

Date **07/30/2012**

**Buy** (formerly: Buy)  
**TP: € 0.95** (formerly: € 0.90)

### Changes

	2012E		2013E	
	New	Delta	New	Delta
Sales	11.50	1.8%	13.06	2.7%
EBIT	0.35	1.8%	0.52	2.6%
EPS	0.04	-	0.06	-
EPS*	0.04	-	0.06	-
DPS	0.00	-	0.00	-

\*clean

Homepage: [www.designhotels.com](http://www.designhotels.com)  
Sector: Tourism and Hospitality

ISIN: DE005141006

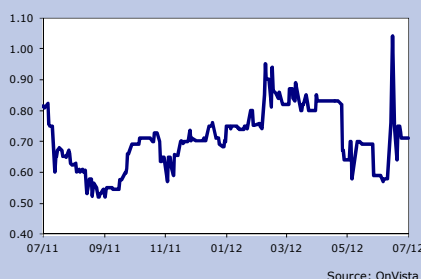
Bloomberg: LBA:GR  
Reuters: LBAG.DE  
Price (07/27/2012): € 0.77  
Market capitalisation € 6.91 Mio.  
Enterprise Value: € 3.44 Mio.  
Ø-Volume (100 days) € 371  
52W High € 0.96  
52W Low € 0.51  
Free float < 32.0%

### Financial calendar

### Shareholder structure (June 2012)

Starwood Hotels & Resorts > 50.0%  
Management 12.9%  
Oliver Schmidt 5.2%

### Price Trend



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## Design Hotels AG

### No signs of economic slowdown at Design Hotels

Revenue growth of Design hotels was driven forward by booking commissions (+26%, € 2.7 million) in the first half of 2012. The decisive factors for the increase in commissions are increased number of available room inventory, increased connectivity of member hotels and all the booking channels respectively to the central reservation system (CRS) as well as increased average room rates (currently € 219; 2011: € 213). The niche business in new luxury hotel segment proves to be relatively resistant to economic trends. We consider a double digit EBIT margin to be feasible in the long term provided a scaling in terms of 50-70 additional hotel clients is achieved without any major increase in number of personnel. The foundation for this was laid with a developed personnel and wider range of services. Due to the positive development we have raised our revenue estimates for 2012/13 slightly and continue to recommend Design Hotels share with a 2012e EV/Sales ratio of 0.29 as BUY.

### Investment Highlights

- As with the booking commissions, a comparable increase was also achieved with marketing and consulting services (+26%; € 1.8 million), this however is a fluctuating project business. For example, a major consulting contract for a hotel repositioning was concluded in H1. Membership fees (+5%; € 1.4 million) increased disproportionately lower than the number of hotels (231; +13%), since two major hotels who were charged exclusively through membership fees were taken out of the portfolio. Earnings declined mainly due to the aforementioned consulting contract (remuneration based on profit-sharing to some extent), the still outstanding Made by Originals campaign (2011: H1), accruals formed in H1 for possible bonus (previous year: H2) as well as due to an extraordinary income in the previous year. Excluding these factors, earnings in H1 would have been around € 0.25 million above the previous year.
- The connectivity to CRS (Synxis) is progressing, thus over 70% of member hotels are already connected with their respective booking engine (hotel website), and this means higher booking volumes and useful information on the booking behaviour of end customers for Design Hotel. In addition, approximately 40% of member hotels are connected with a two-way-interface which guarantees the so-called "last room availability"; in other words Design Hotel has full contingent of rooms of these hotels.
- In the medium term, an apparent disproportionately low development of personnel costs and as a consequent thereof an improvement of margins should occur, provided about 50-70 additional member hotels can be operated without any major increase in number of personnel. Revenue per employee in H1 was increased by about 10% to € 75 thousand.

### Key ratios

	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	11.7	0.4	0.04	19.2	0.29	9.79	3.0%	6.3%
2013e	13.1	0.5	0.06	13.2	0.26	6.59	4.0%	8.5%
2014e	14.4	0.7	0.08	9.7	0.24	4.79	5.0%	10.5%

Source: Design Hotels AG/Vara Research GmbH

**Competition well under control**

With a comparatively wide range of services and continued selective approach in choosing new members (only about 20-30 hotels out of 400 applications p.a.), Design Hotels is well prepared for increasing competition with other marketing consortiums and online portals. In addition, collaborations with individual online portals which also operate in the new luxury niche are arranged to create win-win-situations and ease the competition respectively.

**Website update for B2C**

A website update of designhotels.com has been planned for the second half of the year (investment: approx. € 150-200 thousand) to design the website user-friendly for the end customers. The cooperating agency has already been selected through design concept presentations by different providers.

