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RESEARCH REPORT  
UPDATE

ATOSS Software AG

February 2004



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Software AG

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## ATOSS Software AG

Figures slightly below expectations, but 2003 was a very successful year

Rating: **ACCUMULATE**

Price on February 6, 2004: **EUR 14.63**

**Target Price: EUR 16.45**



Reuters Symbol	AOFG
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Index	Prime Standard
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### Profile

Munich-based ATOSS Software AG is a provider of software and consulting services to make personnel deployment cost-efficient. On the basis of its modular product family, ATOSS offers companies of all sizes total solutions for consulting, software and services. 170 employees at eight business locations represent ATOSS in Germany, Austria and Switzerland.

### TOPICS

- Business development in 2003 fell slightly short of our expectations but was successful. Earnings Before Interest and Taxes (EBIT) – up 85% – were especially convincing.
- Dividend for 2003 is expected to be between EUR 0.20 and EUR 0.25 per share.
- Outlook for 2004 is still marked by investment restraint in the industry. Sales should improve by around 5% with a further improvement in margins.
- We reconfirm our target price of EUR 16.45. Rating: ACCUMULATE

Corporate data and estimates	2002	2003 E	Q1/2004 E	2004 E
Sales (in €million)	23.25	23.41	5.74	24.59
EBIT (in €million)	1.29	2.39	0.31	2.86
EBIT margin (in %)	5.55%	10.20%	5.40%	11.63%
EPS undiluted	0.32	0.50	0.06	0.58
EPS fully diluted	0.31	0.46	0.05	0.55

## Business Development in Q4 and Full Year 2003

ATOSS Software AG announced on Jan. 30, 2004 its interim figures for the fourth quarter and full year 2003. While earnings per share were in line with our forecast, sales revenues and earnings before interest and taxes (EBIT) failed to measure up to our expectations. The full year 2003 must nonetheless be classified as successful.

	FY 2001	FY 2002	FY 2003
Sales (in Mio. Euro)	21.234	23.245	23.406
Change on year		9.47 %	0.69 %

For the financial year 2003, Atoss reported sales revenues of EUR 23.4 million, or 0.7% up on the year. We had anticipated full year's sales of EUR 23.8 million, so the company did not quite achieve our sales estimate. That was due mainly to the fourth quarter, for which Atoss normally reports above-average sales, but which was not up to its usual strength in 2003.

### Sales development by segment – FY/2001-FY/2003

In Mio. Euro	Sales FY 2003	Change on year	Sales FY 2002	Change on year	Sales FY 2001
<b>Software</b>	<b>12.82</b>	<b>4.3%</b>	<b>12.29</b>	<b>3.3%</b>	<b>11.90</b>
Thereof software licences	5.50	0.0%	5.50	-12.6%	6.29
Thereof software maintenance	7.32	7.8%	6.79	21.1%	5.61
<b>Consulting</b>	<b>6.67</b>	<b>-7.1%</b>	<b>7.19</b>	<b>30.2%</b>	<b>5.52</b>
Thereof IT-Services	4.93	4.5%	4.72	6.0%	4.45
Thereof consulting	1.75	-29.5%	2.48	132.1%	1.07
<b>Hardware</b>	<b>2.69</b>	<b>4.4%</b>	<b>2.58</b>	<b>-6.9%</b>	<b>2.77</b>
<b>Miscellaneous</b>	<b>1.22</b>	<b>2.3%</b>	<b>1.19</b>	<b>14.2%</b>	<b>1.05</b>
Total	<b>23.40</b>	<b>0.7%</b>	<b>23.25</b>	<b>9.5%</b>	<b>21.23</b>

In **sales trends by segment**, 2003 software sales at EUR 12.82 million were up 4.3% year on year.

While **software license revenues** at EUR 5.50 million were merely on a par with the previous year, the **software maintenance** sub-segment showed a 7.8% increase to EUR 7.32 million. Maintenance revenues therefore continued in 2003 to gain in importance by sales share and constitute an important sales mainstay for Atoss.

