

Report

Equities | Germany | Services
December 13th, 2010

hotel.de AG



Recommendation: Buy
Risk: Average
Current Price: EUR 12.75
Fair Value: EUR 19.0

Sector: Internet Services

Reuters Code: HTLG.F

Bloomberg Code: HTL GR

Homepage: www.hotel.de

Fiscal Year: December

Trading Data:

High -Low 52w (EUR): 17.5 – 10.06

Market Cap (in EUR mil.): 47.8

Shares outst. (in mil.): 3.75

Free Float: 41.3%

Price Graph:



Financial Calendar:

April 2011: Annual Report 2010

May 2011: Q1 Results

Date and Time of Prices:

December 10, 2010, 15:00

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Please take a note of the Disclaimer and other Information on Page 23

The beds are full again

hotel.de AG reported very good nine months 2010 results, which proved, that the company has overcome the global economic crisis, which was characterized by dampened travel activity. Sales grew by 11.6% to EUR 27.08 mil.. Particularly strong was the third quarter 2010 showing that the general recovery is still gaining in momentum.

9M 2010 operating income came in at very promising EUR 1.56 mil..

The growth story is still intact and we are pretty sure that the company will reach our EBIT target of EUR 2.00 mil. for 2010. We might have been a bit too low on the sales estimate side and therefore increase our sales expectation for fiscal year 2010 from EUR 35.0 mil. to EUR 37.5 mil.. We still like the investment story of hotel.de AG and find the stock undervalued. Our fair value per share is EUR 19.0, equal to a company value of EUR 71.1 mil.. We recommend buying the share.

Main Points

- The market environment has improved, has stabilized and even more important is showing signs of growth. Business as well as private travelers are booking hotels again, are staying longer and are increasingly using the Internet to book their rooms.
- Although the tourism industry and particularly the online market are very competitive, we believe that hotel.de AG is very well positioned to benefit from increased number of bookings over the internet. We see strong growth especially from the large and growing company client base, generating two thirds of total bookings.
- The business model is very scalable and hotel.de AG has invested heavily in its IT systems, which facilitates bookings and simplifies the acquisition of new hotel clients. This combined with a provision expansion will lead to higher margins in the midterm.
- Strong growth will come from outside Germany. The website is now available in 17 languages and will soon be translated into 37 languages. On the hotel side the company will focus on Eastern Europe and Asia.

Financials

We are positive for 2010 the coming years. We expect a sales growth of 15% in 2011, which will result in total sales of EUR 43.08 mil.. Operating margins should extend to 8.3% (2011). For 2012 we estimate sales of EUR 49.47 mil. and an EBIT margin of 11.3%. The company currently has more than EUR 22.0 mil. in cash, which should be sufficient either to invest or to pay a dividend in the long run.

Valuation

In order to calculate our price target we have combined a DCF model (70%) with a peer group analysis (30%).

(in EUR mil.)	2008	2009	2010E	2011E	2012E
Sales	34.45	34.85	37.50	43.08	49.47
EBITDA Margins	5.7%	4.6%	7.2%	10.5%	13.6%
EBIT Margins	4.3%	2.7%	5.5%	8.3%	11.3%
Net Profit	1.2	1.0	1.6	2.7	4.1
EPS	0.33	0.28	0.43	0.71	1.10
P/Sales			1.28	1.11	0.97
P/E			29.9	17.9	11.6
P/B			1.99	1.87	1.62

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Executive Summary

- › The global crisis seems to be over and hotel.de AG is again benefitting from an increase in hotel reservations around the globe. First nine months 2010 proved already the turnaround in the hotel industry as sales increased by 11.6% to EUR 27.08 mil.. EBIT figures were particularly strong with EUR 1.57 mil., resulting in an operating profit margin of 5.8%.
- › hotel.de AG is expanding its business, especially abroad and acts under the simply to memorize websites "www.hotel.de" and "www.hotel.info". WebPages are currently available in 17 languages and soon in 37 languages. Subsidiaries in the UK, France, Italy and Spain as well as the representative office in Shanghai/China should help to gain market share abroad.
- › Two thirds of the sales are generated by company bookings, one third by private bookings. Currently, around 100,000 hotels can be chosen. For the booking client the service is free of charge, hotels have to pay a fee whenever a booking turns into an overnight stay. We expect provision rates to increase in the midterm.
- › In general, bookings tend to shift from traditional offline (travel agency) to online bookings. Currently, 48% of all bookings are already made online with a growing tendency.
- › Competition in the travelling and hotel reservation industry is strong and intense. We expect a worldwide consolidation. hotel.de AG should be one of the winners thanks to a mix of long-term experience, first mover qualities, innovation capabilities, a strong client base and global presence.
- › Catalysts for future success are the ongoing trend towards online bookings, a strong growth potential mainly outside Germany (especially in Eastern Europe, Asia), an increase in provision rates and efficiency gains due to successful investments in IT.
- › For 2010 we expect EBIT to come in at EUR 2.00 mil., resulting in an operating margin of 5.5%. For 2011 we calculate with a sales growth of 15% and total sales of EUR 43.08 mil.. Operating margins should expand to 8.3% in 2011 and 11.3% in 2012.
- › The company has a very comfortable cash position of EUR 22.1 mil. (cash plus financial assets), giving the management the flexibility to either acquire a company or to pay dividends, which we find more likely.
- › Our fair company value is EUR 71.1 mil., which is equal to EUR 19.0 per share. We have used a DCF Model and combined this with a per group analysis. We recommend buying the stock.

