GBC German Business Concepts

— RESEARCH —

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# Research Report

## UPDATE

# ATOSS Software AG

ATOSS® Software AG

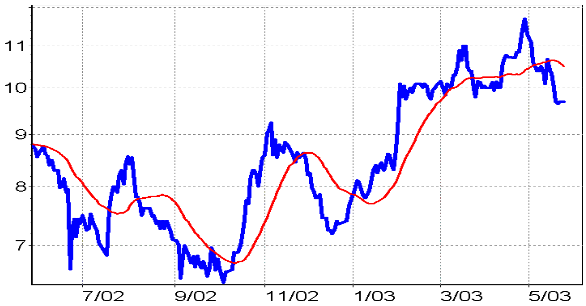
r:evolution in time!

# ATOSS Software AG

## *First quarter of 2003 successful – Slightly above expectations*

Rating: **BUY**

Share price on 27.05.2003: **EUR 9.50**




| | |
|---|---|
| Reuters Symbol | **AOFG.DE** |
| ISIN/German Security No. | DE0000510440 |
| Index | Prime Standard |
| Home Page | www.atoss.com |
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### Profile

**Munich-based ATOSS Software AG provides software and consulting for cost-efficient deployment of personnel. Based on its modular product family, ATOSS offers integrated solutions comprising consulting, software and services for companies of all sizes. ATOSS employs 170 staff at eight business locations in Germany, Austria and Switzerland.**

**TOPICS**

- **First-quarter figures pleasing and slightly above expectations: sales € 5.8 million, +6.2%; EBIT Q1/2003: € 0.29 million (previous year: € 0.13 million); EPS: € 0.04.**
- **Outlook for Q2 2003 and full year 2003 positive: further sales and earnings increases expected.**
- **Shareholders' meeting approved dividend payout of € 1.50.**
- **Current market valuation is not ambitious, outlook remains positive and should make further share price increases possible.**

| **Corporate data and estimates** | **2002** | **Q1/ 2003** | **2003e** |
|---|---|---|---|
| **Sales (in € million)** | 23.25 | 5.79 | 24.49 |
| **EBIT (in € million)** | 1.29 | 0.293 | 2.32 |
| **EBIT margin (in %)** | 5.55% | 5.06% | 9.47% |
| **EPS undiluted** | 0.32 | 0.04 | 0.47 |
| **EPS fully diluted** | 0.31 | 0.04 | 0.43 |

## Economic development in Q1 2003

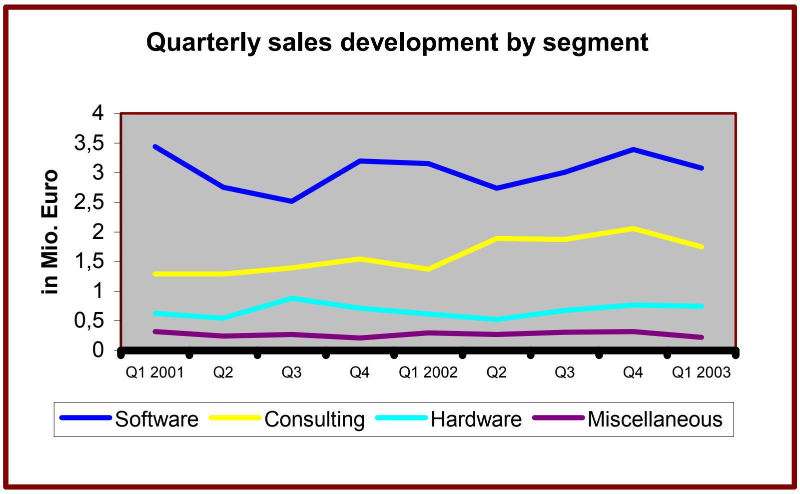
ATOSS Software AG succeeded in maintaining its positive trend in the first quarter of 2003 and once again presented pleasing figures that overall slightly surpassed our expectations.

| | Q1/2000 | Q1/2001 | Q1/2002 | Q1/2003 |
|---|---|---|---|---|
| Sales (in € million) | 4.370 | 5.673 | 5.439 | 5.788 |
| Change on year | | 29.82% | -4.12% | 6.42% |

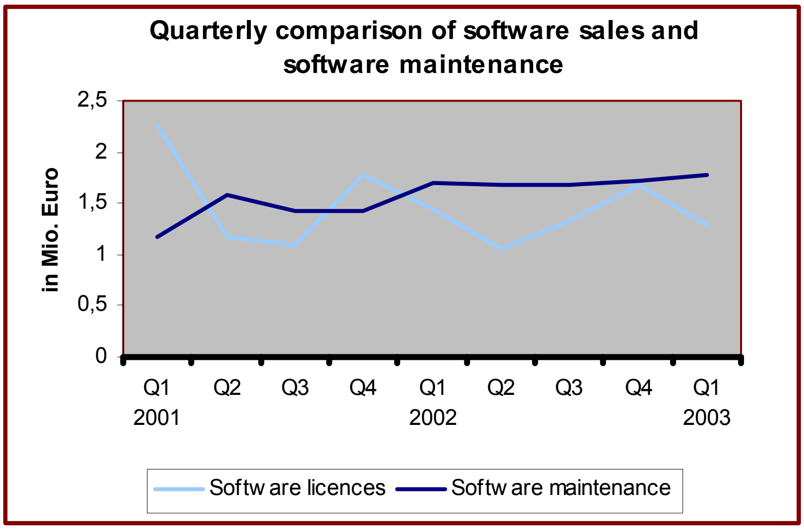
In the first quarter of 2003, the software producer's sales totalled € 5.8 million, a year-on-year increase of 6.4%. Our estimate for the first quarter was € 5.6 million, so the company performed slightly better than anticipated.

