG / Vara Research GmbH

Accounting in accordance with HGB and quoted in m:access

Management expects double-digit growth in 2012 and 2013

The sales threshold of €10 million was exceeded for the first time in 2011

Double-digit growth needed to enter the scaling phase

Valuation

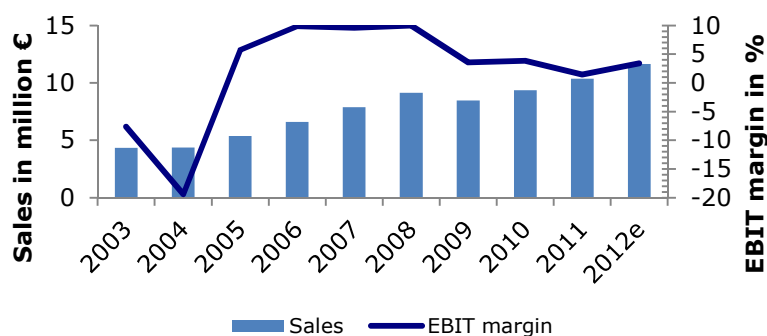
Profit and Loss Calculation

Design Hotels AG draws up its balance sheets in accordance with the HGB (German Commercial Code) and prepares a report every six months as a company quoted in m:access. The financial year ends on 31 December. The profit and loss calculation is prepared according to the total cost accounting procedure.

Design Hotels anticipates double digit growth rates in its guidance for 2012 and 2013. The growing global travel and tourism sector and an increasing number of member hotels will support the growth of Design Hotels. Following the restraint shown during the recent crisis and the ongoing Euro crisis, management believes that hotels are now increasing their marketing investments.

In the financial year 2011, sales revenue increased by 11% to €10.36 million. All three divisions contributed to this positive development. During this period the marketing and consulting services increased the most significantly, by 27% to €2.82 million. Design Hotels benefited from the increasing marketing budgets of the member hotels and the expanded range of high-quality marketing services. Booking fees increased by 5%, whereby higher booking volumes were partially offset by lower average commission rates. Commission rates remain under pressure due to increased bookings directly through hotel websites and online portals. Increased personnel costs due to a higher number of staff, additional travel activities and costs and the planned growth investments were reflected in the 2011 results, leading to a lower EBIT (€0.15 million) compared to the previous year. Following sales of €10.36 million in 2011, the company is on track to exceed the sales threshold of 11 million in 2012.

Figure 1: Sales and earnings development



Source: Design Hotels AG / Vara Research GmbH

According to our estimates, we predict low double-digit sales growth in the period after 2013. From 2013 onwards, growth will continue to be driven by increasing booking commissions due to the increasing number of member hotels and improved connectivity of the members within Design Hotels' global distribution system. In our opinion, annual growth could be even stronger if the company succeeds in increasing net member numbers by at least 10% a year. In the past, the company achieved this target in 2007 and 2009. So far, the company has acquired more than 40% of those hotels identified as suitable for a membership. At the end of 2011, 221 hotels were members of the network.

Gross margin remains stable at a high level, scaling potential not yet fully exploited

We anticipate a double-digit EBIT margin in the long-term.

Robust balance sheet with an equity ratio of 67%

Cash in hand able to cover the planned investments

In our opinion, the cost side is determined by several effects. The utilised services are likely to develop in proportion to sales. The gross margin of almost 70% is at a high level and depends more than 30% on the distribution services of inbound bookings. Due to the significant increase in the number of employees over the past three years, most recently at 75 employees, it can be assumed that personnel expenses are likely to increase disproportionately to sales in the future. As booking commissions increase, the relation of personnel expenses to sales will decrease. The sales expenses are largely developing along the same lines as the sales development, while the increase since last year is mainly due to increased travel activities. The amortisation has been negligibly small, as in the past, and made up about 3% of sales. By activating the investments, the amortisation will increase slightly over the next 2-3 years.

Before the 2008 crisis, the company proved that it is able to achieve an EBIT margin of nearly 10%. As a result of falling commission rates and the expansion of the employee base, the margin has come under pressure. Due to further growth investments in 2012, the EBIT margin will remain below its full potential. In line with our expectations, the EBIT was lower in 2011 than in the previous year due to the increase in staff along with investments in the technical infrastructure. In 2012 we expect an EBIT at almost the same level as in 2010 and a margin of about 3%. Higher sales will be offset by increased costs, as the employees hired in 2011 will now contribute to the staff costs throughout the year and further investments are planned, especially the optimisation of the company's own websites designhotels.com and madebyoriginals.com. According to our estimates, we anticipate a continuously increasing margin from 2013 onwards due to the higher proportion of booking commissions. In the long term, an operative margin of nearly 10% is realistic due to the scaling potential in terms of booking volumes and achievable sales per hotel. Furthermore, the scaling potential has not yet been fully utilised, with sales per employee of €138,000 in 2011. The aim should be to generate sales per employee of €165,000, last achieved in 2006, in the coming years.

Balance sheet structure

Comparable to a service provider, Design Hotels had a stable financial structure with an equity-to-assets ratio of 67% at the end of 2011. The balance sheet shows no financial liabilities or goodwill. While the equity-to-assets ratio was at 30% in 2005, it has been significantly increased the following years. The strengthened balance sheet structure could now be used for acquisitions, among other things. Furthermore, the Management Board could increase the company's share capital by up to €4.49 million by issuing new shares for cash or contributions until the 13th of July 2015.

On the asset side, liquid assets were €3.54 million, or 43% of total assets, and were therefore the largest item on the balance sheet. The full coffers enable the company to cover the cost of the planned investments for the modernisation of the websites using their own funds. At the end of 2011, Design Hotels had long-term assets totalling €0.57 million. The intangible assets of €0.18 million include the company's trademark rights and capitalised costs relating to the websites, but not own produced assets. As is usual for a service provider, the inventories of the company are negligible, making up 3.7% of total assets. Trade receivables developed proportionally to the total assets and amounted to €2.1 million or 25% of total assets by the end of 2011. As a solid credit rating is a

Design Hotels is debt free; adjusted ROE is still very low

Assumptions: Beta 1.5, WACC 10.4%

Fair value in accordance with free cash flow method: €0.90

selection criterion for member hotels, the bad debt including the single allowance was 4.1% in 2011 and was therefore improved in contrast to the previous year (4.6%).

The liability side is composed of 67% equity and 33% current liabilities. The current liabilities are mainly distributed in approximately equal proportions among the provisions for employee liabilities, outstanding invoices, received advance payments and liabilities for goods and services. As the number of members increases, other liabilities also rise. These largely include deferred income produced within the context of the accounting methods for annual membership fees. The return on equity in 2011 was 11.8% due to an appreciation in value of the active deferred taxes on tax loss carried forwards due to the adjusted 5-year plan. The positive tax effect of €0.44 million makes up the majority of the consolidated net income, amounting to €0.65 million.

Free cash flow valuation

In our free cash flow model, we assume that the next 10 years will be a detailed planning phase. After 2021, we have assumed a long-term growth rate of 1%. We predict investments of approximately €0.5 million in 2012 and 2013 respectively. Accordingly, the EBIT margin will continue to be under pressure in the first two years, but will be higher than in 2011. In the long term, we anticipate maintenance investments for around 3% of sales. In our model we anticipate a continuous margin improvement from 2013 onwards. We expect a sustainable EBIT margin of around 10%. As Starwood is a new majority owner (approx. 50%), the previously unused tax losses amounting to €14.2 million will expire (so-called harmful acquisition of shares). Thus, the activated deferred tax assets on tax loss carried forwards amounting to €1.3 million will be adjusted and reported as expenses, and the Group's net income after tax and equity will be charged accordingly.

