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- RESEARCH & INVESTMENT ANALYSEN -

**Research Report  
Update  
FY 2004**

**ATOSS Software AG**

**FY 2004 In Line with Expectations -  
FY 2005 should show growth in sales and earnings**

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**February 2005**

**Rating: ACCUMULATE**

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**IMPORTANT INFORMATION:**  
Please pay regard to disclaimer/risk information  
as well as potential conflict of interests in accordance with §34b WpHG on page 6

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## RESEARCH REPORT

### ATOSS Software AG

**Rating:**  
**ACCUMULATE**

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**WKN: 549453**

**ISIN: DE0005104400**

**Symbol: AOF**

**Reuters: AOFG.DE**

**Price: 10.30Euro**

**Date: 07.02.2005**

**Business Segment:**  
**Software**

**Number of Shares**  
**3.84 Mio. (undiluted)**  
**4.07 Mio. (diluted)**

**Market Cap. (diluted):**  
**41,92 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. 180 employees at eight business locations represent ATOSS in Germany, Austria and Switzerland.



In Euro Mio.	2003 (US GAAP)	Q1/ 2004 (IFRS)	Q2/ 2004 (IFRS)	Q3/ 2004 (IFRS)	Q4/ 2004 (IFRS) **	2004 (IFRS) **	2005E (IFRS)	2006E (IFRS)	
Sales	23.41	5.17	5.61	5.49	5.56	21.83	23.40	25.70	
EBITDA	3.41	0.30	0.75	0.56	0.50	2.12	2.47	3.43	
EBITCB	2.31	0.12	0.52	0.52	0.34	1.49	2.09	3.05	
EBIT	2.31	0.09	0.45	0.43	0.26	1.23	1.67	2.63	
Net income	1.89	0.21	0.24	0.24	0.13	0.88	1.17	1.74	
EPS in Euro	0.50	0.05	0.06	0.06	0.03	0.23	0.30	0.45	
EPS in Euro (diluted)	0.46	0.05	0.06	0.06	0.03	0.23	0.28	0.42	
EBITDA-margin	14.57 %	5.80 %	13.37 %	10.20 %	6.59 %	9.69 %	10.56%	13.35%	
EBITCB-margin	9.87 %	2.32 %	9.27 %	9.47 %	4.89 %	6.81 %	8.93%	11.87%	
EBIT-margin	9.87 %	1.74 %	8.02 %	7.83 %	2.82 %	5.64 %	7.14%	10.23%	
Net profit margin	8.07 %	4.06 %	4.28 %	4.37 %	2.45%	4.02 %	5.00%	6.77%	
EV/Sales 2004E						0,66			
EV/EBITDA 2004E						6,3			
Equity Ratio*						80,66%			

\*\* preliminary

\*computed to date 2004/09/30



### **ATOSS met our expectations in the 4<sup>th</sup> quarter and the year 2004, sales were down on the record year 2003 as expected**

ATOSS Software AG presented on January 31, 2005 its preliminary figures for the fiscal year 2004. According to the publication the company recorded sales of EUR 21.83 m, corresponding to a decrease of 6.8% on the previous year. Thus, our estimates regarding sales were hit almost exactly and ATOSS came up to our expectations.

At its Software division, as expected, ATOSS recorded a slight decline in sales by 1.5% to EUR 12.6 m. Software maintenance increased by 5.1% to EUR 7.7 million, whereas software licensing sales did not match the previous year as we already expected. Sales, regarding the division Consulting, amounted to EUR 5.8 million and were 13% down on the year 2003. Hardware showed sales of EUR 2.59 Mio.

In Euro 1000	Sales FY 2004	Change FY 04 vs. FY 03	Sales FY 2003
<b>Software</b>	<b>12626</b>	<b>-1.5%</b>	<b>12815</b>
thereof software licences	4927	-10.3%	5495
thereof Software maintenance	7697	+5.1%	7320
<b>Consulting</b>	<b>5798</b>	<b>-13.1%</b>	<b>6673</b>
thereof Professional Services (formerly IT-Services)	4672	-5.2%	4928
thereof Consulting	1126	-35.5%	1745
<b>Hardware</b>	<b>2594</b>	<b>-3.6%</b>	<b>2693</b>
<b>Miscellaneous</b>	<b>810</b>	<b>-34.4%</b>	<b>1225</b>
<b>Total</b>	<b>21826</b>	<b>-6.8%</b>	<b>23406</b>

### **Profit also in line with expectations**

The company's profit also met our expectations. Profit before interest, taxes and the effects of convertible bonds (EBITCB) was at EUR 1.49 million and was, as expected, 35.5% lower than in 2003. EBIT reached EUR 1.23 m and was slightly above our expectations.