SWOT-Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Due to a successful marketing strategy, the company has a very good market position and an excellent brand name. This should support future expansion plans. • hotel.de AG offers rooms in almost 100,000 hotels and has a strong position particularly in smaller cities and rural areas. • The company has streamlined the organization and runs now very efficiently. • The high cash position gives hotel.de AG enough flexibility to grow internally as well as externally. 	<ul style="list-style-type: none"> • The company focuses on hotel rooms and therefore might lose clients who are preferring to buy packaged trips • In comparison to competitors the provisions are still below average.
Opportunities	Threads
<ul style="list-style-type: none"> • The positive trend towards online hotel booking should continue, which will support above average growth rates. • The business model is globally expandable as well as very scalable: We especially see strong potential in Asia as well as in Eastern Europe. 	<ul style="list-style-type: none"> • Competition is very intense and the fight for the client is hard. This could lead to an increase in marketing costs. • Especially retail clients do not have a strong loyalty to any particular booking site. Special efforts are needed to keep the client. • Hotel prices and the length of stay are very dependent on the economic environment, making the business model more cyclical than expected.

Short- and mid-term Catalysts

- We expect positive news flow from booking rates in the coming periods. Additionally the management might soon give guidance in regards to the business development in 2011.
- 2010 results being announced in January 2011 could surprise on the positive side.

Valuation

We calculate the fair value of hotel.de AG by combining a Discounted-Cash-Flow (DCF)-Model with a peer group analysis.

We are aware, that the DCF method involves some risks. Therefore, we have additionally conducted a sensitivity analysis, in order to calculate several scenarios („best case“/ „worst case“) to reach a plausible and realistic fair value of the company.

Investors tend to compare valuations of companies with similar business models. Consequently, we performed a peer group analysis. We find a comparison of the selected firms legitimate, as business models are very comparable, so should valuations.

The combination of both valuation methods resulted in a fair value of EUR 71.1 mil. or EUR 19.0 per share. We recommend BUYING the stock.

Blended Valuation

We have weighted the DCF model with 70% and the peer group analysis with 30%. We put a higher emphasis on the DCF valuation as we find the intrinsic value of hotel.de AG is of higher significance. The valuations of the peer companies are diverse and volatile. Consequently we have underweighted the peer group analysis in our blended valuation.

Blended valuation of hotel.de AG

Blended Valuation			
	Total Value in EUR mil.	per Share in mil.	Weight
Valuation DCF	73	19.59	70.0%
Valuation Peer	66	17.52	30.0%
Target Price	71.1	19.0	

Source: VEM Aktienbank

DCF Valuation

We have used the Free Cash Flow to Equity (FCFE) in order to calculate the DCF value of the equity of hotel.de AG. We have used a long-term growth rate of 2.5%, which is starting in fiscal year 2018.

Our WACC (weighted average cost of capital) is 9.95%, which we find appropriate for a small sized company, focusing its business development on the internet.

DCF Model

(in EUR mil.)	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Income	1.44	1.25	1.04	1.60	2.67	4.13	4.54	4.62	4.62	5.08	5.59
(+) Depreciation and Amortisation	0.44	0.48	0.60	0.62	0.93	1.09	1.62	1.80	1.98	2.18	2.40
(-) Cash flow from working capital	-	0.39	1.28	(0.98)	(0.11)	(0.72)	(0.15)	(0.16)	(0.18)	(0.20)	(0.22)
(-) Capital Expenditure	-	0.35	(0.62)	(1.55)	(1.40)	(1.09)	(1.62)	(1.80)	(1.98)	(2.18)	(2.40)
(-) Net Debt repayments	-	0.00	(0.26)	0.06	0.05	-	-	-	-	-	-
FCFE	1.88	2.47	2.05	(0.26)	2.14	3.41	4.39	4.46	4.44	4.88	5.37
FCFE adjusted for valuation date	-	2.47	2.05	(0.26)	2.14	3.41	4.39	4.46	4.44	4.88	5.37
PV of cash flows	-	2.47	2.05	(0.26)	1.94	2.81	3.29	3.03	2.75	2.75	2.75
Sum of PV - First Phase	6.53										
Sum of PV - Second Phase	14.57										
Terminal Value growth Rate	2.5%										
Terminal Value	73.92										
PV of Terminal Value	41.62										
PV of FCFE	62.73										
(+) Cash	10.72										
Target Value	73.45										

Source: VEM Aktienbank

Summary of DCF Valuation	Value in mil. EUR	% of Total
PV of Frist Stage	6.53	8.9%
PV Second Stage	14.57	19.8%
PV of Terminal Value	41.62	56.7%
Cash	10.72	14.6%
Target Price	73.45	100.0%

Cost of Equity	
Cost of Equity	9.95%
Beta	1.00
Risk Premium	7.0%
Risk Free rate	3.0%

Source: VEM Aktienbank

Sensitivity Analysis

We additionally have calculated the fair value of hotel.de AG under different scenarios. We came to the conclusion that, even under very aggressive assumptions, the stock still seems to be undervalued.

Sensitivity of the fair value

Total Value in EUR mil.							Value per Share in EUR						
Growth Rate	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	Growth Rate	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC							WACC						
9.0%	67.422	70.079	73.115	76.619	80.706	85.537	9.0%	17.98	18.69	19.50	20.43	21.52	22.81
9.5%	63.767	66.047	68.631	71.584	74.992	78.968	9.5%	17.00	17.61	18.30	19.09	20.00	21.06
10.0%	60.523	62.495	64.713	67.227	70.100	73.415	10.0%	16.14	16.67	17.26	17.93	18.69	19.58
10.5%	57.627	59.343	61.262	63.420	65.865	68.661	10.5%	15.37	15.82	16.34	16.91	17.56	18.31
11.0%	55.025	56.528	58.198	60.065	62.165	64.544	11.0%	14.67	15.07	15.52	16.02	16.58	17.21
11.5%	52.676	53.999	55.462	57.087	58.903	60.947	11.5%	14.05	14.40	14.79	15.22	15.71	16.25
12.0%	50.544	51.715	53.003	54.427	56.009	57.776	12.0%	13.48	13.79	14.13	14.51	14.94	15.41
12.5%	48.602	49.643	50.782	52.036	53.422	54.962	12.5%	12.96	13.24	13.54	13.88	14.25	14.66
13.0%	46.825	47.754	48.767	49.877	51.097	52.446	13.0%	12.49	12.73	13.00	13.30	13.63	13.99
13.5%	45.194	46.026	46.930	47.917	48.997	50.185	13.5%	12.05	12.27	12.51	12.78	13.07	13.38
14.0%	43.692	44.440	45.250	46.130	47.091	48.142	14.0%	11.65	11.85	12.07	12.30	12.56	12.84
14.5%	42.304	42.978	43.706	44.495	45.353	46.288	14.5%	11.28	11.46	11.66	11.87	12.09	12.34