To determine the discount rate, we have assumed a beta of 1.5. The business of Design Hotels is cyclical, although the predictable licence fees mitigate the fluctuations and cover some of the fixed costs (roughly 40%) off. In the case of the beta value, we have taken an ex-ante approach. The risk premium and borrowing interest rate are 5% each. We have added an interest premium of 100 basis points to the interest on debt capital. Furthermore, we applied the current capital structure with an equity ratio of 70% when calculating the WACC. The WACC after tax is therefore 10.4%.

Considering that currently fewer than half of the possible hotels have been acquired, our sales estimates, which serve as the basis for the determination of free cash flows, could be regarded as conservative. According to the free cash flow valuation, we have calculated a fair value of €0.90 for Design Hotels AG shares.

Table 1: Valuation according to the free cash flow method

(in € millions)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sales	11.50	12.71	13.98	15.31	16.61	17.77	18.73	19.48	20.26	20.47
EBITDA	0.58	0.76	0.98	1.07	1.50	1.60	1.84	1.95	2.06	2.23
EBITDA margin	5.0%	6.0%	7.0%	7.0%	9.0%	9.0%	9.8%	10.0%	10.2%	10.9%
EBIT	0.35	0.51	0.70	0.77	1.16	1.24	1.46	1.55	1.64	1.81
EBIT margin	3.0%	4.0%	5.0%	5.0%	7.0%	7.0%	7.8%	8.0%	8.1%	8.8%
Taxes	0.02	0.03	0.03	0.23	0.35	0.37	0.44	0.46	0.49	0.54
+ amortisation	0.23	0.25	0.28	0.31	0.33	0.36	0.37	0.40	0.42	0.42
- investments	0.42	0.42	0.36	0.39	0.43	0.41	0.43	0.45	0.47	0.48
- Change in WC	0.31	0.22	0.23	0.17	0.16	0.15	0.12	0.09	0.10	0.03
Operative cash flow	-0.17	0.10	0.35	0.28	0.56	0.67	0.84	0.94	1.00	1.19
Discounting factor	0.91	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37
Oper. value CF today	-0.15	0.08	0.26	0.19	0.34	0.37	0.42	0.42	0.41	0.44
Cumulative value of the oper. CF	3.21									
Cash value of remaining value	1.90									
Company value	5.11									
- net debt	-2.91									
- third-party shares	0.00									
Value of capital re-sources	8.02									
Fair value per share in €	0.89									
Upside potential in %	16.2%									
WACC	10.4%									
Lfr. growth rate	1.0%									

Source: Vara Research GmbH

Strengths

■ SWOT analysis

- ◆ Many years of management experience in the travel and tourism industry, particularly in the lifestyle area, with good networking in the international hotel community
- ◆ The company founder is a substantial shareholder in the company and is the sole CEO
- ◆ Long-term partnership with SABRE, the world's leading IT solutions provider to the hospitality industry
- ◆ Range of strategic services for member hotels
- ◆ Annual membership fees which are, of course, not sensitive to economic cycles, cover a large proportion of fixed costs
- ◆ Stable revenue base due to high customer loyalty
- ◆ Design Hotels has the expertise to represent the entire value creation chain from hotel design and hotel marketing right through to sales
- ◆ Regional diversification of the member hotels and a broad customer base, i.e. there is no concentration of risk
- ◆ The Design Hotels™ brand has high visibility and is a very attractive product in the market
- ◆ In its niche, Design Hotels is among the top three players
- ◆ High entry barriers due to the small niche, the need for a chain code for bookings, the high brand awareness and the existing network in the lifestyle scene
- ◆ Low capital intensity of the business model
- ◆ Design Hotels has an equity ratio of 67% and a solid balance sheet structure. The company is debt-free
- ◆ Clear corporate structure with three 100% owned subsidiaries

Weaknesses

- ◆ Presence in the growth regions of Asia and South America is still too low
- ◆ No direct sales in the B2C business with end customers or hotel guests
- ◆ Business model has so far been very labour-intensive and requires a high level of marketing expertise
- ◆ The acquisition of hotels takes a long time
- ◆ Strong dependence on the founder and CEO Claus Sendlinger
- ◆ With a market capitalisation of €6.9 million and annual sales of €10 million, the company is one of the micro caps with low stock market trading liquidity
- ◆ The company is not yet able to distribute profits and will therefore be unable to pay dividends for the foreseeable future

Opportunities

- ◆ Greater IT system integration will increasingly allow the availability of all contingents of members with high sales figures and will therefore compensate for the decreasing rates of commission
- ◆ The newly integrated IT solution and current filled positions for all permanent staff offer the potential for large scale effects
- ◆ The niche segment of boutique hotels is growing faster than the traditional hotel market
- ◆ The strategic positioning in growth regions of Asia and South America offers interesting opportunities for growth
- ◆ Lifestyle, intimate atmosphere and authentic experiences are becoming increasingly important for hotel guests
- ◆ Due to increasing competition, privately owned hotels are under increased pressure to join an internationally active sales consortium
- ◆ High levels of expertise when positioning owner-managed design hotels

Risks

- ◆ Hotel chains are pushing their sub-brands into the niche segment of design and boutique hotels
- ◆ Increasing competition from online reservation and booking portals such as Expedia or opodo
- ◆ A significant economic downturn would impact heavily on the hospitality industry. Marketing expenditures of hotels fall during the crisis and the commission proceeds collapse due to under-utilisation
- ◆ Commission rates have fallen constantly and will remain under pressure due to the continuing shift in market shares of the booking channels

Design Hotels is a consulting, marketing and positioning service provider for Boutique hotels

Growth continued in 2011, investments had a negative impact on earnings

More than 220 member hotels in over 40 countries

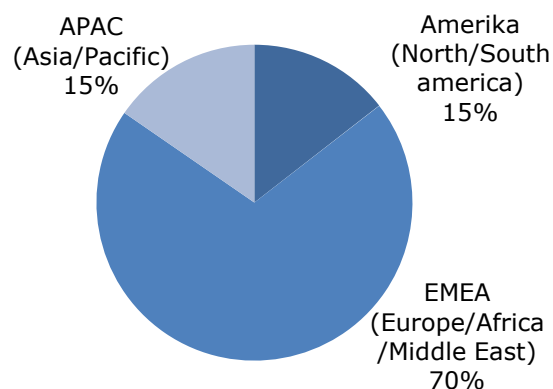
Clear corporate structure with three foreign subsidiaries

■ Company Profile

Design Hotels, headquartered in Berlin, markets a selective range of more than 230 owner-managed hotels and small hotel groups based in over 40 countries. Design Hotels offers integrated services to these companies in the new luxury segment, such as design, positioning, marketing, sales and measures to improve sales. Design Hotel provides sophisticated end groups with access to its portfolio of boutique hotels on a shared reservation platform, and also conducts marketing and communication activities. The brand Design Hotels™ and the internet portal www.designhotels.com play a central role in marketing.

The recovery of the travel and tourism industry is reflected in the sales of Design Hotels. Group sales during the 2011 financial year increased by 11% to €10.36 million (previous year €9.36 million). EBIT fell to €0.15 million (previous year €0.33 million) due to increased expenses for personnel and sales in addition to investments in new technologies. As a result, the EBIT margin fell from 3.5% to 1.4%. During the 2011 financial year, the company employed an average of 75 employees (previous year: 70 employees).