Sales in the **consulting** segment, comprising IT Services and Consulting, were down 7.1% on the year in 2003, with EUR 6.7 million in sales revenues. While the IT Services sub-segment made good progress, Consulting revenues were down markedly by 29.5%. After clear growth in this sub-segment in recent years, Atoss noted that in 2003 increasing investment restraint on the part of banks and insurers made its presence felt. As a consequence, what used to be interesting additional business with financial service providers went into a steep decline. Atoss aims to achieve clear renewed growth in the Consulting segment in 2004, however.

**Hardware** sales were up 4.4% in 2003, setting an encouraging trend.

Sales development by segment – Quarterly comparison												
Mio. Euro	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003	Q3 2003	Q4 2003
<b>Software</b>	<b>3.436</b>	<b>2.754</b>	<b>2.516</b>	<b>3.194</b>	<b>3.155</b>	<b>2.735</b>	<b>3.008</b>	<b>3.392</b>	<b>3.076</b>	<b>3.321</b>	<b>3.009</b>	<b>3.410</b>
Thereof Software licences	2.257	1.178	1.085	1.769	1.451	1.050	1.319	1.677	1.296	1.471	1.166	1.562
Thereof Maintenance	1.179	1.576	1.431	1.425	1.704	1.685	1.689	1.715	1.780	1.850	1.843	1.848
<b>Consulting</b>	<b>1.289</b>	<b>1.292</b>	<b>1.394</b>	<b>1.543</b>	<b>1.369</b>	<b>1.890</b>	<b>1.871</b>	<b>2.055</b>	<b>1.747</b>	<b>1.748</b>	<b>1.512</b>	<b>1.667</b>
Thereof IT- Services	1.174	1.137	1.015	1.125	0.951	1.148	1.202	1.415	1.221	1.254	1.154	1.300
Thereof Consulting	0.115	0.155	0.379	0.418	0.419	0.742	0.670	0.645	0.526	0.494	0.358	0.367
<b>Hardware</b>	<b>0.628</b>	<b>0.547</b>	<b>0.882</b>	<b>0.714</b>	<b>0.615</b>	<b>0.522</b>	<b>0.676</b>	<b>0.766</b>	<b>0.746</b>	<b>0.561</b>	<b>0.768</b>	<b>0.618</b>
<b>Miscellaneous</b>	<b>0.320</b>	<b>0.245</b>	<b>0.270</b>	<b>0.210</b>	<b>0.299</b>	<b>0.272</b>	<b>0.305</b>	<b>0.317</b>	<b>0.219</b>	<b>0.380</b>	<b>0.306</b>	<b>0.316</b>

#### Development of results at ATOSS Software AG:

Comparison of performance figures		
In TSD Euro (US-GAAP)	FY 2003	FY 2002
EBITDA	3407	2766
EBIT	2389	1291
EBT	3160	2119
Net Income	1888	1256
Cash Flow	4141	4134
EPS (in Euro)	0.50	0.32

ATOSS Software AG pursued an active cost management course in 2003, leading in spite of the meager increase in sales to greatly improved earnings. The operating result (EBIT) for the year was EUR 2.4 million, or an 85% year-on-year increase. As a result, the EBIT ratio improved to 10.2% from 5.6% in 2002. The company's EBIT itself was slightly lower than our estimate. We had anticipated EUR 2.6 million in earnings before interest and taxes, or an EBIT ratio of 10.9%.

Group **Earnings Before Taxes (EBT)** totaled EUR 2.3 million in financial year 2003, which also represented a significant increase. **Net Income** at EUR 1.9 million corresponded to Earnings per Share of EUR 0.50, which was just 1 cent below our estimate and therefore in line with our expectations.

## ***Outlook for Business Development in Full Year 2004 and Q1 2004***

### **Outlook for the Full Year 2004**

For the year in progress the company continues to anticipate a strongly positive business trend, but stronger growth is not expected until the second half, while first-half sales and earnings are likely to be on a par with the previous year's. It must be borne in mind that H1 2003 included large-scale orders such as those placed by Aldi and Meyer Werft and that first-half sales therefore attained a high level that will take some reaching. The second half of 2003 was a little more subdued and should therefore be easy to improve on in 2004.