Source: VEM Aktienbank

Peer-Group Analysis

We have included companies to the peer group which are offering tourism services over the internet. Although the business models of the peers are not fully identical to the one of hotel.de AG and most the selected companies are bigger than hotel.de AG, we still believe that a comparison is legitimate.

We have decided to choose international companies as hotel.de AG is generating an increasing portion of sales abroad. One of the main competitors is the German HRS, "Hotel Reservation Robert Ragge GmbH". Unfortunately it is a private company and there are no estimates available. Consequently HRS could not be included into the peer group.

In order to value hotel.de AG relative to its peers, we have decided to choose two common valuation ratios: the Price to Earnings Ratio (P/E) and the EV/EBITDA Ratio.

We have weighted fiscal year 2010 with 10%, fiscal year 2011 with 70% and fiscal year 2012 with 20%.

The peer group analysis resulted in a total fair value of EUR 65.7 mil., equal to EUR 17.5 per share for hotel.de AG

Valuation peer

	Country	2010E						2011E						2012E					
		P/Sales	P/E	P/EBITDA	EV/EBITDA	P/EBIT	EV/EBIT	P/Sales	P/E	P/EBITDA	EV/EBITDA	P/EBIT	EV/EBIT	P/Sales	P/E	P/EBITDA	EV/EBITDA	P/EBIT	EV/EBIT
hotel.de	D	1.3	29.9	18.2	14.2	23.9	18.6	1.1	17.9	10.8	8.4	13.7	10.6	1.0	11.6	7.3	5.7	8.7	6.8
priceline.com	USA	6.3	30.1	21.9	20.3	23.9	22.1	5.0	22.6	16.1	14.9	17.2	15.9	4.3	18.5	13.1	12.2	13.8	12.8
Orbitz Worldwide	USA	0.7	36.4	3.8	6.2	7.6	12.4	0.7	21.8	3.5	5.8	6.4	10.5	0.7	16.1	3.5	5.7	5.8	9.5
Tui Travel plc	UK	0.2	9.8	3.6	3.6	5.5	5.5	0.2	8.9	3.4	3.4	5.1	5.1	0.2	7.9	3.2	3.2	4.7	4.7
Travelzoo	USA	6.3	57.3	30.7	29.2	32.4	30.8	5.7	47.8	27.2	25.8	28.4	26.9	5.0	35.8	23.5	22.4	28.2	26.8
Ctrip	CHN	13.9	41.7	33.3	32.9	37.7	37.3	10.4	32.4	24.4	24.2	27.7	27.4	7.9	24.6	18.7	18.5	20.5	20.3
Wotif.com	AUS	6.8	17.7	11.9	10.7	12.9	11.7	6.1	15.5	10.4	9.4	11.3	10.2	5.5	13.7	9.3	8.4	10.0	9.1
Expedia	USA	2.2	15.5	7.9	8.0	9.8	10.0	2.0	13.4	6.9	7.1	8.5	8.6	1.8	11.7	6.3	6.5	7.5	7.7
Durchschnitt		5.2	29.8	16.1	15.8	18.5	18.5	4.3	23.2	13.1	12.9	14.9	15.0	3.6	18.3	11.1	11.0	12.9	13.0
Median		6.3	30.1	11.9	10.7	12.9	12.4	5.0	21.8	10.4	9.4	11.3	10.5	4.3	16.1	9.3	8.4	10.0	9.5

Source: VEM Aktienbank und IBES

Business development of peer

Country	Sales Growth			EPS Growth			EBIT Margins			EBITDA Margins			
	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	
hotel.de	D	12.8%	15.0%	15.0%	53.4%	67.1%	54.8%	5.5%	8.3%	11.3%	7.2%	10.5%	13.6%
priceline.com	USA	31.5%	26.5%	15.4%	58.9%	32.8%	22.3%	26.3%	28.9%	31.2%	28.6%	30.8%	32.7%
Orbitz Worldwide	USA	3.8%	7.1%	5.8%	-103.9%	66.7%	36.0%	9.7%	10.8%	11.3%	19.6%	19.7%	18.9%
Tui Travel plc	UK	-2.8%	1.1%	2.4%	12.7%	9.7%	12.8%	3.2%	3.4%	3.6%	4.9%	5.1%	5.3%
Travelzoo	USA	22.4%	10.9%	12.2%	92.3%	20.0%	33.3%	19.4%	20.0%	17.9%	20.4%	20.8%	21.4%
Ctrip	CHN	46.9%	32.9%	32.4%	41.9%	28.6%	31.9%	36.8%	37.7%	38.5%	41.7%	42.7%	42.2%
Wotif.com	AUS	6.2%	12.5%	11.3%	2.4%	14.5%	12.5%	52.8%	53.7%	54.3%	57.5%	58.2%	58.5%
Expedia	USA	13.4%	12.7%	10.0%	25.0%	15.9%	14.2%	23.0%	23.5%	24.0%	28.5%	28.6%	28.5%

Source: VEM Aktienbank and IBES Estimates

Valuation hotel.de AG considering peer valuations

	Weighting			
2010	10%			
2011	70%			
2012	20%			
Fair Value in EUR mil.	2010	2011	2012	
	P/E	47.5	61.9	75.7
	EV/EBITDA	52.4	66.7	81.4
Fair Value (in EUR mil.)	65.7			
Fair Value per Share in EUR	17.5			

Source: VEM Aktienbank

Profiles of competitors (in alphabetic order)

Ctrip.com (CHN, Market Cap: USD 6.3 bn.)