Figure 2: Geographical distribution of the member hotels



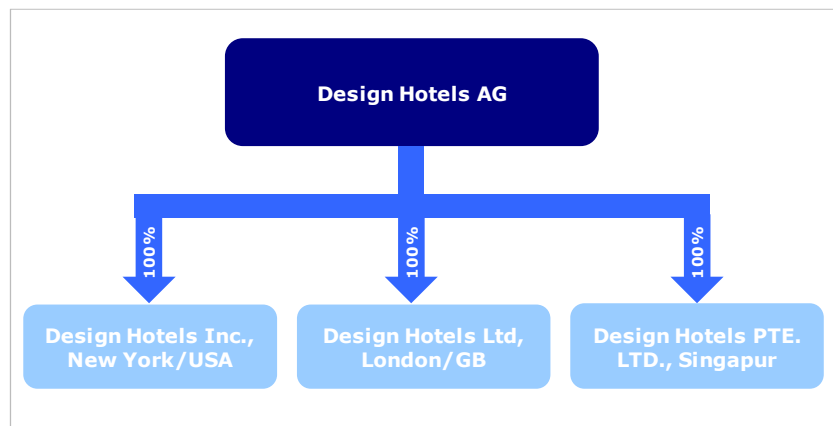
Source: Design Hotels AG

At the end of 2011, a total of 221 member hotels (previous year: 208) were represented under the Design Hotels brand with a total of 16,977 rooms (previous year: 15,956) in 43 countries. Accordingly, the hotels have an average of about 77 rooms each, whereby regional differences apply. In Asia, the average number of rooms per hotel is about 100 while in the Americas and EMEA region, the average is about 60 or just over 70. The member hotels are distributed across more than 135 destinations. The EMEA region dominates the portfolio with around 70%, while 15% of the member hotels are in the Asia-Pacific region and 15% in North and South America.

Design Hotels AG has three 100% owned subsidiaries. Design Hotels Inc. is headquartered in New York and employs four members of staff. Design Hotels PTE. LTD. has four staff members, is based in Singapore and focuses on Asia. Furthermore, Design Hotels Ltd operates from London and also employs four members of staff. The subsidiaries, in addition to other foreign representatives, have been founded to create a local presence which supports the sales activities. The Group's headquarters are located in Berlin and five

offices represent the Group abroad in London, Barcelona, New York, Singapore and Perth.

Figure 3: Organisational chart



Source: Design Hotels AG / Vara Research GmbH

The company's history goes back to the early 90s

Claus Sendlinger, the founder and current CEO of Design Hotels AG, founded a tour operating company in 1991 called "Travel Trends", which focused on the luxury travel market segment. He had previously founded an events agency in 1987. In 1993, Design Hotels Inc. was founded in Sausalito, California.

The increasing popularity of boutique hotels, also referred to as design or lifestyle hotels, which place great emphasis on individuality, personalisation and design, resulted in a re-organisation of the company. The group created under the Design Hotels™ brand has since served as a link between hoteliers and creative and aspiring end customers in society, the so-called 'creative class'. Design Hotels created the centrepiece of the company, called lebensart global networks, alongside the abovementioned tour operators and event agency.

History was determined by many changes to the strategy and organisation

Since the founding of lebensart global networks AG in 1999, the company went through several changes with regards to its strategy and organisational structure. On 10 December 1999, lebensart global networks AG went public and was listed on the open market of the Bavarian Stock Exchange in Munich, which was shortly followed by a change into the regulated market. The deficit-ridden division lebensart technology was sold in 2003. From 2003 onwards, a comprehensive restructuring programme was introduced within the company. All departments were brought together at the new headquarters in Berlin in 2004. In August 2004, the company was renamed as Design Hotels AG.

Table 2: Company history

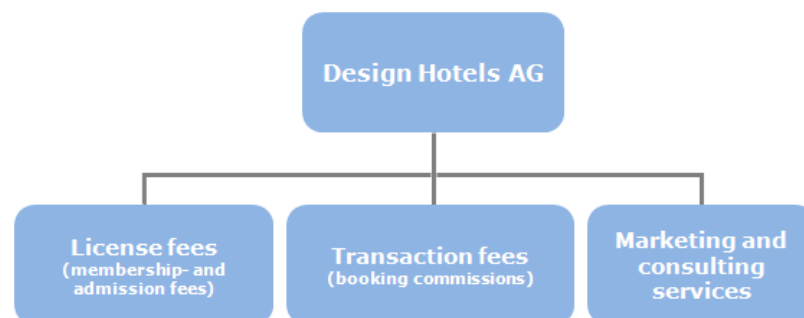
Time	Event
1987	Founding of the events agency CO-ORDINATES GmbH by Claus Sendlinger
1991	Founding of the tour operating company "Travel Trends" by Claus Sendlinger
1993	Founding of Design Hotels Inc., based in Sausalito, California
1998	Founding of lebensart.net GmbH; integration of the companies Design Hotels Marketing Service GmbH, Design Hotels Inc. and CO-ORDINATES Reiseveranstaltungs GmbH into lebensart.net
1999	Change of name to lebensart global networks AG and IPO on the regulated market of the Munich Stock Exchange
2003	Sale of the division lebensart technology, which made up about 2/3 of sales
2004	Name change to Design Hotels AG
2011	Change from the regulated market of the Munich Stock Exchange into the market segment m:access

Source: Design Hotels AG

Distribution of sales among three main sources of income

Design Hotels generates its sales from three main sources: license fees, transaction fees and marketing and consulting services. The member hotels can choose from a modular service offering the most suitable services for them. Along with access to different reservation systems, sales and marketing services, consultation services for hotel design are also offered.

Figure 4: Main sources of income



Source: Design Hotels AG

License fees provide a stable sales base

The one-off joining fee and annual membership fees are included in the licence fees. Contracts are concluded with a minimum term of five years and, together with the low turnover of the affiliated hotels, provide a stable revenue base. Economic fluctuations, which result in lower numbers of bookings, do not affect this source of income either. The annual license fees range from €5,000 to €20,000 per hotel. Along the same way as the increasing number of member hotels, the license fees increased by 6% to €2.89 million compared to the previous year and accounted for 28% of consolidated revenue.

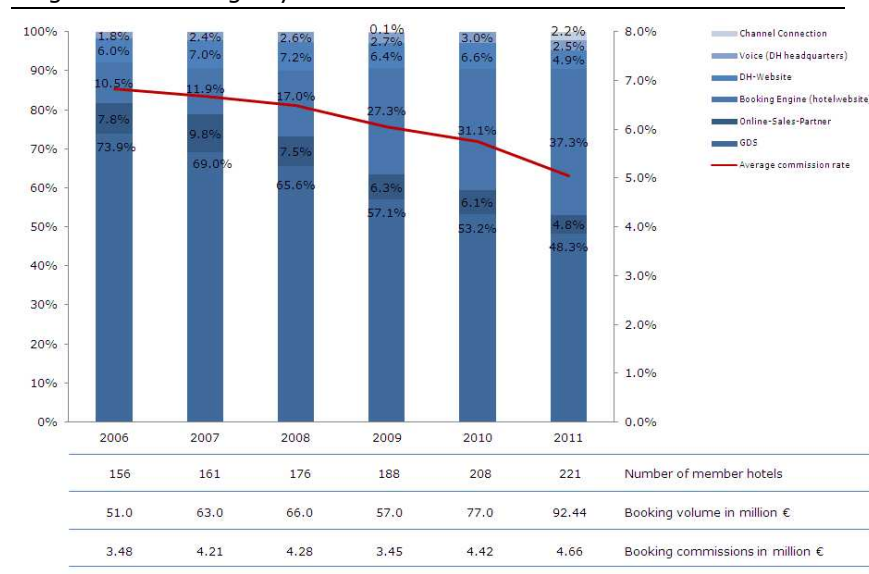
Encouraging development in the area of marketing and consulting services

Transaction fees provide scaling potential

In the area of marketing and consulting services, Design Hotels offers its members a wide range of marketing and communications services, such as press articles, regional sales events, trade shows and e-marketing. The company offers its member hotels support during the design and creation of hotel brands. In contrast to the sales generated from license fees, sales from the marketing and consulting business are vulnerable to cyclical changes. The positive development of this source of income is the result of the expansion of permanent staff and is based on the aim of providing member hotels with the benefits of a wider range of value-added services. Sales from marketing and consulting services increased by 27% to €2.82 in 2011 and contributed a total of 27% to the overall sales.

