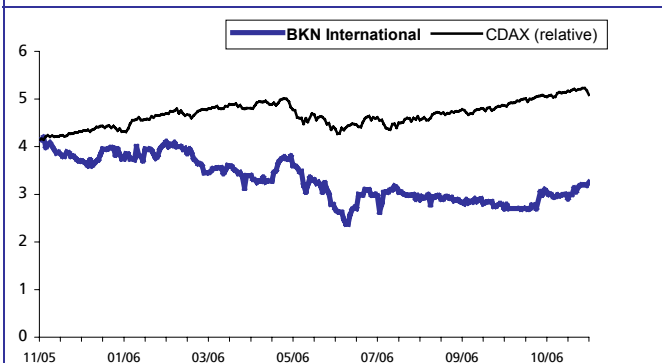


Buy Risk: **Price target: € 4.10** **New titles accelerate growth**
(previous: Buy) high

Bloomberg: BKQ GY Share price: € 3.25
Reuters: BKQG.DE CDAX: 565.27
ISIN: DE0005290704
Internet: www.bknkids.com
Segment: General Standard
Sector: Entertainment/Media



Share data: Bloomberg 27 Nov. 2006 / Closing price

Share price high / low 52 weeks: € 4.23 / € 2.25
Market capitalisation: € 51.08 m
Number of shares: 15.72 m

Sharehold- Free float 63.50%
Gordon Group Holding LLC 20.30%
Allen Bohbot 8.10%
Jack Kugler 8.10%

Calendar: Annual General Meeting 22 Feb. 2007

Analysis: SES Research

Date of publication: 28 Nov. 2006
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BKN reported a significant y-o-y sales and earnings increase for the fiscal year 2005/06 (30 Sept. 2006). Sales were lifted 16.1%. EBIT rose clearly over-proportionately by 48.4%. Due to a high tax income in the previous year in connection with the capitalisation of deferred taxes on loss carry forwards, the rise in net income only amounted to 4.8%. Earnings per share thus lay slightly above the previous year's level as well. However, a small decline (EPS: € 0.26) was shown on the basis of the fully diluted number of shares.

	Full-year 2005/06			Prior year's figure
	reported	forecast	Delta	
Sales	13.90	14.20	-2.11%	11.10
EBITDA	6.20	8.66	-28.41%	5.90
Margin	44.60%	60.99%		53.15%
EBIT	4.70	4.10	14.63%	3.20
Margin	33.81%	28.87%		28.83%
Net income	4.50	3.20	40.63%	4.30
Margin	32.37%	22.54%		38.74%
EPS	0.29	0.20	45.00%	0.28

EPS in €, all other figures in million €

With the figures reported, our sales estimate was largely reached. However, the sales increase remained below the announced figure of 30% despite the dynamic performance. This had been announced with the guidance.

Fiscal year end	12/06	12/07e	12/08e	12/09e	CAGR
Sales	13.9	17.9	22.3	25.0	21.6%
Sales (old)	-	18.4	22.9	-	
Delta		-2.6%	-2.6%	n.a.	
EBITDA	6.2	11.2	15.0	16.9	39.8%
Margin	44.43%	62.50%	67.00%	67.50%	
EBITDA (old)	-	12.2	15.3	-	
Delta		-8.2%	-2.3%	n.a.	
EBIT	4.7	5.1	6.8	7.8	18.1%
Margin	34.14%	28.70%	30.50%	31.25%	
EBIT (old)	-	5.4	7.0	-	
Delta		-4.8%	-2.8%	n.a.	
Net Income	4.5	4.1	5.4	6.3	11.7%
Margin	32.35%	22.67%	24.23%	25.09%	
Net Income (old)	-	4.0	5.5	-	
Delta		1.6%	-1.7%	n.a.	
EpS	0.29	0.26	0.32	0.38	9.6%
EpS (old)	-	0.26	0.33	-	
Delta		1.0%	-1.6%	n.a.	
Dividend	0.00	0.00	0.00	0.00	n.a.
Yield	0.00%	0.00%	0.00%	0.00%	
Dividend (old)	-	0.00	0.00	-	
Delta		n.a.	n.a.	n.a.	