Corporate strategy in 2004 will, the company says, focus on implementing a number of important measures with a view to integrating sales processes more strongly at Atoss. The company's aim is to position Atoss so as to achieve stronger and more dynamic growth in the years ahead. In 2003 the strategic focus was mainly on stabilizing and improving profitability by means of intensive cost management, as reflected in the published figures.

We anticipate for the full year 2004 sales growth of around 5% to EUR 24.6 million. This figures takes the ongoing investment restraint into account, so we expect Atoss to fulfill our forecast even if the market environment continues to be weak. Our sales estimates by segment are as follows:

<b>Sales estimate FY 2004</b>		
	In Mio. Euro	Estimated change on year
<b>Software</b>	<b>13.61</b>	<b>6.20%</b>
thereof software licences	5.96	8.46%
thereof Software maintenance	7.65	4.49%
<b>Consulting</b>	<b>7.04</b>	<b>5.48%</b>
thereof IT-Services	5.04	2.25%
thereof Consulting	2.00	14.61%
<b>Hardware</b>	<b>2.66</b>	<b>-1.23%</b>
<b>Miscellaneous</b>	<b>1.28</b>	<b>4.83%</b>
<b>Total</b>	<b>24.59</b>	<b>5.07%</b>

We anticipate an operating result (EBIT) of around EUR 2.86 million for the full year 2004, or an EBIT ratio of 11.6%. Earnings per share should then, we estimate, be EUR 0.58.

### **Outlook for the First Quarter of 2004:**

For Q1 2004 we expect sales revenues to be slightly down on the year at EUR 5.74 million. Our sales forecasts by segment and sub-segment are as follows:

<b>Sales estimate Q1 2004</b>	
In Mio. Euro	
<b>Software</b>	<b>3.13</b>
thereof software licences	1.28
thereof Software maintenance	1.85
<b>Consulting</b>	<b>1.64</b>
thereof IT-Services	1.21
thereof Consulting	0.43
<b>Hardware</b>	<b>0.65</b>
<b>Miscellaneous</b>	<b>0.32</b>
<b>Total</b>	<b>5.74</b>

We forecast Q1 2004 Earnings Before Interest and Taxes (EBIT) of EUR 0.31 million and anticipate first-quarter Earnings Per Share of EUR 0.06.

**Dividend Policy:**

The extra distribution to shareholders of EUR 1.50 per share went ahead as planned on Dec. 30, 2003 and marked the beginning of a proposed long-term dividend policy. In its statement on the interim figures for 2003, Atoss announced accordingly that a dividend distribution is to be recommended to the annual shareholders' meeting. A dividend amounting to 30% to 50% of profits can therefore be expected, which would amount to a dividend of between EUR 0.15 and EUR 0.25 per share for 2003. We anticipate a dividend payment closer to the upper limit of this bandwidth at between EUR 0.20 and EUR 0.25 per share, given that the operating outlook for 2004 is positive and that the company continues to be generously provided with liquid funds amounting to EUR 31.9 million. The company says that its dividend recommendation for the AGM on April 22 will be made within the next four weeks.

**CONCLUSION AND SUMMARY:**

The figures that Atoss presented for 2003 were slightly below our expectations where sales and operating result were concerned, yet the year must be seen as having been a great success. Atoss succeeded by means of active cost management in optimizing its cost base and boosting profitability markedly.

For 2004 it will be important to aim for a renewed increase in growth dynamics. With this in mind, Atoss is planning to optimize sales processes. The Management Board also aims to intensify collaboration with existing partners and to enter into new cooperation arrangements.

Where the share's rating is concerned, it must be noted that the Atoss share price has made very good progress and has already temporarily exceeded our target price. After the share adjusted downwards now to an interesting level we see further potential for share price growth and are therefore reconfirming a target price of an initial EUR 16.45. Against this background we also reconfirm our ACCUMULATE rating.

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