The company offers online hotel reservations, flight tickets and packaged tours in China. Operative headquarter is in Shanghai/China. In 2009 the company achieved sales of USD 292 mil..

Expedia (USA, Market Cap: USD 7.5 bn.)

Expedia is a strong and globally active online travel agent. The company offers hotels, flights, cars and other related services. Brands are Expedia.com, Hotels.com and Tripadvisor.com. 67% of sales are generated in the USA, 33% outside the USA. In fiscal year 2009 sales were USD 2.95 bn..

Orbitz Worldwide (USA, Market Cap.: USD 568 mil.)

The company is an online travel agency offering a broad range of services to its clients. The brand portfolio includes orbitz.com, cheaptickets.com und ebookers.com. The company has reached sales of USD 723 mil. in fiscal year 2009.

priceline.com (USA, Market Cap.: USD 20.2 bn.)

priceline.com is one of the leading online travel and reservation firm. The most famous brands are booking.com, priceline.com and agoda.com. In 2009 the company has reached sales of USD 2.3 bn..

Travelzoo (USA, Market Cap.: USD 627 Mio.)

The company is an international internet company and as more than 18 mil. clients. The firm offers mainly packaged travels. In 2009 the company has reached sales of USD 91 mil..

Tui Travel plc (UK, Market Cap.: GBP 2.2 bn.)

The company is a British touristic company with more than 50,000 employees and an airline fleet of 150 planes. In 2009 the company generated sales of GBP 13.8 bn..

Wotif.com (AUS, Market Cap.: AUD 953 mil.)

The company is an Australian online travel agency. The most popular brands are wotif.com and lastminute.com.au. In the last fiscal year the company has achieved sales of AUD 139 mil..

Profile: Helping to fill beds

hotel.de AG is a Nuremberg/Germany based company acting as a reservation agency of hotel rooms and conferences over the internet and via a call-center. The company was founded in 2001 and has subsidiaries in the United Kingdom, France, Spain and Italy. Additionally, hotel.de AG has opened a representative office in Shanghai/China in 2009.

95% of the clients book hotel rooms via the internet platforms "www.hotel.de" (mainly in Germany) and "www.hotel.info" (mainly abroad). 5% of the bookings are made via a 24X7 call-center. The internet sites are currently available in 17 languages.

Main reasons for an increasing amount of online room bookings are the high transparency, simplified price and hotel comparisons, time savings and - probably most important - money savings.

hotel.de AG targets business as well as private clients. The service is free of charge for booking clients.

Currently, almost 100,000 hotels can be booked around the globe. They underlie a "best price guarantee". For the procurement of rooms, hotel.de AG receives a provision from hotel clients. The average provision charge is 12.0%. The management plans to increase it to 13.0% in the short run.

Client Structure

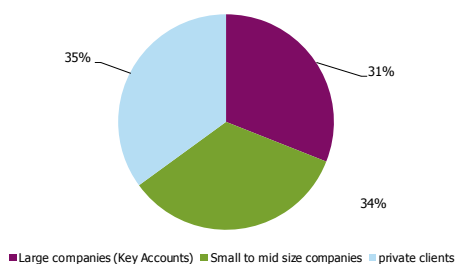
hotel.de AG has two kinds of clients: booking clients, making a room reservation and hotel clients, offering hotel rooms.

Booking clients

Booking clients can be either companies or private clients.

hotel.de AG has contracts with currently 518 large companies, so called key accounts. They have increased strongly over the last years – in June 2006 it were just 144 - and will continue to do so in the future. Key accounts are responsible for 31% of total booking volume. 34% of the booking volume is generated by roughly 322,000 small to mid size firms and 2.6 mil. private clients generate 35% of the booking volume.

Current structure of booking clients

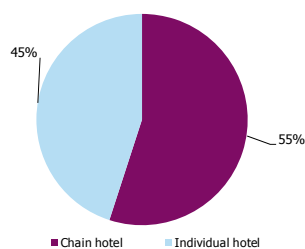


Source: hotel.de AG

Hotel clients

Currently, hotel.de AG has contracts with almost 100,000 hotels, with 1,000 new ones added monthly. 55% are chain, 45% are individual hotels. Next to a very high presence in metropolitan areas, hotel.de AG is particularly strong in rural regions.

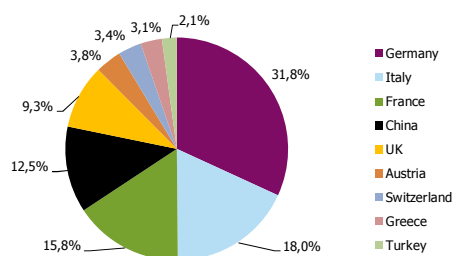
Structure of hotel clients



Source: hotel.de AG

The majority of the hotels are based in Germany, followed by Italy and France. In the future we expect above average additions coming from Asia and Eastern Europe.

Hotels by region



Source: hotel.de AG

Three Pillars: Content – Marketing – Infrastructure (IT)

Future success will be dependent on the right balance between an optimal surface & content of the internet pages, a sound marketing strategy as well as an optimized infrastructure (IT).

Each pillar is essential but only the optimal combination of the three pillars will finally lead to company success.

Content

hotel.de AG offers the largest number of hotels compared to its competitors. The user interface is simple and easy to handle. The site offers all sorts of information about hotels as well as a broad

range of screening and search options. The potential booking client finds hotel valuations (qualitative as well as quantitative) by former hotel guests.