As a source of income, transaction fees result from the booking commission which Design Hotels receives if an overnight stay is booked through a Design Hotels channel at a member hotel. Design Hotels receives commission for all bookings made at member hotels through Global Distribution Systems (GDS), on-line distributors (e.g. hotel.de), the websites of member hotels, as well as via the Design Hotels web portal and central reservation site. The level of commission varies depending on the booking channel. The commission rates range from 3% to 20% of the room rate. While the percentage of bookings through the booking engines or hotel websites tends to increase over time, the percentage of bookings made through the distribution channel travel agents (GDS) has fallen over the years, but still makes up the majority at 53.9% (2011).

Figure 5: Bookings by distribution channel in 2011



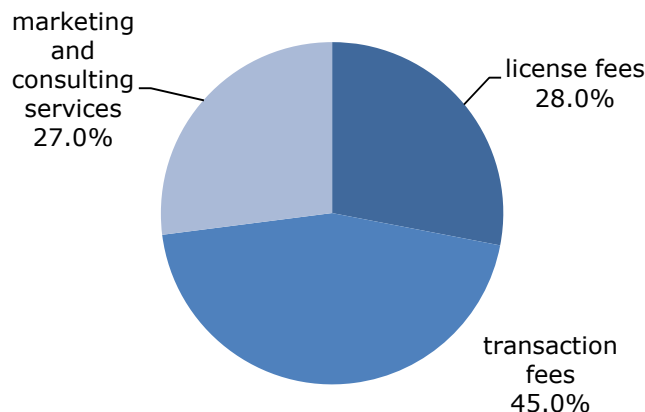
Source: Design Hotels AG

Highest profitability by booking commissions, but commission rates under pressure

Sales from transaction fees in 2011 increased by 5% compared to 2010 and totalled €4.66 million. These sales increased at a lower rate than the booking volumes generated through Design Hotels, which were at €92.4 million (+20%). Design Hotels benefited from the increased number of member hotels in 2011 and the consequently higher number of available rooms and increasing booking volumes. The commission rates remained under pressure due to the shift in market shares of individual distribution channels. While the average commission rate in 2006 was still 6.8%, Design Hotels earned an average of 5.7% per room in 2010 and was able to

achieve 5.0% in 2011. Consequently, commission revenues increased disproportionately to the booking volumes (+20%) at 5.3%. However, this area remains the most profitable for the Group.

Figure 6: Proportion of sales by source of income (2011)



Source: Design Hotels AG

Listed in m:access since
04/2011

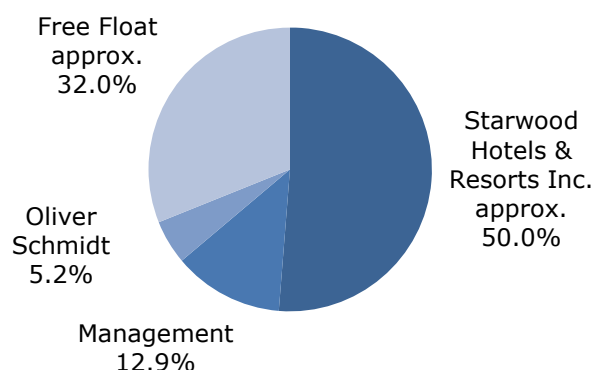
Management holds
nearly 13%, while
Starwood Hotels & Re-
sorts Inc. has recently
become the largest
shareholder holding
roughly 50%

Shareholder structure and management

The share of Design Hotels AG has been listed since 01 April 2011 in the market segment m:access in the open market of the Munich Stock Exchange. On 14 February 2011, the Management Board, with the approval of the Supervisory Board, resolved to change from the regulated market of the Munich Stock Exchange to m:access in order to benefit from reduced costs of the associated lower reporting requirements.

Currently, 8.97 million shares are tradable on the stock exchange. Of these, approximately 32% are in free float. 12.94% is held by the company's CEO, Claus Sendlinger, and 5.2% is held by the private investor Oliver Schmidt. The largest stake (over 50%) was recently taken over by Starwood Hotels & Resorts Inc. from Munich Arabella Hotel Holding International. The acquisition of the shares was partially the result of a change in strategy and increased focus on property and asset management of real estate at Arabella and partially due to the enthusiasm of Starwood for the design and the innovation of the hotel collection of Design Hotels.

Figure 7: Shareholder structure (2012)



Source: Design Hotels AG

CEO has over 20 years of experience in the travel and tourism industry

Industry expertise of the Supervisory Board members

Main sources of income: License fees, transaction fees and marketing and consulting services

The position of CEO at Design Hotels AG is held by the founder, Claus Sendlinger. Born in 1963, he began his career with the development of communication concepts and event planning for clubs and hotels. In 1991, he founded "Travel Trends", specialising in high-quality innovative travel and which would later form the basis for today's Design Hotels. Claus Sendlinger has managed the company since 1999 as CEO. In 2002 he was included in Condé Nast Traveller magazine's Top 50 list of the world's most creative and innovative tourism entrepreneurs.

The remuneration of the company's only director includes both a fixed and a variable component. The variable portion can make up a maximum of 100% of the fixed portion.

The company's Supervisory Board consists of the Chairman Dr. Holger Peres, Roeland Vos, Adam Diamond, Oliver Bonke, Daniel Ruff and Axel Weber.

Dr. Holger Peres is Chairman of the Supervisory Board and has been a member since July 2006. As a lawyer and partner at the firm Beiten Burkhardt Rechtsanwaltsgesellschaft mbH, he specialises in corporate and stock market law and advises companies in this area with a focus on the tourism industry. Axel Weber, a lawyer and business consultant in the field of trade and catering, has been a member of the Supervisory Board since June 2009. The Board members Roeland Vos, Adam Diamond, Oliver Bonke and Daniel Ruff, who were newly elected in 2012, represent Starwood.

Business model

The business model of Design Hotels is based on three pillars: License and transaction fees and marketing and consulting services. The license fees include the annual membership and one-off joining fees for new members. As a positioning service provider, Design Hotels sells members marketing and consulting services with the aim of increasing bookings. These include value-added services such as advice on the implementation of new software, organisation of trade fairs, e-marketing products, newsletters, PR work and the creation of various promotional brochures. The company receives commission proceeds for reservations made at member hotels, which range between 3% and 20% per booking,

Hoteliers in the niche market and hotel guests with high expectations as customers

Design Hotels membership gives hotels essential benefits

Positive effect on the volume of booking commissions through enhanced IT system integration

Marketing services as part of the contracts

There is no requirement to accept all applications

No seasonality, but a cyclical business to some extent

depending on the booking channel and hotel size, based on the available number of rooms.

In the area of licensing and membership fees and value-added services, the company exclusively addresses individually managed hotels, which have a unique design and can offer guests authentic experiences. The company pursues a no-chain-policy, so no hotel chains are included in the portfolio. In the area of booking commissions, the company generates its revenue through bookings of hotel guests who have high expectations with regards to service, atmosphere and style and have a high affinity for fashion and life-style.