EpS in €, other figures in €, price: € 3.25

Price/Sales	3.68	2.85	2.29	2.04
P/E	11.36	12.57	10.00	8.63
EV/Sales	4.47	3.46	2.78	2.48
EV/EBITDA	10.05	5.54	4.15	3.68

The growth was the result of both new productions and the rights catalogue. The associated diversification of sales is pleasing. This reduces the very high significance of individual titles. With a 13% increase, more than half of the sales are the result of titles from the rights catalogue. Of the new productions, particularly Kong – Return to the Jungle as well as the continuation of a successful production and the initial sales from Dork Hunters from Outer Space contributed to the growth. Moreover, the young business field of Home Entertainment began generating sales (€ 0.4 m).

Sales continue on a broad international basis, whereby Europe and North America represent the most important regions. Significant sales are also generated in Asia.

In terms of earnings, BKN has exceeded its own guidance, which had earmarked an improvement in EBT of 30% (reported: EBT +39%). In view of the earnings forecasts, the fact that the company fell short of the EBITDA estimate while simultaneously exceeding all other expected earnings figures was striking. Our forecasts were beat as a result of significantly lower depreciation/amortization. These were a good half of the figure from the 2004/05 fiscal year, though this had not yet emerged in the middle of the period under review. We had anticipated higher depreciation with an expansion of the rights catalogue. The development of depreciation was mostly attributable to the good sales figures from the rights catalogue and the conservative valuation of these rights. BKN estimates the sales prospects from the rights catalogue as good. New titles in particular should also facilitate the sale of existing rights. The sustainability of rights based on future sales has led to lower depreciation.

On the level of net income, BKN continued to profit from the high tax-deductible loss carry forwards (a good € 50 m). Net income easily beat the pre-tax profit as a result of the capitalisation of deferred taxes. In contrast, we had primarily anticipated a tax rate of a good 10% due to the minimum taxation. BKN should feature a low tax rate of ca. 15% in the coming years.

We see a continuation of the growth occurring in 2007, which is in line with the company outlook. Above all, new productions and the continuation of successful titles (Zorro – Generation Z, Dork Hunters from Outer Space and Legend of the Dragon) as well as the young business field of Home Entertainment should be the significant growth drivers in 2006/07. BKN is targeting sales growth of 20-30%. The company appears satisfied with the interest in new productions. As planned, the Home Entertainment (Classic Collection) business field began releasing and marketing one title per month in October 2006. The diversification of the sales basis should proceed overall. The market environment for children's entertainment productions also appears to be stable. New TV channels and new technical possibilities in the utilisation of rights should have a positive effect on demand.

We are making minor adjustments to our forecasts. The price target of € 4.10 based on a DCF model remains unchanged and we are sticking to the Buy rating.

Key figures (BKN)