Marketing

The company passes on classical offline advertisement like print, TV or radio. Instead it focuses solely on online marketing, direct marketing and tourism fairs. hotel.de AG spends a substantial amount on search engine marketing and is placing ads on selected internet sites.

Infrastructure (IT)

hotel.de AG has massively invested in a suitable IT infrastructure and will continue to do so. Especially for this business model, a reliable, easy to handle and functioning system is crucial. The company owns a substantial amount of servers and software solutions.

Clients can easily search for a hotel room; new hotels can register via the new "Hotel-Center" application and can later update their offers through their own reservation system (CRS) or use myRes, a system provided by hotel.de AG. Additionally, newsletter, promotions and hotel bills among others can be generated and distributed automatically.

Market and Competition

The travel industry is very fragmented; in Germany as well as around the globe. The trend goes towards online bookings. Already 48% of all bookings are made online with an upwards trend. 30% of all German households are currently booking at least one trip a year over the internet.

Offline vs. online travel bookings



Source: Ulysses Web Tourismus

Classical travel agencies are competitors of hotel.de AG, but to an increasing amount, online reservation portals are fighting for the same customer. hotel.de´s main and leading competitor is the Cologne based private HRS (Hotel Reservation Service).

Over the last years foreign pure hotel reservation sites like "www.booking.de" (owned by the public company priceline.com) have increasingly gained market share. Nevertheless, hotel.de AG is still one of the top online reservation companies in Germany and is gaining market share abroad.

Competitors are also to a large amount small private reservation portals and other portals focusing on full packaged trips (flights in combination with hotels for example). But compared to hotel.de AG those companies concentrate more on private clients than on company clients.

Large hotel chains like the Accor Group or Hilton offer own hotel reservation platforms.

We expect the already ongoing consolidation process to continue. We believe hotel.de AG will be one of the winners. The company is well established among private as well as company bookers. hotel.de AG offers a high level of service in combination with innovative offers. We believe, the domain "www.hotel.info" and a perfect marketing strategy should help to gain market share abroad, especially in Eastern European countries, where competition is much lower.

The Management

The top management consists of three experienced, dedicated and well educated managers. The founder and Chairman of the company Dr. Heinz Raufer is responsible for Finance and Marketing. He has a long-term experience in software development as well as online services.

Torsten Sturm, as well a founder of the company, is responsible for the IT unit. He owns a degree in Information Technology and is a specialist in internet security.

The third member of the top management is Reinhard Wick, also a founding member. He is responsible for the acquisition strategy (hotels) and general sales.

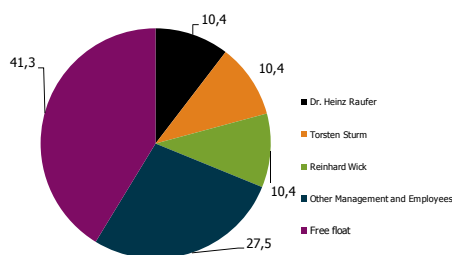
The Equity Structure

A large amount of the shares are held by the management.

We find this very positive, as it forces the management to show a high level of engagement and the willingness to lead the company to success.

41.3% of the shares are free float.

Current equity structure



Source: hotel.de AG

Growth and Earnings Drivers

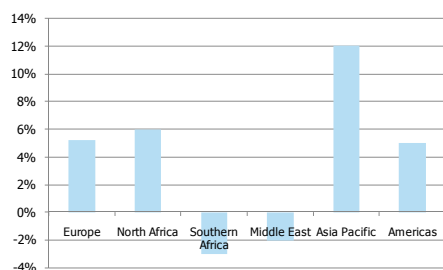
hotel.de AG’s growth story is still intact. We have defined several drivers, which should support long-term above average growth rates and an increase in profit margins.

Positive Tourism indicators and ongoing Shift towards online hotel booking

The global economic crisis and consequently the downturn in tourism activities have come to an end. Countries around the world expect a positive economic growth, which should have a positive effect on the tourism industry. hotel.de AG should benefit, as more hotel rooms will be booked.

The “World Travel & Tourism Council” published that international passenger traffic has increased by 10.5% in September 2010 over the same period in 2009. “The World Tourism Organization” has announced a 6.8% increase in international overnight arrivals from January to August 2010. For the full year forecasts suggest that international arrivals will grow between 5-6% compared to 2009. Hotel occupancy rates from January to September 2010 grew in most regions compared to 2009. Recovery in hotel performance was strongest in emerging markets (see graph).

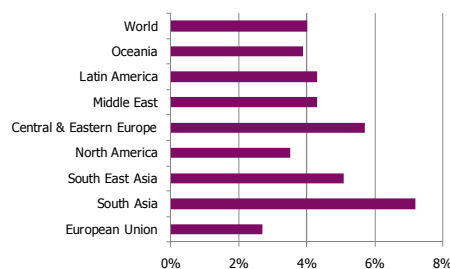
Change in occupancy rates from Year to Sept. 2010



Source: STR, SRT Global

“World Travel & Tourism” expects that the tourism industry will globally grow at an annual rate of 4% over the next ten years. Regionally, the strongest growth is seen in Asia (South East Asia: +5.1%, South Asia: +7.2%) as well as in Central and Eastern Europe (+5.7%),

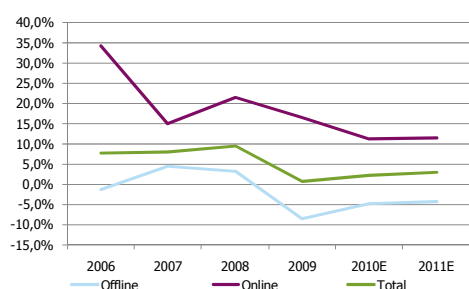
Expected average tourism growth (10 years)



Source: World Travel & Tourism Council

We expect online hotel bookings to continue to grow above average and to take market share from traditional offline bookings. Experts from "PMAXX" estimate that till 2015 the internet will play an important role for 72% of all travel bookings. "Ulysees Web Tourismus" estimates for 2010 and 2011 again rising strong growth of online bookings in Germany.