When a hotel becomes a member of Design Hotels, they will be integrated into the network and the hotel owner will have the right to use the Design Hotels™ brand. This increases the visibility of the hotel in the market. During this process, the hotels can draw on a range of services in the areas of technology, marketing, consulting and sales optimisation.

Since 2011, Design Hotels has provided enhanced integration between the PMS (Property Management System respectively Hotel Management Software) of the hotels and the CRS (Central Reservation System) on behalf of Design Hotels. This connects member hotels to the global distribution system, so that the hotel guest is able to see the actual availability of rooms at the time of booking. The main advantage is that Design Hotels benefits from the entire contingent of available rooms at the respective hotel. In this way, the declining commission margins for booking commissions can be partially compensated by the positive volume effect.

Table 3: Benefits of the enhanced IT systems integration

- Better scalability opportunities and cost savings at the hotels, for example, can be used for marketing purposes
- Increased market potential by having access to all room allocations
- Strengthening customer loyalty
- Increased synergies with marketing activities

Source: Vara Research GmbH

Within the Design Hotels network, member hotels benefit from the advantages of a global brand and joint marketing and purchasing, without losing their individual charm. The majority of the marketing activities are based on the contractual agreements.

As the majority of the sales expenses are variable, Design Hotels is not under pressure to accept all applications for membership, but can select members on qualitative terms to secure its position as a premium brand.

Design Hotels sales are slightly affected by seasonality. The member hotels in the portfolio are distributed globally and are represented in all major regions of the world. The portfolio includes hotels at business and holiday destinations - in cities, at ski resorts, beach resorts and in rural areas. A portion of revenues (by our estimates, about 30 to 40%) are classified as cyclical. The booking commissions depend on the travel economy, and are therefore dependent on the usage of the hotels. Experience shows that the hotels ask for more sales-oriented and less marketing-orientated activities during the crisis to reduce their marketing activities during weaker periods. The cyclical nature of the business

Personnel-intensive business model; entering the scaling phase

Strong brand and unique consultant expertise

The average fluctuation rate is about 5% per year; sales per hotel is expected to rise to €50,000

Successful niche positioning in the new luxury segment

Stringent development of the brand

is enhanced by the fact that about 60% of end customers are business travellers. Licensing fees that are easy to forecast (proportion of sales in 2011: 28%) moderate the cyclicity.

The operative business of Design Hotels has low capital intensity. The largest capital investment has been made for the development of their own websites. Slightly higher investments are anticipated in 2012 and 2013, amounting to approximately €0.5 million each year, as the company is optimising its website, among other things. In this context, an associated customer loyalty program is being introduced.

The business model of Design Hotels is very personnel-intensive. Sales per employee were €138,000 in 2011 and therefore well below the level of more than €160,000 in 2006, 2007 and 2008. We assume that the increased IT system integration, the current fully appointed permanent staff and the planned expansion of value-added services will achieve better scaling, so that personnel costs will increase disproportionately lower over the coming years.

The stringent development of the Design Hotels™ brand and specific positioning in the high-quality niche are clear unique selling points of the company. With more than 20 years of industry experience, the company has become one of the most important positioning and distribution services for owner-managed hotels.

The increased IT system integration and expansion of value-added services for member hotels will provide enhanced customer loyalty. The average sales per hotel is expected to increase by the end of 2013 from the current level of just under €47,000 to about €50,000, so that member hotels will be offered more detailed services catering their needs. The investments made to improve system integration will also make a potential change to another consortium less attractive. The contracts which Design Hotels concludes with hotel customers have a term of five years with an option to extend the term for a further three years. The fluctuation rate among member hotels was on average about 5% per annum in the past, whereby the majority of hotels that were dropped from the portfolio no longer fulfilled the Design Hotels standards.

■ Strategy

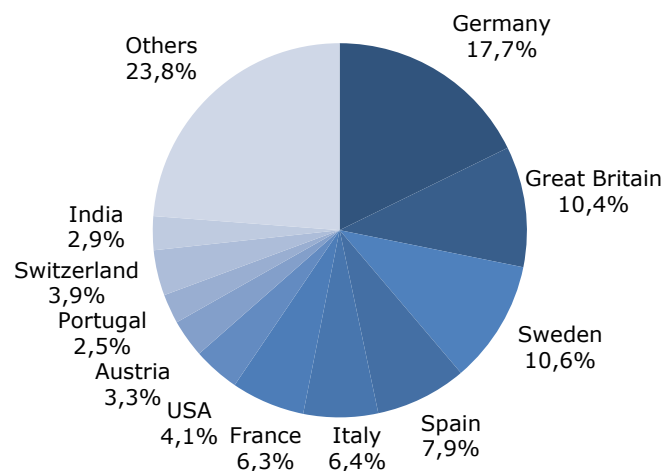
Design Hotels AG has successfully implemented a niche strategy. The high-quality portfolio of member hotels resulting from the company's strict selection criteria is to be carefully expanded and supplied with targeted value-added services. The overall goal of Design Hotels is to support the long-term profitability of its member hotels through the brand, network and tailored services, and to ensure that they stand out from the competition. Furthermore, the medium to long-term focus will be placed on the end customer by providing lifestyle-savvy travellers with suitable offers for special hotel experiences and to oblige them by direct communication with Design Hotels.

Design Hotels used the crisis in 2008 to revise the admission criteria for hotels. The quality standards have been tightened to raise the profile of the brand in terms of quality. The company hopes to achieve a qualitative increase of member hotels by 10% per annum net. Only about 10% of annual requests received are approved for membership. When acquiring new hotels, quality is paramount. These hotels have higher occupancy rates, which are reflected in rising booking commissions.

Worldwide sales strengthened by the company's own representative offices abroad

The portfolio with hotels in over 40 countries helps to mitigate the economic sensitivity and allows the company to benefit from the different growth opportunities. Almost 70% of the hotel beds are located in the EMEA region. Germany currently has the largest share of sales, followed by Sweden, Great Britain and Spain. The company's many years of experience in the niche market and global networking in the hotel community provides the company with global access to hotels. The representative offices in major foreign markets are an important part of the marketing strategy. The Singapore office will be assigned a high priority in the future, as the company plans to focus on the Asian region, among other locations, for future acquisitions.

Figure 8: Regional sales breakdown (according to member hotels, 2011)



Source: Design Hotels AG

Growth strategy based on three synergistic pillars

Design Hotels' growth strategy is based on three synergistic pillars:

- 1) Increasing the number of member hotels. The Design Hotels scoring system includes criteria such as the architecture, design and holistic concept of the applying hotels, and only about 10% of annual hotel applications will be accepted for membership.
- 2) Targeted expansion of the service portfolio in the areas of integrated technology, marketing & sales and utilization management.
- 3) Expansion of the relationship to end customers and strengthening of the brand. The brand presence of Design Hotels is to be more intensively communicated to end customers through the member hotels and the company's own website. In combination with the recently introduced CRM tool, this forms a sound basis for targeted marketing campaigns to address hotel guests directly, thereby strengthening the long-term loyalty of end customers.

Table 4: Short to medium-term growth drivers

- 1) Qualitative expansion of the hotel portfolio
- 2) Expansion of the service portfolio and value-added services
- 3) Increased focus and expansion of end customer relations and strengthening the company's own brand presence

Source: Vara Research GmbH

Increased focus on the regions Asia and South America

Integrated technology platform to ensure future growth

Response to digitisation of the hotel market allows greater customer loyalty

Hotel market influenced by economic development and travel patterns

Due to the high growth opportunities in Asia and South America, the focus on these markets is an essential part of the future growth strategy. Both regions have so far made up only a small proportion of the portfolio. A variety of marketing and sales strategies are applied for the markets. For instance, the Singapore office will facilitate and accelerate development within the Asian region. In South America, there is currently no separate subsidiary and acquisitions mainly take place from Berlin and partly from New York.