**Sales development by segment –Quarterly comparision– Q1/2001-Q1/2003**

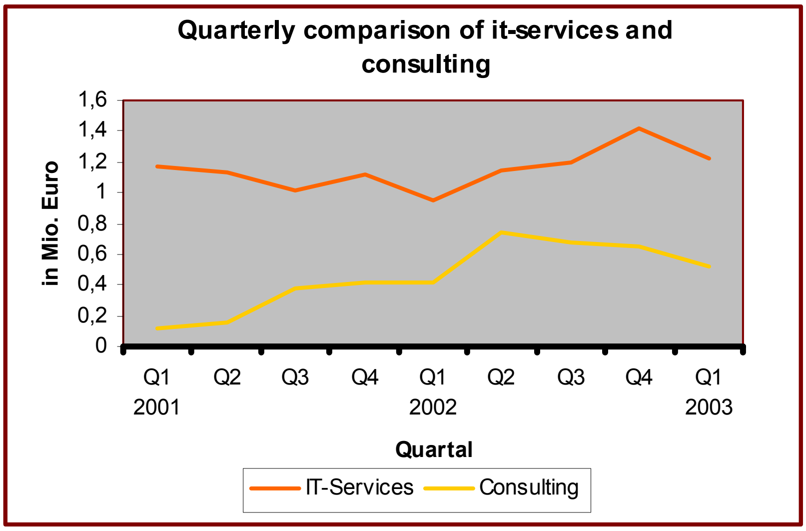
| In 1000 Euro | **Sales Q1/2003** | In % Change | **Sales Q1/2002** | In % Change | **Sales Q1/2001** |
|---|---|---|---|---|---|
| **Software** | 3076 | -2.50% | 3155 | | 3436 |
| Thereof software licences | 1296 | -10.68% | 1451 | -35.71% | 2257 |
| Thereof software maintenance | 1780 | 4.46% | 1704 | 44.53% | 1179 |
| **Consulting** | 1747 | 27.52% | 1370 | 6.28% | 1289 |
| Thereof IT-Services | 1221 | 28.39% | 951 | -18.99% | 1174 |
| Thereof consulting | 526 | 25.54% | 419 | 264.35% | 115 |
| **Hardware** | 746 | 21.30% | 615 | -2.07% | 628 |
| Miscellaneous | 219 | -26.76% | 299 | -6.56% | 320 |
| Total | 5788 | 6.42% | 5439 | -21.88% | 6962 |



As for **development of sales by segment, software sales** at € 3.1 million were down slightly on the year. While software maintenance revenues developed positively to € 1.8 million, software licence sales of € 1.3 million were 10.7% down on the same quarter in the previous year. In this connection, one should take into account that no major orders affected sales in the first quarter of 2003, whereas the figures reported for the previous year's first quarter included a rather large individual order. ATOSS anticipates a marked improvement in the level of income from software licences in the second quarter, since a good volume of new orders was booked in the licence segment toward the end of Q1 and the start of Q2.




The **consulting** segment, comprising IT services and consulting, again performed strongly in the first quarter, reporting marked growth of 27.52% to € 1.7 million (Q1/2002: € 1.4 m). Sales growth in this segment was due to higher revenues in both IT services and consulting. In this segment, IT services frequently involves refining existing systems, while consulting focuses on highlighting, particularly for new customers, the potential for optimisation by way of more efficient personnel deployment. In addition, implementing these requirements gives ATOSS an opportunity to boost demand for its software solutions.



The **hardware** segment also posted a 21% year on year increase in the first quarter of 2003 despite the present reluctance to invest. However, this trend is expected to flatten during the course of the full year.