Booking growth in Germany online vs. offline in %



Source: Ulysees Web-Tourismus

Successful Branding Strategy

The company follows a successful branding strategy. The two domains "hotel.de" and "hotel.info" are memorized and recognized easily around the world. This, in addition with successful search engine marketing will help the company to stay competitive.

Adding to the positive brand recognition is the high level of client satisfaction rate. Generally, the online booking client is not characterized by a high level of loyalty to the booking agents. But thanks to a simple and easy booking method, a high hotel quality, helpful hotel valuations by clients and other features, hotel.de AG is able to achieve recurring bookings and due to a positive mouth to mouth propaganda additional new clients.

Strong company client growth

As already mentioned two thirds of the bookings are done by companies and therefore business travelers. Corporates are now increasingly travelling again and are staying longer.

In comparison to private clients they are characterized by a high loyalty towards online agents. hotel.de AG signs special contracts with firms, offers corporate rates and special deals. Clients are serviced by key account managers (large firms) as well as by a direct marketing strategy (small to midsize firms). The corporate client base increases daily; thanks to an aggressive and successful acquisition strategy and due to the general and ongoing trend towards online booking by corporates.

Internationalisation

Although we still see growth potential in the home market Germany, future major growth will come from abroad. Competition is low in quite view regions, markets are still underpenetrated, hotels are looking for a perfect partner helping to fill their hotel rooms and potential hotel clients still use offline sources to book their room.

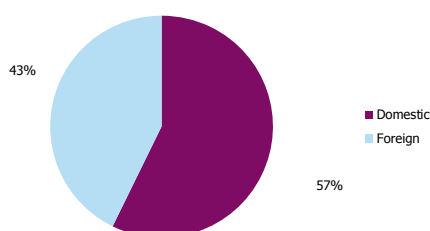
The domain "www.hotel.info" should support hotel.de AG to expand abroad. The subsidiaries in Spain, France, Great Britain, Italy and an office in Shanghai will make it simple to add new hotels to the already quite extensive list of hotel.de AG. On a monthly basis 1000 new hotels are added. The subsidiaries are responsible as well to organize and create the local online marketing mix in the home regions. This should increase traffic to the sites.

Currently, hotel.de AG offers its service in 17 languages (German, English, French, Spanish, Italian, Catalan, Czech, Hungarian, Dutch, Polish, Portuguese, Rumania, Russian, Finnish, Swedish, Turkish and Chinese) but will extend to 37 languages in the short run. Competitors like HRS offer the service in 32 languages, booking.de in 39 languages. Thus, by adding additional languages hotel.de AG will gain in competitive edge and should help to add additional booking clients (companies as well as private clients).

Last year the company invested around EUR 4 mil. into the international expansion and will continue to do so in the coming years.

In the first nine months 2010 43% of total sales were generated abroad, compared to 2005, where roughly just a third of sales were coming from abroad.

Sales allocation Q3 2010 national/international in %



Source: VEM Aktienbank

Increase in Commission Rates combined with Efficiency Improvements

Historically hotel.de AG charged lower commissions to hotels than its competitors. We expect this to change in the midterm. Currently commissions are at 12% on average, it is planned to increase them to 13%, which then is at the level of the competitor HRS.

We expect commission raise is realizable. Especially small to midsize hotels have very high marketing costs to “acquire” a new customer. By using hotel.de AG as a booking partner costs can be reduced tremendously (traditional agencies charge even a higher rate). Additionally, the reach of new customers can be extended dramatically when working together with hotel.de AG.

Supportive for a future margin expansion is the fact, that hotel.de AG has invested substantially in IT, which will reduce costs in general. A high degree of automatisisation will reduce personal costs as well as administration costs. On the hotel acquisition side a new system called “Hotel-Center” will simplify hotel registration, which will reduce hotel acquisition costs and makes it easy to add hotels.

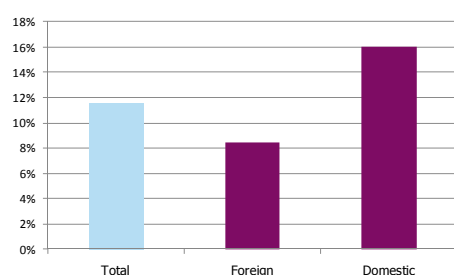
hotel.de AG is open for new booking trends. The company offers already an android version, which enables to book hotel rooms via a mobile phone. Soon, the company will come up with an Iphone version.

Financials

Successful 9 months 2010

The first nine months figures 2010 were very promising. Sales increased by 11.6% to EUR 27.08 mil. compared to the same period in 2009 (EUR 24.27 mil.). As expected, foreign sales were strong. They gained 16%, reaching EUR 11.57 mil.. Domestic sales grew by a satisfying 8.4% to EUR 15.51 mil..

Allocation of 9m 2010 sales growth



Source: hotel.de AG und VEM-Aktienbank

Actual commission rates increased as well. In the first nine months domestic commission rates increased from 9.3% (9m 2009) to 9.6% (9m 2010). Foreign commission rates reached 9.42% (9m 2010) up from 9.0% (9m 2009).

We are particularly pleased with the margin expansion, showing the IT investments have paid off. 9m 2010 EBIT margins expanded to 7.3% compared to 4.2% in the same period last year. Net margins have reached 4.9% after 2.6% in the first nine months 2009.