**Guidance confirmed**

The company maintains its guidance for the years 2012/13 and expects a revenue growth in the low double digits as well as an increase in operating profits.

## Profit and Loss Statement

in € million	2009	2010	2011	2012e	2013e	2014e
<b>Sales revenues</b>	<b>8.455</b>	<b>9.356</b>	<b>10.363</b>	<b>11.711</b>	<b>13.057</b>	<b>14.363</b>
Change in finished goods and work in progress	-0.007	0.064	0.096	0.000	0.000	0.000
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	0.064	0.071	0.079
<b>Total performance</b>	<b>8.886</b>	<b>9.688</b>	<b>10.609</b>	<b>11.775</b>	<b>13.129</b>	<b>14.442</b>
Cost of material	-2.570	-2.816	-3.299	-3.482	-3.752	-3.983
<b>Gross profit</b>	<b>6.316</b>	<b>6.872</b>	<b>7.310</b>	<b>8.293</b>	<b>9.377</b>	<b>10.458</b>
Personnel expenses	-3.673	-3.975	-4.516	-4.889	-5.252	-5.777
Other operating expenses/income	-2.171	-2.274	-2.351	-2.818	-3.342	-3.676
<b>EBITDA</b>	<b>0.472</b>	<b>0.623</b>	<b>0.443</b>	<b>0.586</b>	<b>0.783</b>	<b>1.005</b>
Depreciation and amortisation	-0.171	-0.261	-0.295	-0.234	-0.261	-0.287
<b>EBIT</b>	<b>0.301</b>	<b>0.362</b>	<b>0.148</b>	<b>0.351</b>	<b>0.522</b>	<b>0.718</b>
Financial result	0.060	0.027	0.026	0.028	0.029	0.032
Non operating result before taxes	0.000	0.000	0.000	0.000	0.000	0.000
<b>EBT</b>	<b>0.361</b>	<b>0.389</b>	<b>0.174</b>	<b>0.379</b>	<b>0.551</b>	<b>0.750</b>
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	-0.028	-0.038
Minority interest	0.000	0.000	0.000	0.000	0.000	0.000
<b>Net result</b>	<b>-0.960</b>	<b>0.124</b>	<b>0.653</b>	<b>0.360</b>	<b>0.524</b>	<b>0.713</b>
Adjustments	-0.400	0.000	0.000	0.000	0.000	0.000
<b>Adjusted net result</b>	<b>-1.360</b>	<b>0.124</b>	<b>0.653</b>	<b>0.360</b>	<b>0.524</b>	<b>0.713</b>
Average number of shares	8.97	8.97	8.97	8.97	8.97	8.97
<b>EPS (in €)</b>	<b>-0.11</b>	<b>0.01</b>	<b>0.07</b>	<b>0.04</b>	<b>0.06</b>	<b>0.08</b>
<b>EPS adjusted (in €)</b>	<b>-0.15</b>	<b>0.01</b>	<b>0.07</b>	<b>0.04</b>	<b>0.06</b>	<b>0.08</b>
<b>DPS (in €)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

Source: Design Hotels AG/Vara Research GmbH

in % of Sales	2009	2010	2011	2012e	2013e	2014e
<b>Sales revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Total performance	105.1	103.6	102.4	100.5	100.5	100.5
Cost of material	-30.4	-30.1	-31.8	-29.7	-28.7	-27.7
<b>Gross profit</b>	<b>74.7</b>	<b>73.5</b>	<b>70.5</b>	<b>70.8</b>	<b>71.8</b>	<b>72.8</b>
Personnel expenses	-43.4	-42.5	-43.6	-41.8	-40.2	-40.2
Other operating expenses/income	-25.7	-24.3	-22.7	-24.1	-25.6	-25.6
<b>EBITDA</b>	<b>5.6</b>	<b>6.7</b>	<b>4.3</b>	<b>5.0</b>	<b>6.0</b>	<b>7.0</b>
Depreciation/ Amortisation	-2.0	-2.8	-2.8	-2.0	-2.0	-2.0
<b>EBIT</b>	<b>3.6</b>	<b>3.9</b>	<b>1.4</b>	<b>3.0</b>	<b>4.0</b>	<b>5.0</b>
Financial result	0.7	0.3	0.3	0.2	0.2	0.2
Non operating result before taxes	-	-	-	-	-	-
<b>EBT</b>	<b>4.3</b>	<b>4.2</b>	<b>1.7</b>	<b>3.2</b>	<b>4.2</b>	<b>5.2</b>
Non operating result after taxes	-	-	-	-	-	-
Taxes	-15.6	-2.8	4.6	-0.2	-0.2	-0.3
Minority interest	-	-	-	-	-	-
<b>Net result</b>	<b>-11.4</b>	<b>1.3</b>	<b>6.3</b>	<b>3.1</b>	<b>4.0</b>	<b>5.0</b>
Adjustments	-4.7	-	-	-	-	-
Adjusted net result	-16.1	1.3	6.3	3.1	4.0	5.0