| Sales development by segment – Quarterly comparision | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In Mio. Euro | Q1 2001 | Q2 2001 | Q3 2001 | Q4 2001 | Q1 2002 | Q2 2002 | Q3 2002 | Q4 2002 | Q1 2003 |
| **Software** | 3.436 | 2.754 | 2.516 | 3.194 | 3.155 | 2.735 | 3.008 | 3.392 | 3.076 |
| Thereof Software licences | 2.257 | 1.178 | 1.085 | 1.769 | 1.451 | 1.05 | 1.319 | 1.677 | 1.296 |
| Therof Maintenance | 1.179 | 1.576 | 1.431 | 1.425 | 1.704 | 1.685 | 1.689 | 1.715 | 1.780 |
| **Consulting** | 1.289 | 1.292 | 1.394 | 1.543 | 1.369 | 1.89 | 1.871 | 2.055 | 1.747 |
| Thereof IT-Services | 1.174 | 1.137 | 1.015 | 1.125 | 0.951 | 1.148 | 1.202 | 1.415 | 1.221 |
| Thereof Consulting | 0.115 | 0.155 | 0.379 | 0.418 | 0.419 | 0.742 | 0.67 | 0.645 | 0.526 |
| **Hardware** | 0.628 | 0.547 | 0.882 | 0.714 | 0.615 | 0.522 | 0.676 | 0.766 | 0.746 |
| **Miscellaneous** | 0.32 | 0.245 | 0.27 | 0.21 | 0.299 | 0.272 | 0.305 | 0.317 | 0.219 |

**Development of performance:**

| **Comparison of performance figures** | | |
|---|---|---|
| In TEUR (US-GAAP) | **Q1/2003** | **Q1/2002** |
| EBITDA | 568 | 408 |
| EBIT | 293 | 126 |
| EBT | 338 | 262 |
| Net Income | 164 | 165 |
| Cash Flow | 1622 | 1053 |
| EPS (in Euro) | 0.04 | 0.04 |
| EPS verwässert (in Euro) | 0.04 | 0.04 |

First-quarter performance figures were pleasing too, and slightly exceeded our expectations. **Earnings before interest and taxes (EBIT)** rose markedly on the year, to € 292,000, and the EBIT margin was 5.1%. The IT services and consulting segment made a particularly strong contribution toward this positive sales trend. EBIT in the services segment (IT services and consulting) was € 340,000, while the company reported a slightly negative result of –€ 47,000 in the products and maintenance segment.

Consolidated **earnings before tax (EBT)** totalled € 338,000, a 29% increase on the result in the same period the previous year. **Net income** was € 164,000, or an EPS of € 0.04. Due to allocation of deferred taxation, earnings per share were thus at the previous year's level.

**Cash flow from operating activities** was again strong in the first quarter, at € 1.6 million. A further rise in liquidity to € 35.4 million was reported at the end of the first quarter.

***Payout and dividend policy agreed at shareholders' meeting***

The payout and dividend policy was approved as planned by the company at the shareholders' meeting held on 30 April 2003. This laid the foundations for the high € 1.50 per share payout and for the possibility of purchasing further own shares. As far as is known at present, the

payout is tax-free for shareholders who hold less than one per cent of the share capital. Due to company law requirements, the dividend payout will take place six months after notification that the capital measures approved at the shareholders' meeting have been registered. ATOSS has said it will announce the exact payout date immediately after publication.
In addition, the creation of free reserves opens up the opportunity to provide credible backing for the long-term dividend policy announced by way of a minimum dividend. The company plans to distribute between 30% and 50% of the balance sheet profit as dividend in future and to pay a minimum dividend of € 0.15 per share.

***Outlook for second quarter and full year 2003***

ATOSS Software AG has presented a positive outlook for the current Q2 2003. Sales and earnings are to be increased markedly again in the second quarter. We estimate sales revenues of € 5.9 million in the second quarter. In particular, we anticipate an improvement in revenues from software licences, a forecast backed by the company's statement about the good volume of new orders booked. We also see the services segment as capable of another strong quarter.

| **Sales estimate second Q2 2003** | |
|---|---|
| In Mio. Euro | |
| **Software** | 3.3 |
| thereof software licences | 1.5 |
| thereof Software maintenance | 1.8 |
| **Consulting** | 1.8 |
| **Hardware** | 0.6 |
| **Miscellaneous** | 0.2 |
| **Total** | **5.9** |

In line with our expectations, earnings before interest and tax (EBIT) should then be € 0.42 million.

Despite the sluggish pace of general economic activity, ATOSS expects sales and profit to increase in fiscal 2003. Given the company's good positioning, we share this view and see a 4.6% increase in sales as possible. We anticipate sales of € 24.49 million in 2003 and assume further sales increases in the second half in particular. We anticipate € 2.32 million in earnings of before interest and taxes, which would correspond to an EBIT margin of 9.5%. Our current EPS expectation is € 0.47 per share, and we anticipate a tax ratio of 40.5% for the company.

## CONCLUSION:

The figures that ATOSS presented for the first quarter of 2003 were again positive, and the outlook for the second quarter leads one to expect further improvements in sales and earnings. With the cost structure it has put in place, the company is well equipped for the difficult market environment. Therefore, our expectation for the full year 2003 is positive.

The expected dividend payout of € 1.50 and the dividend policy announced make the share interesting from these points of view as well.

After the current share price correction the company's market capitalisation is again close to the sum of its liquid assets, so the share price should be secured against falling further. With a book value of € 9.65 per share and a share price/book value ratio of 1.0, the share is not over-ambitiously valued.

We confirm our **BUY** rating for ATOSS Software AG and see the share price potential as not yet having been fully achieved.

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