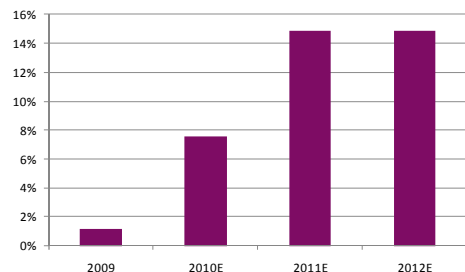
Finally, the company was able to generate a positive cash flow of EUR 1.82 mil.. The cash position excluding financial assets was at a comfortable EUR 10.911 mil. (Sept. 30th, 2010)

Outlook 2010, 2011 and beyond

We are confident that the company will reach our old estimate targets on the sales as well as on the margins side. Actually, we expect an overachievement as the first nine months have already been strong and we do not see any reason, why the fourth quarter should disappoint. Consequently we are raising our targets, as the growth drivers are again intact.

For the full year 2010 we now expect total sales of EUR 37.5 mil., a plus of 8.0% compared to last year. As we expect higher commission rates in the longer run and over proportionally high growth rates on the international front, we expect sales growth rates to expand in 2011 and 2012. For fiscal year 2011 we expect hotel.de AG should reach EUR 43.08 mil., equal to a growth rate of 15%. For 2012 we calculate with EUR 49.47 mil. (a plus of 15%).

Estimated Sales Growth Development

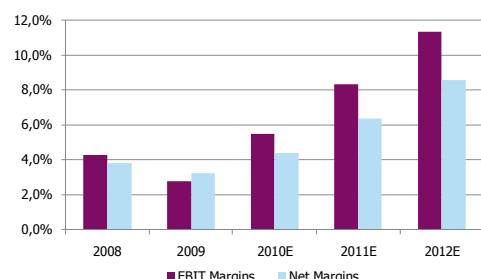


Source: VEM Aktienbank

On the margins side we calculate with a margin expansion. Tough, very high margins achieved in 2005 and 2006, will not be reached anymore. We expect margins to grow mainly due to the fact that the scalability of the business model should have a positive effect on the profit development and personal as well as marketing costs will grow at a slower pace as sales.

For 2010 we calculate with an operating profit of EUR 2.00 mil., equal to an EBIT margin of 5.5%. In 2011 EBIT margins should extend to 8.3% (EUR 3.49 mil.), for 2012 we calculate with EBIT margins of 11.3%, finally in the double digit range again.

Margins development 2008 till 2012



Source: VEM Aktienbank

Appendix - Financials

Profit and Loss Statement

in EUR mil.	2005	2006	2007	2008	2009	2010E	2011E	2012E
Sales	12.40	19.59	25.88	32.71	32.37	36.50	41.98	48.27
Growth in %			32%	26.4%	-1%	13%	15%	15%
Others	0.06	0.39	0.92	1.74	2.49	1.00	1.10	1.20
Growth in %			138%	90%	43%	-60%	10%	9%
Total	12.46	19.98	26.80	34.45	34.85	37.50	43.08	49.47
Growth in %			34%	29%	1%	8%	15%	15%
Costs of Goods Sold	-1.1	-1.34	-2.02	-3.15	-3.62	-0.55	-0.63	-0.72
in % of Sales	8.8%	6.7%	7.5%	9.2%	10.4%	1.5%	1.5%	1.5%
Gross Profit	11.36	18.64	24.78	31.29	31.23	36.95	42.45	48.75
Gross Margins	91.2%	93.3%	92.5%	95.7%	96.5%	101.2%	101.1%	101.0%
Personnel Expenses	-4.07	-7.43	-11.53	-14.07	-13.57	-14.62	-15.35	-16.12
in % of Sales	32.8%	37.9%	44.6%	43.0%	41.9%	40.1%	36.6%	33.4%
Other operating Expenses	-3.51	-7.64	-10.90	-15.35	-16.17	-19.71	-22.67	-26.07
in % of Sales	28.3%	39.0%	42.1%	46.9%	47.5%	54.0%	54.0%	54.0%
EBITDA	3.78	3.58	2.35	1.88	1.49	2.62	4.43	6.56
EBITDA Margins	30.5%	18.3%	9.1%	5.7%	4.6%	7.2%	10.5%	13.6%
Depreciation	0.15	0.23	0.44	0.48	0.60	0.62	0.93	1.09
EBIT	3.63	3.34	1.90	1.40	0.89	2.00	3.49	5.47
EBIT Margins	29.2%	17.1%	7.4%	4.3%	2.7%	5.5%	8.3%	11.3%
Financial Income	0.0	0.21	0.45	0.35	0.55	0.28	0.32	0.43
EBT	3.64	3.56	2.35	1.74	1.44	2.28	3.81	5.90
	29.4%	18.2%	9.1%	5.3%	4.5%	6.3%	9.1%	12.2%
Taxes	1.45	1.43	0.91	0.49	0.54	0.68	1.14	1.77
Tax Rate	40%	40%	39%	28%	30%	30%	30%	30%
Other taxes		0.00	0.00	0.00	0.14	0.00	0.00	0.00
Net Profit	2.19	2.12	1.44	1.25	1.04	1.60	2.67	4.13
Net Margins	17.6%	10.6%	5.4%	3.8%	3.2%	4.4%	6.4%	8.6%
EPS		0.57	0.38	0.33	0.28	0.43	0.71	1.10
Number of Shares		3.75	3.75	3.75	3.75	3.75	3.75	3.75