P&L (€m)	2006	2007e	2008e	2009e	Price Data	
Sales	13.9	17.9	22.3	25.0	Price (€)	3.25
Total operating performance	15.2	19.2	23.7	26.5	Marketcap. (€m)	51
Purchases	1.0	1.0	1.1	1.2	Enterprise Value (€m)	62
Gross Profit	14.2	18.2	22.5	25.2		
Personnel costs	3.0	3.0	3.1	3.2	Share Key Data	
Other operating expenses	3.7	3.9	4.5	5.1	Earnings per share (€)	2006 2007e 2008e 2009e
EBITDA	6.2	11.2	14.9	16.9	0.29 0.26 0.32 0.38	
Depreciation	1.4	6.1	8.1	9.1	Sales per share (€)	0.88 1.14 1.34 1.50
- thereof amortisation of goodwill	0.0	0.0	0.0	0.0	Free-Cash-Flow per share (€)	-0.32 -0.04 0.14 0.24
EBIT	4.7	5.1	6.8	7.8	Dividend per share (€)	0.00 0.00 0.00 0.00
Financial result	-0.6	-0.6	-0.4	-0.2	Valuation Key Data	2006 2007e 2008e 2009e
Extraordinary result	0.0	0.0	0.0	0.0	P/E	11.36 12.57 10.00 8.63
EBT	4.1	4.5	6.4	7.6	P/SALES	3.68 2.85 2.42 2.16
Taxes	-0.4	0.5	1.0	1.3	EV/SALES	4.47 3.46 2.78 2.48
Net result before minorities	4.5	4.1	5.4	6.3	EV/EBITDA	10.05 5.54 4.15 3.68
Net profit	4.5	4.1	5.4	6.3	EV/EBIT	13.08 12.06 9.12 7.94
Profit distribution	0.0	0.0	0.0	0.0	P/Bookvalue	1.81 1.58 1.20 1.04
					Dividend yield	0.0% 0.0% 0.0% 0.0%
Cash-Flow	2006	2007e	2008e	2009e	No. of shares (million)	2006 2007e 2008e 2009e
Operativer Cash-Flow	5.9	10.1	13.5	15.3	Ordinary shares out	15.72 15.72 16.64 16.64
Free-Cash-Flow	-5.0	-0.6	2.3	4.1		
Investitionen	11.5	10.5	11.0	11.0		
Balance sheet (€m)	2006	2007e	2008e	2009e	Profitability	2006 2007e 2008e 2009e
Fixed assets	0.2	0.2	0.3	0.4	EBITDA / Sales	44.4% 62.5% 67.0% 67.5%
Intangible assets	33.5	37.9	40.7	42.6	EBIT / Sales	34.1% 28.7% 30.5% 31.3%
Net working capital	1.6	1.9	2.2	2.6	EBT / Sales	29.6% 25.2% 28.7% 30.3%
Current assets	6.8	6.5	9.2	13.6	Net profit / Sales	32.4% 22.7% 24.2% 25.1%
Liquid funds	3.4	2.7	4.9	8.9	EC yield	15.9% 12.6% 12.7% 12.8%
Equity capital	28.2	32.3	42.7	49.0	SC yield	12.5% 10.4% 11.4% 11.6%
Provisions	1.0	1.1	1.2	1.3	ROCE	13.1% 13.0% 15.4% 17.4%
Financial Liabilities	12.7	12.7	7.7	7.7	Company profile	
Net liquidity	-9.3	-10.0	-2.8	1.2	BKN develops and markets animated entertainment programmes for children. Furthermore, the company has an own film library consisting of titles for children entertainment at its disposal. Based on this catalogue of rights BKN licences merchandising rights for consumer products. BKN is marketing the broadcasting and merchandising rights on a worldwide scale.	
Balance total	41.1	45.4	51.0	57.3		
Reporting standard	IFRS	IFRS	IFRS	IFRS		
Fiscal year end	30.09.2006	30.09.2007	30.09.2008	30.09.2009		
Growth rates	2006	2007e	2008e	2009e	Management	
Sales	16.2%	29.0%	24.5%	12.0%	Allen Bohbot (CEO), Wayne Mowat (CFO), Ben Heng (Managing Director Asia)	
EBITDA	-8.3%	81.5%	33.5%	12.8%		
EBIT	17.0%	8.4%	32.3%	14.8%		
EBT	7.6%	9.8%	41.6%	18.2%		
Net profit	-12.7%	-9.6%	33.0%	16.0%		
Dividend	n.a.	n.a.	n.a.	n.a.		
Cost intensities	2006	2007e	2008e	2009e	Shareholders	
Purchases / Sales	7.1%	5.7%	5.0%	5.0%	Free Float	63.50%
Personnel costs / Sales	21.5%	17.0%	14.0%	13.0%	Gordon Group Holding LLC	20.30%
					Allen Bohbot	8.10%
					Jack Kugler	8.10%
Segments	0	0	0	0		

Source: Company (reported data), SES Research (estimates and valuation), Bloomberg (price data)

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