### **The convertible bonds had a negative effect on the net income**

There was a negative effect on the net income amounting to Euro 0.88 million in 2004 (EUR 0.23 per share) as already mentioned in our last research report. Due to the changeover to IFRS accounting practices and the associated impact on the balance sheet treatment of the employee participation program, tax for that year was higher resulting in lower net profit. Having generated a profit per share of EUR 0.23, ATOSS also reached our expectations for 2004 regarding net profit.



### **High investments for more dynamic growth in the years ahead**

The year 2004 was characterized by the new growth strategy of ATOSS. Investments in R&D were once more increased equalling 20% of sales. Consequently, new products should lead to dynamic growth in the years ahead.

Also a sharp increase in the number of staff employed in product development from 41 to 54 reflects the importance of high R&D activities.

ATOSS will present its new technologies at CEBIT 2005 in march. The new Java-based technology will make products far more flexible to suit customer requirements and to embed them in existing system environments. Moreover, as a consequence of investments, ATOSS is able to offer a range of products and end-to-end solutions for the SME segment (staff < 500) as well as premium small businesses (staff: 500-2,000) and major customers (staff > 2,000)

### **Outlook for 2005: Growth in sales and profit**

The year 2004 was period of consolidation with considerable organizational changes (from a strict divisional organisation to a team organisation) and a stronger integration of all divisions. Consequently, higher value added for the customers will lead to growth for ATOSS.

ATOSS is counting on the SME segment in which ATOSS successfully gained new customers. New customers in the software licensing division accounted for 56% (based on orders received) in comparison to 49% in the previous year. Additionally, stronger focussing by the new team organisation on the premium segment (large companies) as well as the existing customers is seen as a further impulse for growth.

Overall, ATOSS is expecting higher sales and profits with a positive cash-flow in 2005.

We also expect increases in sales and profit for 2005 and we believe that ATOSS will reach sales amounting to EUR 23.4 million which equals a growth of 7%. Thus, we confirm our sales estimate. Regarding profit we also expect a rebound.

Therefore, we expect earnings before interest and taxes (EBIT) at EUR 1.67 million and a margin of about 7% (see page 2). We do not expect a double digit operating margin in 2005. However, we expect this in 2006 and anticipate sales amounting to EUR 25.7 m and EBIT at EUR 2.63 m.

At the moment it is not easy to give a forecast on the first quarter 2005. ATOSS itself has not published details. We see sales at about EUR 5.3 m which is slightly above the first quarter 2004.

As to the expected sales, the following table shows our estimates in detail.



**Sales estimate Q4 2004**

	<b>Q1 2005 E</b>
<b>Software</b>	3.16
thereof software licences	1.20
thereof software maintenance	1.96
<b>Consulting</b>	1.40
therof Professional-Services	1.15
therof Consulting	0.25
Hardware	0.55
<b>Miscellaneous</b>	0.20
<b>Total</b>	5.31

For the first 6 months 2005 we assume a slight increase on 2004, the second half of the year is expected to be more dynamic concerning growth.

**Evaluation and conclusion:**

Since our last rating in october 2004 the share price has risen slightly. Further on, we see potential in the share and calculate a price target of EUR 11.80 corresponding to a possible share price increase of 14%.

Our evaluation is based on the positive expectation for 2005 and also 2006 in which 2003's profit level is expected to be regained. Further significant possible growth expectations have not been considered in our model.

We see low downward risk thanks to the rock solid financial situation with financial assets amounting to EUR 26.6 million or EUR 7 per share.

In conclusion our rating remains ACCUMULATE and we see ATOSS as an interesting investment. At the current level, it is still attractive for investors to accumulate the shares of ATOSS.



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