Source: hotel.de AG and VEM Aktienbank

Balance Sheet

(in EUR mil.)	2006	2007	2008	2009	2010E	2011E	2012E
Assets							
Fixed Assets	0.2	0.1	0.5	1.0	2.2	2.9	3.0
Intangible Assets	0.1	1.6	1.3	1.0	0.6	0.4	0.3
Financial Assets	0.3	3.7	2.5	11.1	11.1	11.1	11.1
Long Term Assets	0.5	5.4	4.3	13.1	13.9	14.3	14.3
Inventories	0.0	0.0	0.0	-	0.0	0.0	0.0
Trade Receivables							
Trade Receivables from Operations	4.8	6.9	6.3	5.5	6.5	6.9	7.9
other Receivables	0.8	1.2	1.7	1.1	1.1	1.1	1.1
Cash	20.8	16.2	17.4	10.7	9.4	10.4	13.6
Current Assets	26.5	24.3	25.4	17.3	17.0	18.4	22.7
Accrued Items	0.2	0.3	0.4	0.4	0.4	0.4	1.4
TOTAL	27.2	30.0	30.1	30.8	30.9	32.7	37.0
Liabilities and Stockholder's Equity							
Equity	21.6	23.0	23.0	24.1	24.1	25.6	29.5
Subscribed Capital	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Capital Reserves	15.6	15.6	15.6	15.6	15.2	15.2	15.2
Retained Earnings	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Accumulated Deficit/Profit	2.1	3.6	3.6	4.6	5.0	6.5	9.4
Provisions	1.7	3.0	2.3	2.6	2.8	3.1	3.4
Liabilities							
Long-term Financial Liabilities	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Long-term Trade Liabilities	0.8	0.4	0.5	0.3	0.1	0.1	0.1
Liabilities from Companies	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Other Liabilities	2.1	2.6	3.3	3.1	3.1	3.2	3.3
Deffered Income	0.7	0.6	0.6	0.3	0.3	0.3	0.3
TOTAL	27.2	30.0	30.1	30.8	30.9	32.7	37.0

Source: hotel.de AG and VEM Aktienbank

Cash-flow Statement

(in EUR mil.)	2008	2009	2010E	2011E	2012E
Net Income	1.2	1.0	1.6	2.7	4.1
Depreciation	0.5	0.6	0.6	0.9	1.1
Changes in Provisions	-0.7	0.3	0.3	0.3	0.3
Changes in Receivables and other assets	0.1	1.5	-1.1	-0.4	-1.0
Changes in Liabilities and others	1.0	-0.4	-0.2	0.0	0.0
Cash flow from Operating Activities	2.1	2.9	1.2	3.5	4.5
Purchase of intangible Assets and Fixed Assets	0.3	-0.6	-1.6	-1.4	-1.1
Cash flow from investing Activities	0.3	-0.6	-1.6	-1.4	-1.1
Cash Proceeds from equity sources	0.0	-8.6	0.0	0.0	1.0
Dividends	0.0	-1.2	-1.2	-1.2	-1.2
Changes of Bank Liabilities	0.0	-0.3	0.1	0.1	0.1
Cash flow from Financing Activities	0.0	-10.1	-1.1	-1.1	-0.1
Cash flow for the Year	2.5	-7.8	-1.5	0.9	3.3
Cash Balance at the Beginning of the Year	16.2	18.7	10.9	9.4	10.4
Cash Balance at the End of the Year	18.7	10.9	9.4	10.4	13.6

Source: hotel.de AG and VEM Aktienbank

Key Figures

	2010E	2011E	2012E
Growth			
Sales	8%	15%	15%
EBITDA	76%	69%	48%
EBIT	125%	75%	57%
EBT	58%	67%	55%
Net Income	53%	67%	55%
Margins			
EBITDA Margin	7.2%	10.5%	13.6%
EBIT Margin	5.5%	8.3%	11.3%
EBT Margin	6.3%	9.1%	12.2%
Net Margin	4.4%	6.4%	8.6%
Balance Sheet Ratios			
ROE	6.6%	10.4%	14.0%
ROIC	6.5%	10.2%	13.8%
ROCE	9.3%	15.6%	23.4%
Debt Ratio	12.7%	12.9%	12.4%
Equity Ratio	78.0%	78.1%	79.6%
Asset Turnover Ratio	0.85	0.78	0.77
Per Share			
EPS	0.43	0.71	1.10
EPS growth	53%	67%	55%
DPS	0.32	0.32	0.32
Book Value	6.42	6.81	7.86
Market Measures			
P/Sales	1.3	1.1	1.0
P/Earnings	29.9	17.9	11.6
P/Book value	2.0	1.9	1.6

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Date of publication	Share Price at this date	Recommendation	New Fair Value (at date of publication)
19.11.2009	EUR 11.6	Buy	EUR 22.5
26.03.2010	EUR 13.60	Buy	EUR 22.5
18.05.2010	EUR 11.79	Buy	EUR 20.0

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Company	Disclosure
hotel.de AG	3 - 5 - 11 - 12

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This financial analysis is based on public available information (Company presentations, Annual Reports, Quarterly Reports, Press Information, prospectus, ad-hoc announcements etc.). Moreover, management interviews for more detailed information about the current business development were held with the company.

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VEM applies an absolute equity rating system with 3 grades. Each grade complies with following expectations (Ratings refer to time period of 6 months):

BUY: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is at least + 10 %.

HOLD: The expected return (composed of the projected change of the share price and the anticipated dividend yield) ranges from – 10 % and + 10 %.

SELL: The expected return (composed of the projected change of the share price and the anticipated dividend yield) is worse than – 10 %.

For further important details concerning the valuation methods applied in the preparation of this analysis, the meaning of the specific investment recommendation (including the recommended investment period, the risks associated with the investment and the sensitivity of the valuation parameters) please see the Section "Valuation" in this analysis.

Quarterly summary:

VEM is evaluating its ratings on a quarterly basis. The evaluation for the last quarter compares VEM's recommendations "Buy", "Hold", and "Sell" in total with VEM's recommendations "Buy", "Hold", and "Sell" for companies to which VEM has delivered significant investment banking services during the last 12 month. To view this evaluation, please visit www.vem-aktienbank.de.

Additional important information:

Date of first publication of this analysis by VEM : 13.12.2010

Date and Time of relevant Share Price (see first page):

A schedule for an update of this Analysis is not appointed yet. VEM reserves the right to update any individual analysis without prior notice.