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- RESEARCH & INVESTMENT ANALYSEN -

**Research Report
Update**

Q2 2004

ATOSS Software AG

August 2004

Rating: ACCUMULATE



RESEARCH REPORT

ATOSS Software AG

Rating:
ACCUMULATE

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WKN: 549453

ISIN: DE0005104400

Symbol: AOF

Reuters: AOFG.DE

Price: 9.15 Euro

Date: 10.08.2004

Business Segment:
Software

Number of Shares
3,84 Mio. (undiluted)
4,14 Mio. (diluted)

Market Cap. (diluted):
37,88 Mio. Euro

Market Segment:
Prime Standard

Accounting Standards
IAS/IFRS

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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. 176 employees at eight business locations represent ATOSS in Germany, Austria and Switzerland.



In Mio. Euro	2003 (US GAAP)	Q1/ 2004 (IFRS)	Q2/2004 (IFRS)	Q3/2004 E (IFRS)	2004 E (IFRS)
Sales	23.41	5.17	5.61	5.56	22.29
EBITDA	3.41	0.30	0.75	0.58	2.43
EBITCB	2.31	0.12	0.52	0.35	1.53
Net income	1.89	0.21	0.24	0.35	1.28
EPS in Euro	0.50	0.05	0.06	0.09	0.33
EPS in Euro (diluted)	0.46	0.05	0.06	0.08	0.31
EBITDA margin	14.57 %	5.80 %	13.37 %	10.43 %	10.90 %
EBITCB margin	9.87 %	2.32 %	9.27 %	6.47 %	6.86 %
Net income margin	8.07 %	4.06 %	4.28 %	6.29 %	5.74 %
EV/Sales 2004E	0.46				
EV/EBITDA 2004E	4.19				
Equity Ratio*	77 %				

*Stand 31.03.2004



Q2 Sales In Line with Expectations, Operating Result Better than Expected

ATOSS Software AG has reported interim results for the second quarter. The published figures show the company to have improved its sales and operating result markedly compared with the weak first quarter. Sales revenues, totaling EUR 5.61 m, fulfilled our expectations exactly, while EBIT before convertible bonds exceeded our estimate comfortably at EUR 0.52 m. Due to a slightly negative financial result, earnings per share were 1 cent below our estimate at EUR 0.06.

Compared with the previous year, the figures were, as expected, markedly lower, reflecting what continues to be a difficult market environment. In the second quarter the EDEKA software contract had a positive effect on the software license segment.

In 1000 euro	Sales Q2/2004	change Q2/04 vs. Q1/2004	Sales Q1/2004	Change Q2/04 vs. Q2/2003	Sales Q2/2003
Software	3381	17.23 %	2884	1.81 %	3321
thereof software licences	1444	40.19 %	1030	-1.84 %	1471
thereof Software maintenance	1937	4.48 %	1854	4.70 %	1850
Consulting	1530	11.84 %	1368	-12.47 %	1748
thereof IT-Services	1143	1.15 %	1130	-8.85 %	1254
thereof Consulting	387	62.61 %	238	-21.66 %	494
Hardware	513	-33.12 %	767	-8.56 %	561
Miscellaneous	184	-30.14%	153	-51.58%	380
Total	5607	8.41 %	5172	-6.69 %	6009

In 1000 euro	Q2/2004	Q1/2004	Q2/2003
EBITDA	751	301	1065
EBITCB	515	118	804
EBIT	450	85	804
EBT	422	356	1027
Net income	238	207	739
EPS	0.06	0.05	0.20

A comparison of first-half figures shows accordingly that ATOSS is so far well down on the strong first half of 2003. This is due especially, as we see it, to the difficult market environment, but also to a strategic reorientation. The start that has been made to gear integration in operating areas more strongly toward an integrated solutions offering that requires an initial input of resources with a positive effect on business development which will not take effect until later quarters.



In 1000 euro	Sales HY 1/2004	Change HY1/04 vs. HY1/03	Sales HY 1/2003
Software	6265	-2.06 %	6397
thereof software licences	2474	-10.59 %	2767
thereof Software maintenance	3791	4.44 %	3630
Consulting	2898	-17.06 %	3494
thereof IT-Services	2272	-8.20 %	2475
thereof Consulting	625	-38.73 %	1020
Hardware	1279	-2.22 %	1308
Miscellaneous	337	-73.74 %	599
Total	10779	-8.63 %	11797

In 1000 euro	HY 1/2004	Change HY1/04 vs. HY1/03	HY 1/2003
EBITDA	1053	-34.68 %	1612
EBITCB	633	-41.23 %	1077
EBIT	535	-50.34 %	1077
EBT	778	-42.16 %	1345
Net income	445	-50.06 %	891
EPS	0.12	-47.82 %	0.23

Duller Outlook for Third Quarter and Full Year – 2004 Is Set to Be a Year of Consolidation

At ATOSS it is increasingly apparent that 2004 will indeed become a year of consolidation. The company has stated that the second half can be expected to show a further improvement on the first, but it no longer expects the highly successful 2003 results to be exceeded. Against the background of what continues to be a difficult market environment, coupled with endeavors to improve interlocking of the software licenses, consulting and IT services segments that require an input of resources in the company, ATOSS anticipates full year's sales and an EBIT margin slightly below the previous year's. Hopes of a further record year therefore no longer look so bright.

We anticipate third quarter sales slightly below the Q2 figure at EUR 5.56 m. In our opinion, earnings from software licenses will be lower than in the second quarter, whereas we expect an increase on the quarter in consulting revenues, given that IT services resulting from the large EDEKA order should start to have an effect on sales in the third quarter.



The following table lists our detailed sales breakdown forecast for the third quarter.

Sales estimate Q3 2004	
In Mio. Euro	Q3 E
Software	3.10
thereof software licences	1.15
thereof Software maintenance	1.95
Consulting	1.62
thereof IT-Services	1.30
thereof Consulting	0.32
Hardware	0.52
Miscellaneous	0.32
Total	5.56

We anticipate EBIT before convertible bonds at EUR 0.35 m, or an operating margin of 6.25%, and our forecast for earnings per share in the third quarter is EUR 0.09.

Against the backdrop of the company's published outlook we have also revised downward our estimates for the full year 2004. We now anticipate full year's sales of EUR 22.3 m, or a 4.8% year-on-year decline. We had previously expected a slight, 1.4% increase.

We now expect EBITCB to amount to EUR 1.53 m (previous estimate: EUR 2.41 m), corresponding to a 6.88% margin. We therefore anticipate a 36.3% decline in operating result and have revised our previous estimate markedly downward accordingly. We now forecast earnings per share of EUR 0.33 (previous: EUR 0.51) and have therefore marked our EPS forecast down, too.

Valuation and Conclusion:

After a highly successful financial year 2003, this year's business trend is likely to be toward a year of consolidation with a slight decline in sales and a more marked decline in earnings. The difficult market environment will therefore affect ATOSS more markedly than expected. As for the company's valuation we must, however, state that it continues to be favorable after the latest downward price adjustment even on the basis of our reduced estimates. The expected EV/EBITDA ratio for 2004 is a mere 4.2. Our adjusted DCF model shows a price target of EUR 11.20 (previous: EUR 13.40). At a current price of EUR 9.15 there is, therefore, a clear potential for recovery, although this potential is currently limited by the restraint that investors abstain from investments in software and IT stocks.

We reconfirm our ACCUMULATE rating for ATOSS Software AG. In our view, price weaknesses provide an opportunity to build up medium-term positions.



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