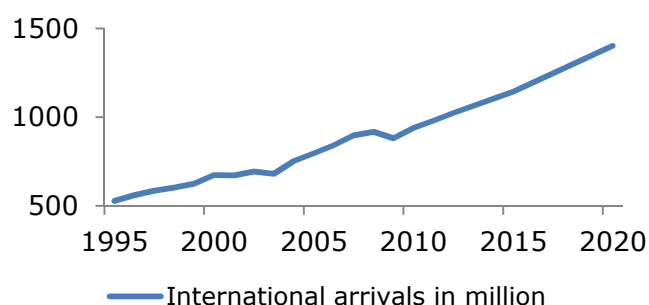
In response to declining commission rates, the company is attempting to press ahead an integrated IT system for the member hotels. The integration of the IT environment will take place gradually over the next few years at about 80 hotels in the current portfolio. The company hopes to achieve double-digit growth rates for booking commissions over the next few years. In addition, Design Hotels links the hotels to the network, thereby securing long-term revenues from the license fees.

Design Hotels aims to improve its utilisation of growth potential in the online sector by making increased investments into its own websites. The company's own website, which generates the highest commission rates, will be made more attractive with a new layout and additional features for end customers. The establishment and implementation of a loyalty programme will ensure that end customers continue to use the platform, thereby developing the less cyclical B2C business.

■ Market environment

The demand for hotel accommodation depends largely on general economic developments and travel patterns around the world. The demand for luxury hotels is much more volatile than demand for hotels in the lower price segment. The recent economic crisis of 2008 has once again confirmed the pro-cyclical development of the travel industry. The number of overnight stays decreased substantially in 2008 and 2009, although these figures are now recovering at a faster rate than in other industries. According to UNWTO (United Nations World Tourism Organisation), international arrivals in 2011 rose by 4.4%, following a rise of 6.6% last year. The recovery of the travel industry has led to better utilisation of the hotels and price increases, which are reflected in higher RevPAR (average revenue per available room). However, the price increases were disproportionately due to increasing hotel capacity. UNWTO expects international arrivals to grow by an average annual growth rate of about 5% until 2020. In 2012, a worldwide increase in arrivals by 3% - 4% is anticipated.

figure 9: International arrival figures in millions

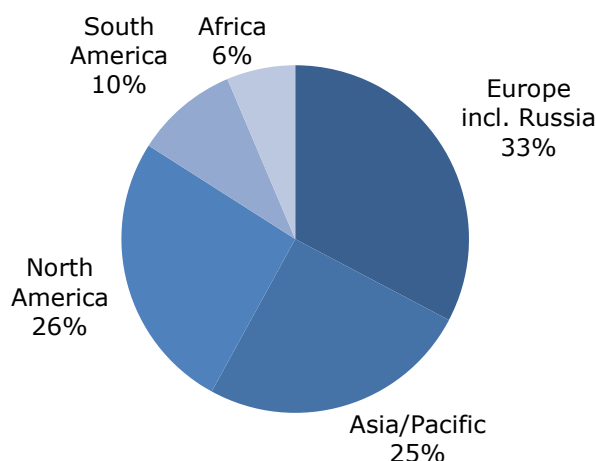


Source: UNWTO 2012

**Global hotel market
includes 18.8 million
hotel rooms**

MKG Consulting estimates that the worldwide hotel capacity in 2009 was approximately 18.8 million rooms. Over the last five years, the number of rooms has increased by an average of about 3% p.a. With more than six million rooms, Europe is the largest hotel market in the world and achieves the highest average occupancy rate at over 60%. The ten largest hotel groups (including Intercontinental, Hilton and Accor) account for about 20% of the global hotel market. The market shares of the chains and branded hotels can vary greatly from region to region. While the branded hotels in Europe have a market share of approximately 25%, their share in the U.S. is about 70%.

Figure 10: The global hotel market by number of rooms (2009)



Source: MKG Consulting 2009

**Future growth supported by markets in
Asia and South America**

The European region will continue to offer interesting, albeit slower growth prospects, as demand for hotel accommodation will continue to increase, especially from foreign visitors. Due to the ongoing formation of a middle class in the populous regions of Asia and South America and the low penetration of these markets, these markets will provide the greatest growth potential for the hotel industry. Brazil is also additionally attractive due to upcoming major events (World Cup, Olympic Games). China and India will primarily benefit from strong economic growth and a significant increase in business. The high-price segment is expected to develop disproportionately well in these markets. Brand affiliation will gain growing relevance with regards to increasing RevPAR. Owner-managed hotels in particular will be able to enjoy benefits (e.g. increased awareness, better utilisation) if they are part of a network.

**Forecast is positive for
business travel**

As a result of the integration of the global economy and globalisation, which in turn leads to increasing world trade, business travel will continue to increase. International trading growth of 3.7% is forecast by the WTO for 2012 (following 5% last year). After a decline of 7.8% in 2009, worldwide spending on business travel increased by 8.4% in 2010. In 2011, the number of commercial flights worldwide was 6% higher than in the previous year. Expenditure for business travel grew two to three times more rapidly in the BRIC countries than in industrialised countries, with a CAGR of around 9% from 2011 to 2015.

Boutique hotels as an attractive niche segment

Design hotels have a lower room capacity

Categorisation: Owner-managed hotels, budget design hotels and design sub-brands of hotel chains

Around 700 boutique hotels are spread across America and Europe

Market for Design Hotels

The market for boutique and design hotels emerged in the early 80s. With a share of around 1% of the available room capacity and making up 3% of all sales within the global hotel industry, this segment remains a small niche within the hotel market. A distinction between niche hotels and more traditional hotels is difficult because there are different definitions and terminology for this hotel category in the market. Therefore, it is not possible to provide precise information regarding the market volume. The synonyms boutique or lifestyle hotels are often used to refer to design hotels. The differences between the various categories are minimal.

In general, a design hotel has fewer than 100 rooms, an authentic and modern design and service at the highest level. In particular, design hotels differentiate themselves from traditional luxury hotels with a unique design and private atmosphere. The majority of design hotels are owner-managed. The member hotels of Design Hotels have an average of 78 rooms.

In addition to owner-managed design hotels, which account for about 74% of the market in Europe, several budget design hotel chains (e.g. Motel One) have developed in recent years, and are in the lower price segment. Moreover, the large hotel chains such as Hyatt, Intercontinental and Starwood have recognised the trend and have joined the market with their own sub-brands, such as aloft, Andaz, Indigo, or have created partnerships with lifestyle brands such as Armani, Missoni and Bulgari hotels. Design hotel guests place great importance on individuality and a unique and intimate atmosphere, which is why the hotel chains have struggled to fill this market in the past. Nevertheless, many experts believe that the major hotel chains could jeopardise the niche segment in the future.