Source: Design Hotels AG/Vara Research GmbH

## Balance Sheet

in € million	2009	2010	2011	2012e	2013e	2014e
<b>Long term assets</b>	<b>0.486</b>	<b>0.589</b>	<b>0.565</b>	<b>0.676</b>	<b>0.760</b>	<b>0.803</b>
Intangible assets	0.218	0.250	0.181	0.181	0.181	0.181
Tangible assets	0.268	0.338	0.384	0.496	0.580	0.622
Financial assets	0.000	0.000	0.000	0.000	0.000	0.000
<b>Current assets</b>	<b>5.009</b>	<b>5.418</b>	<b>6.415</b>	<b>6.904</b>	<b>7.522</b>	<b>8.369</b>
Inventories	0.107	0.170	0.304	0.363	0.405	0.445
Trade receivables	2.021	1.749	2.102	2.512	2.801	3.081
Other receivables	0.441	0.189	0.470	0.561	0.626	0.688
Cash and securities	2.440	3.309	3.540	3.468	3.691	4.155
<b>Other assets</b>	<b>1.203</b>	<b>0.986</b>	<b>1.291</b>	<b>1.291</b>	<b>1.291</b>	<b>1.291</b>
<b>Total assets</b>	<b>6.698</b>	<b>6.992</b>	<b>8.271</b>	<b>8.871</b>	<b>9.574</b>	<b>10.463</b>
<b>Equity</b>	<b>4.795</b>	<b>4.924</b>	<b>5.553</b>	<b>5.913</b>	<b>6.436</b>	<b>7.149</b>
Reserves	4.795	4.924	5.553	5.913	6.436	7.149
Minorities	0.000	0.000	0.000	0.000	0.000	0.000
<b>Provisions</b>	<b>0.372</b>	<b>0.470</b>	<b>1.041</b>	<b>1.071</b>	<b>1.102</b>	<b>1.135</b>
<b>Liabilities</b>	<b>1.531</b>	<b>1.598</b>	<b>1.075</b>	<b>1.285</b>	<b>1.432</b>	<b>1.576</b>
Interest bearing liabilities	0.000	0.000	0.000	0.000	0.000	0.000
Trade payables	0.660	0.632	0.635	0.759	0.846	0.931
Non interest bearing liabilities	0.871	0.965	0.440	0.525	0.586	0.644
<b>Other liabilities</b>	<b>0.000</b>	<b>0.000</b>	<b>0.603</b>	<b>0.603</b>	<b>0.603</b>	<b>0.603</b>
<b>Total equity and liabilities</b>	<b>6.698</b>	<b>6.992</b>	<b>8.271</b>	<b>8.871</b>	<b>9.574</b>	<b>10.463</b>

Source: Design Hotels AG/Vara Research GmbH

in % of balance sheet total	2009	2010	2011	2012e	2013e	2014e
<b>Long term assets</b>	<b>7.3</b>	<b>8.4</b>	<b>6.8</b>	<b>7.6</b>	<b>7.9</b>	<b>7.7</b>
Intangible assets	3.3	3.6	2.2	2.0	1.9	1.7
Tangible assets	4.0	4.8	4.6	5.6	6.1	5.9
Financial assets	-	-	-	-	-	-
<b>Current assets</b>	<b>74.8</b>	<b>77.5</b>	<b>77.6</b>	<b>77.8</b>	<b>78.6</b>	<b>80.0</b>
Inventories	1.6	2.4	3.7	4.1	4.2	4.3
Trade receivables	30.2	25.0	25.4	28.3	29.3	29.4
Other receivables	6.6	2.7	5.7	6.3	6.5	6.6
Cash and securities	36.4	47.3	42.8	39.1	38.6	39.7
<b>Other assets</b>	<b>18.0</b>	<b>14.1</b>	<b>15.6</b>	<b>14.6</b>	<b>13.5</b>	<b>12.3</b>
<b>Total assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Equity</b>	<b>71.6</b>	<b>70.4</b>	<b>67.1</b>	<b>66.7</b>	<b>67.2</b>	<b>68.3</b>
Reserves	71.6	70.4	67.1	66.7	67.2	68.3
Minorities	-	-	-	-	-	-
<b>Provisions</b>	<b>5.6</b>	<b>6.7</b>	<b>12.6</b>	<b>12.1</b>	<b>11.5</b>	<b>10.9</b>
<b>Liabilities</b>	<b>22.9</b>	<b>22.8</b>	<b>13.0</b>	<b>14.5</b>	<b>15.0</b>	<b>15.1</b>
Interest bearing liabilities	-	-	-	-	-	-
Trade payables	9.9	9.0	7.7	8.6	8.8	8.9
Non interest bearing liabilities	13.0	13.8	5.3	5.9	6.1	6.2
<b>Other liabilities</b>	<b>-</b>	<b>-</b>	<b>7.3</b>	<b>6.8</b>	<b>6.3</b>	<b>5.8</b>
<b>Total equity and liabilities</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Design Hotels AG/Vara Research GmbH