Table 5: Categorisation of the market for design hotels

Owner-managed design hotels	Budget design hotels	Design hotels managed by hotel chains
<ul style="list-style-type: none"> • 25hours • Boundary • East • Loisiium • Roomers 	<ul style="list-style-type: none"> • CitizenM • Motel One • Quest • Roomz • Yotel 	<ul style="list-style-type: none"> • element, aloft (Starwood Hotels) • Missoni (Rezidor) • andaz (Hyatt Hotels) • Indigo (Inter-Conti)

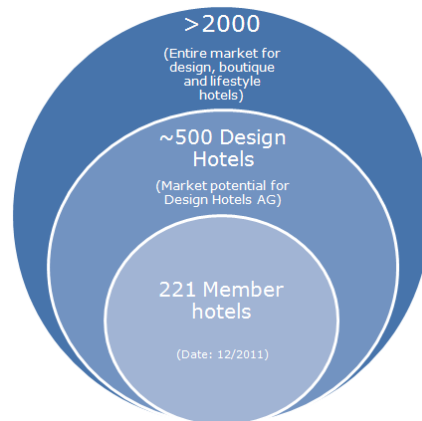
Source: Vara Research GmbH

The definition of the worldwide market potential is difficult because the market is not clearly delimited. According to a study published in 2010 by Lukas Hochedlinger, the American market is the largest with around 400 boutique hotels, followed by Europe with about 300 boutique hotels. The European boutique hotel market has developed in recent years with double-digit growth, while the hotel industry as a whole grew at a low average single-digit rate. Great Britain is the most important market for boutique hotels in Europe, making up around 20%, followed by Italy, Germany, Spain and Austria, which together comprise about 42% of the European market. France will soon close the gap. Eastern Europe, including Russia, has very few boutique hotels, making up less than 5% the European market.

Worldwide, around 500 hotels meet the admission criteria of the Design Hotels brand

Design Hotels AG has identified worldwide market potential of approximately 500 hotels, according to the company's own criteria. At the end of 2011, the company had 221 members in its portfolio. Applications for membership have increased over the years and reached the peak in 2008 so far with 469 applications. On average, only 10% of the applicants are accepted each year. As expected, growth will continue in this area, which will in turn increase the market potential in the future.

Figure 11: Market potential for Design Hotels



Source: Vara Research GmbH

Increasing competition of positioning service providers

Better performance in this hotel category in the form of higher average room rates and better utilisation than the traditional luxury hotels meant that more and more investors are regarding this niche as lucrative. As these are mainly owner-managed hotels, professional marketing is required. Several positioning and marketing service providers, who are in direct competition with Design Hotels, have now entered the market, many later than 2000. The main competitors include Leading Small Hotels of the World in the USA and Small Luxury Hotels of Great Britain, which together have around 1,000 member hotels (not including duplicates). However, only a few members of these service providers fulfil the requirements of Design Hotels.

Online portals also represent further competition

In recent years, a number of online booking portals have emerged which focus explicitly on design hotels. These in particular include Tablet Hotels, Mr. & Mrs. Smith and Splendia. The other online portals, such as hotel.de and booking.com, should also be regarded as indirect competitors of Design Hotels at the very least. As these portals receive a portion of the hotel contingents, this reduces the number of available rooms. The major international hotel chains, which have been developing their own lifestyle brands, have the necessary infrastructure and financial strength to gain market shares.

Table 6: Competitive structure

Positioning and marketing service providers for design hotels

- Leading Small Hotels (USA): 450
- Small Luxury Hotels (UK): 520
- Lifestyle Hotels (Austria): 118
- Epoque Hotels (USA): 350
- Preferred Hotels (USA): 185
- Boutique Hotels and Resorts (U.S.): 27

Online portals with focus on design hotels

- Tablet Hotels (USA)
- Splendia (Morocco)
- Mr. & Mrs. Smith (UK)

Source: Vara Research GmbH

Google as a potential danger for positioning service providers

In the future, Google could act as an additional competitor for positioning service providers. If Google implements its own direct booking system, owner-managed hotels could carry out their own marketing using only the search engine. Assuming that the brand and the existing network play an increasingly important role for the individual hotels, we consider this to be a low risk for Design Hotels. If they used Google, the hotel would still only be "one of many", despite the integrated system.

Booking channels with different commission rates

Hotel bookings can be made through various booking channels: Global Distribution Systems (GDS), travel portals (IDS), booking engines (including Design Hotels website), call centres and Channel Connect. Design Hotels is paid different commission rates depending on the booking channel. The services provided by Global Distribution Systems (GDS) are concentrated and distributed among four main providers: Amadeus, Galileo, SABRE and Worldspan. This technology provider offers integrated solutions for both online and offline travel and hotel bookings. Design Hotels has been cooperating with Sabre Hospitality Solutions for many years.

Bookings made through booking engines gain market shares, while commission rates remain under pressure

The so-called booking engines, i.e. websites owned by individual hotels, booking portals run by mobile positioning services and mobile apps, have now become a major distribution channel for hotel bookings. While previously, hotel bookings were made "exclusively" through travel agents - their share of the market is therefore still high at over 50% - bookings made over the internet have increased in recent years with double-digit growth rates, and will sooner or later become the main booking channel. The trend is accelerated by the rapidly increasing use of mobile apps. The shift in market shares of individual booking channels will result in commission rates per night remaining under pressure and falling further in the future.

Figure 12: Overview of the major booking channels

Global Distribution Systems (GDS)	Online travel portals	Booking engines	Call center
American Express Carlson Wagonlit Travel Lufthansa City Center (600.000 travel agencies worldwide)	Tablet hotel.de Expedia HRS	Hotelwebsite (e.g. www.roomers.de) designhotels.com Mobile booking engines	Design Hotels call center
Distribution of commission revenues of Design Hotels AG by booking channel in 2011			
48%	5%	42%	3%

Source: Design Hotels AG / Vara Research GmbH

Conclusion: The travel market remains a long-term growth segment. This development is supported by growing demand from emerging and populous regions. The niche segment of design hotels will benefit more than the traditional hotel market, as lifestyle, individuality and adventure trips are becoming increasingly popular among travellers. Furthermore, business trips will become more frequent due to the increasing integration of the world economy. The trend towards online bookings will continue, providing booking engines with a greater market share. However, the hospitality niche of boutique hotels will still need the services of marketing and consulting specialists such as Design Hotels.

Profit and Loss Account

in € m.	2009	2010	2011	2012e	2013e	2014e
Sales revenues	8.455	9.356	10.363	11.503	12.711	13.982
Change in finished goods and work in progress	-0.007	0.064	0.096	-0.062	-0.069	-0.076
Other own cost capitalized	0.000	0.000	0.000	0.000	0.000	0.000
Other operating income	0.438	0.269	0.150	0.063	0.069	0.076
Total performance	8.886	9.688	10.609	11.504	12.711	13.983
Cost of material	-2.570	-2.816	-3.299	-3.306	-3.526	-3.739
Gross profit	6.316	6.872	7.310	8.198	9.186	10.244
Personnel expenses	-3.673	-3.975	-4.516	-4.813	-5.118	-5.630
Other operating expenses/income	-2.171	-2.274	-2.351	-2.810	-3.305	-3.635
EBITDA	0.472	0.623	0.443	0.575	0.763	0.979
Depreciation and amortisation	-0.171	-0.261	-0.295	-0.230	-0.254	-0.280
EBIT	0.301	0.362	0.148	0.345	0.509	0.699
Financial result	0.060	0.027	0.026	0.027	0.027	0.029
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
EBT	0.361	0.389	0.174	0.372	0.535	0.728
Non operating result after taxes	0.000	0.000	0.000	0.000	0.000	0.000
Taxes	-1.321	-0.265	0.479	-0.019	-0.027	-0.036
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
Net result	-0.960	0.124	0.653	0.353	0.509	0.692
Adjustments	-0.400	0.000	0.000	0.000	0.000	0.000
Adjusted net result	-1.360	0.124	0.653	0.353	0.509	0.692
Average number of shares	8.97	8.97	8.97	8.97	8.97	8.97
EPS	-0.11	0.01	0.07	0.04	0.06	0.08
Adjusted EPS	-0.15	0.01	0.07	0.04	0.06	0.08
DPS	0.00	0.00	0.00	0.00	0.00	0.00

Source: Design Hotels AG / Vara Research GmbH

in % of Sales	2009	2010	2011	2012e	2013e	2014e
Sales revenue	100.0	100.0	100.0	100.0	100.0	100.0
Total performance	105.1	103.6	102.4	100.0	100.0	100.0
Cost of material	-30.4	-30.1	-31.8	-28.7	-27.7	-26.7
Gross profit	74.7	73.5	70.5	71.3	72.3	73.3
Personnel expenses	-43.4	-42.5	-43.6	-41.8	-40.3	-40.3
Other operating expenses/income	-25.7	-24.3	-22.7	-24.4	-26.0	-26.0
EBITDA	5.6	6.7	4.3	5.0	6.0	7.0
Depreciation and amortisation	-2.0	-2.8	-2.8	-2.0	-2.0	-2.0
EBIT	3.6	3.9	1.4	3.0	4.0	5.0
Financial result	0.7	0.3	0.3	0.2	0.2	0.2
Non operating result before taxes	-	-	-	-	-	-
EBT	4.3	4.2	1.7	3.2	4.2	5.2
Non operating result after taxes	-	-	-	-	-	-
Taxes	-15.6	-2.8	4.6	-0.2	-0.2	-0.3
Minority interest	-	-	-	-	-	-
Net result	-11.4	1.3	6.3	3.1	4.0	4.9
Adjustments	-4.7	-	-	-	-	-
Adjusted net result	-16.1	1.3	6.3	3.1	4.0	4.9

Source: Design Hotels AG / Vara Research GmbH

Balance Sheet

in € m.	2009	2010	2011	2012e	2013e	2014e
Long term assets	0.486	0.589	0.565	0.750	0.915	0.996
Intangible assets	0.218	0.250	0.181	0.181	0.181	0.181
Tangible assets	0.268	0.338	0.384	0.570	0.734	0.815
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
Current assets	5.009	5.418	6.415	6.800	7.308	8.091
Inventories	0.107	0.170	0.304	0.356	0.394	0.433
Trade receivables	2.021	1.749	2.102	2.467	2.726	2.999
Other receivables	0.441	0.189	0.470	0.551	0.609	0.670
Cash and securities	2.440	3.309	3.540	3.425	3.579	3.989
Other assets	1.203	0.986	1.291	1.291	1.291	1.291
Total assets	6.698	6.992	8.271	8.841	9.514	10.378
Equity	4.795	4.924	5.553	5.906	6.415	7.107
Reserves	4.795	4.924	5.553	5.906	6.415	7.107
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
Provisions	0.372	0.470	1.041	1.071	1.102	1.135
Liabilities	1.531	1.598	1.075	1.262	1.394	1.534
Interest bearing liabilities	0.000	0.000	0.000	0.000	0.000	0.000
Trade payables	0.660	0.632	0.635	0.746	0.824	0.906
Non interest bearing liabilities	0.871	0.965	0.440	0.516	0.570	0.627
Other liabilities	0.000	0.000	0.603	0.603	0.603	0.603
Total equity and liabilities	6.698	6.992	8.271	8.841	9.514	10.378

Source: Design Hotels AG / Vara Research GmbH

in % of balance sheet total	2009	2010	2011	2012e	2013e	2014e
Long term assets	7.3	8.4	6.8	8.5	9.6	9.6
Intangible assets	3.3	3.6	2.2	2.0	1.9	1.7
Tangible assets	4.0	4.8	4.6	6.4	7.7	7.9
Financial assets	-	-	-	-	-	-
Current assets	74.8	77.5	77.6	76.9	76.8	78.0
Inventories	1.6	2.4	3.7	4.0	4.1	4.2
Trade receivables	30.2	25.0	25.4	27.9	28.7	28.9
Other receivables	6.6	2.7	5.7	6.2	6.4	6.5
Cash and securities	36.4	47.3	42.8	38.7	37.6	38.4
Other assets	18.0	14.1	15.6	14.6	13.6	12.4
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Equity	71.6	70.4	67.1	66.8	67.4	68.5
Reserves	71.6	70.4	67.1	66.8	67.4	68.5
Minorities	-	-	-	-	-	-
Provisions	5.6	6.7	12.6	12.1	11.6	10.9
Liabilities	22.9	22.8	13.0	14.3	14.7	14.8
Interest bearing liabilities	-	-	-	-	-	-
Trade payables	9.9	9.0	7.7	8.4	8.7	8.7
Non interest bearing liabilities	13.0	13.8	5.3	5.8	6.0	6.0
Other liabilities	-	-	7.3	6.8	6.3	5.8
Total equity and liabilities	100.0	100.0	100.0	100.0	100.0	100.0

Source: Design Hotels AG / Vara Research GmbH

Cash Flow Statement

in € m.	2009	2010	2011	2012e	2013e	2014e
Net cash provided by operating activities	0.066	1.148	0.491	0.300	0.572	0.771
Net cash used in investing activities	-0.017	-0.279	-0.272	-0.415	-0.419	-0.361
Net cash provided by financing activities	0.000	0.000	0.000	0.000	0.000	0.000
Change in cash and securities	0.049	0.869	0.219	-0.115	0.154	0.410
Cash and securities at the end of the period	2.440	3.309	3.540	3.425	3.579	3.989

Source: Design Hotels AG / Vara Research GmbH

Key ratios

	2009	2010	2011	2012e	2013e	2014e
Valuation ratios						
EV/Sales	0.56	0.51	0.39	0.29	0.27	0.24
EV/EBITDA	10.04	7.65	9.02	5.85	4.42	3.44
EV/EBIT	15.74	13.18	26.96	9.76	6.62	4.82
P/E reported	n.m.	65.33	11.54	19.55	13.58	9.98
P/E clean	n.m.	65.33	11.54	19.55	13.58	9.98
PCPS	n.m.	16.72	6.06	11.26	8.70	6.88
Price/Book Value	1.50	1.64	1.36	1.17	1.08	0.97
Profitability ratio in %						
Gross margin	74.7%	73.5%	68.2%	71.3%	72.3%	73.3%
EBITDA margin	5.6%	6.7%	4.3%	5.0%	6.0%	7.0%
EBIT margin	3.6%	3.9%	1.4%	3.0%	4.0%	5.0%
Pre tax margin	4.3%	4.2%	1.7%	3.2%	4.2%	5.2%
Net margin	-16.1%	1.3%	6.3%	3.1%	4.0%	4.9%
ROE	-26.1%	2.5%	12.5%	6.2%	8.3%	10.2%
ROCE	7.8%	11.9%	4.2%	7.5%	9.9%	12.6%
Productivity ratio						
Sales/employees (in € '000)	134.2	133.7	138.2	147.5	155.0	170.5
Net result/employees (in € '000)	-21.6	1.8	8.7	4.5	6.2	8.4
Number of employees	63	70	75	78	82	82
Financial ratio						
Equity ratio	71.6%	70.4%	67.1%	66.8%	67.4%	68.5%
Gearing	-50.9%	-67.2%	-52.5%	-46.9%	-45.1%	-46.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash Flow ratios						
Cash flow per share	-0.09	0.05	0.14	0.07	0.09	0.11
Other ratios						
Depreciation and amortisation/sales	2.0%	2.8%	2.8%	2.0%	2.0%	0.0%
Capex/sales	3.9%	3.9%	2.9%	3.6%	3.3%	2.6%
Tax rate	365.9%	68.2%	-274.5%	5.0%	5.0%	5.0%

Source: Design Hotels AG / Vara Research GmbH

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Company	Date	Recommendation	Target Price
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3. **Date of initial publication of the financial analysis:
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4. **Date and time of the prices of financial instruments disclosed therein:
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