## Cash Flow Statement

in € million	2009	2010	2011	2012e	2013e	2014e
Net cash provided by operating activities	0.066	1.148	0.491	0.273	0.569	0.793
Net cash used in investing activities	-0.017	-0.279	-0.272	-0.345	-0.345	-0.330
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	-0.072	0.224	0.463
Cash and securities at the end of the period	2.440	3.309	3.540	3.468	3.691	4.155

Source: Design Hotels AG/Vara Research GmbH

## Key ratios

	2009	2010	2011	2012e	2013e	2014e
<b>Valuation ratios</b>						
EV/Sales	0.56	0.51	0.39	0.29	0.26	0.24
EV/EBITDA	10.04	7.65	9.02	5.88	4.39	3.42
EV/EBIT	15.74	13.18	26.96	9.79	6.59	4.79
P/E reported	n.m.	65.33	11.54	19.18	13.19	9.69
P/E clean	n.m.	65.33	11.54	19.18	13.19	9.69
PCPS	n.m.	16.72	6.06	11.06	8.46	6.69
Price/Book Value	1.50	1.64	1.36	1.17	1.07	0.97
<b>Profitability ratio in %</b>						
Gross margin	74.7%	73.5%	68.2%	70.8%	71.8%	72.8%
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%	5.0%
ROE	-26.1%	2.5%	12.5%	6.3%	8.5%	10.5%
ROCE	7.8%	11.9%	4.2%	7.7%	10.3%	13.1%
<b>Productivity ratio</b>						
Sales/employees (in € '000)	134.2	133.7	138.2	150.1	159.2	175.2
Net result/employees (in € '000)	-21.6	1.8	8.7	4.6	6.4	8.7
Number of employees	63	70	75	78	82	82
<b>Financial ratio</b>						
Equity ratio	71.6%	70.4%	67.1%	66.7%	67.2%	68.3%
Gearing	-50.9%	-67.2%	-52.5%	-47.6%	-46.7%	-48.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Cash Flow ratios</b>						
Operating cash flow per share	-0.09	0.05	0.14	0.07	0.09	0.12
<b>Other ratios</b>						
Depreciation/Sales	2.0%	2.8%	2.8%	2.0%	2.0%	2.0%
Capex/Sales	3.9%	3.9%	2.9%	2.9%	2.6%	2.3%
Tax rate	365.9%	68.2%	-274.5%	5.0%	5.0%	5.0%

Source: Design Hotels AG/Vara Research GmbH

A. Disclosures in accordance with § 34 b WpHG (German Securities Trading Act), Finanzanalyseverordnung (FinAnV) (Ordinance on the Analysis of Financial Instruments):

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**Company responsible for the publication: Vara Research GmbH**

**Authors of this financial analysis: Benjamin Ludacka, Analyst und Daniel Grossjohann, Analyst.**

Vara Research GmbH is subject to regulation through the Federal Financial Supervisory Authority (BaFin).

Previous financial analyses:

Company	Date	Recommendation	Target Price
Design Hotels AG	07/18/2012	Buy	€ 0.90

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Material sources of information for preparing this document are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA -AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers.

Furthermore, discussions were held with the Management for the purpose of preparing the company study. The analysis was provided to the issuer prior to going to press; no changes were made afterwards, however.

2. Summary of the valuation principles and methods used in preparation of the analysis:

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BUY: the expected price trend of the share amounts to at least +15%.

NEUTRAL: The expected price trend lies between -15% and +15%.

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3. **Date of initial publication of the financial analysis:  
(07/30/2012)**
4. **Date and time of the prices of financial instruments disclosed therein:  
(Price on 07/27/2012)**
5. Updates:  
We have currently not yet set a fixed date to provide a precise update of this analysis. Vara Research GmbH reserves the right to update the analysis unannounced.

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