



GBC® German Business Concepts

- RESEARCH & INVESTMENT ANALYSEN -

**Research Report  
Update**

**Q3 2004**

**ATOSS Software AG**

**Weaker 2004, with rebound likely in 2005**

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**November 2004**

**Rating: ACCUMULATE**



## RESEARCH REPORT

### ATOSS Software AG

**Rating:**  
**ACCUMULATE**

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**WKN: 549453**

**ISIN: DE0005104400**

**Symbol: AOF**

**Reuters: AOFG.DE**

**Price: 9.60Euro**

**Date: 29.10.2004**

**Business Segment:**  
Software

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

**Market Cap. (diluted):**  
39.74 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. 174 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 (IFRS)	2004 E (IFRS)	2005 E (IFRS)
Sales	23.41	5.17	5.61	5.49	21.82	23.42
EBITDA	3.41	0.30	0.75	0.56	2.07	3.16
EBITCB	2.31	0.12	0.52	0.52	1.49	2.78
EBIT	2.31	0.09	0.45	0.43	1.21	2.36
Net income	1.89	0.21	0.24	0.24	0.92	1.68
EPS in Euro	0.50	0.05	0.06	0.06	0.24	0.44
EPS in Euro (diluted)	0.46	0.05	0.06	0.06	0.22	0.41
EBITDA-margin	14.57 %	5.80 %	13.37 %	10.20 %	9.49 %	13.49 %
EBITCB-margin	9.87 %	2.32 %	9.27 %	9.47 %	6.82 %	11.87 %
EBIT-margin	9.87 %	1.74 %	8.02 %	7.83 %	5.55 %	10.07 %
Net income margin	8.07 %	4.06 %	4.28 %	4.37 %	5.74 %	7.17 %
EV/Sales 2004E	0.59					
EV/EBITDA 2004E	6.2					
Equity Ratio*	81.5 %					

\*computed to date 2004/06/30



**Q3 sales in line with expectations, total nine -month sales to September just 6.5% down on year**

ATOSS Software AG published on Oct. 22, 2004 its preliminary figures for the third quarter. The company's published Q3 sales totaled EUR 5.49 million, or a slight 1.9% year-on-year decline. Revenues were therefore in line with our expectations.

By division, Software increased Q3 sales slightly to EUR 3.13 million from EUR 3.01 million over the same period last year. Software maintenance made a major contribution toward this total, generating sales of EUR 1.95 million. Software license sales at EUR 1.19 million were on a par with the previous year's EUR 1.17 million. Consulting, in contrast, posted sales of EUR 1.39 million and continued to trail the previous year's Q3 figure by 7.94%. Hardware sales totaled EUR 0.72 million.

After nine months, sales totaled EUR 16.27 million and were as a result still 6.5% down on the previous year's EUR 17.39 million. At June 30, 2004, they were still trailing the previous year's H1 figure by 8.6%, so the gap was narrowed slightly. The following table, however, makes it clear yet again that Consulting in particular was to blame for the sales decline.

In 1000 euro	Sales 9 month 2004	Change 9mon/04 vs. 9mon/03	Sales 9 month 2003
<b>Software</b>	<b>9399</b>	<b>-0,07%</b>	<b>9406</b>
thereof software licences	3661	-6,92%	3933
thereof Software maintenance	5738	4,84%	5473
<b>Consulting</b>	<b>4286</b>	<b>-14,38%</b>	<b>5006</b>
thereof Professional Services (formerly IT-Services)	3397	-6,37%	3628
thereof Consulting	889	-35,49%	1378
<b>Hardware</b>	<b>1994</b>	<b>-3,90%</b>	<b>2075</b>
<b>Miscellaneous</b>	<b>590</b>	<b>-34,81%</b>	<b>905</b>
<b>Total</b>	<b>16269</b>	<b>-6,46%</b>	<b>17392</b>

**Earnings before interest, taxes and convertible bonds (EBITCB) well above expectations in the third quarter but, as expected, significantly down on the year in the nine months to September**

Earnings before interest, taxes and convertible bonds (EBITCB) were at EUR 0.52 million well above our expectations for the third quarter (EUR 0.35 million). As expected, however, EBITCB of EUR 1.15 million for the nine months to September was still well below the previous year's EUR 1.68 million.



**Net income burdened by effects of convertible bonds program**

Net income was burdened by the tax effects of the convertible bonds program and failed to come up to our expectations for the third quarter. Given that ATOSS's convertible bonds program is booked as an expense according to IFRS but is not tax-deductible, the result in the third quarter was a higher tax ratio and therefore lower net earnings. We had expected a post-tax profit of EUR 0.35 million (EUR 0.09 per share), but the abovementioned factor led to a net profit of only EUR 0.24 million, or EUR 0.06 per share.

In the nine months to September, ATOSS posted a net profit of EUR 0.68 million, amounting to a marked 47% year-on-year decline.

**Outlook for full year 2004 continues to be overcast – 2005 should see a marked rebound when growth strategy takes effect**

As indicated in previous reports, 2004 will be a year of consolidation with poorer sales and lower earnings. In 2005, however, the new growth strategy should gain momentum.

ATOSS reports that in connection with the stated intention of focusing on the market for small and medium enterprises a positive trend is already apparent. The number of new customers in the nine months to September increased markedly on the year. At Sept. 30, new customers accounted for 61% of software license sales, as against 52% the previous year. As the company sees it, positioning ATOSS as a full-range provider with a special focus on SMEs has already started to pay off. Intensified integration between software solutions and consulting services will as expected not be reflected in results until next year.

For the fourth quarter ATOSS forecasts sales of between EUR 5.3 million and EUR 5.7 million. We anticipate EUR 5.55 million in the fourth quarter, which comes within this bandwidth. The following table shows our detailed sales forecast for the fourth quarter:

<b>Sales estimate Q4 2004</b>	
	<b>Q4 E</b>
<b>Software</b>	3.21
thereof software licences	1.23
thereof software maintenance	1.98
<b>Consulting</b>	1.47
therof IT-Services	1.15
therof consulting	0.32
Hardware	0.55
<b>Miscellaneous</b>	0.32
<b>Total</b>	5.55



We anticipate EUR 0.34 million in earnings before interest, taxes and convertible bonds and, accordingly, an operating margin of 6.13%. We expect EBIT to come in at EUR 0.24 million and the convertible bond effect to be EUR 0.1 million. Taking into account the abovementioned tax effects, our earnings per share estimate for the fourth quarter is EUR 0.05.

**Adjustment of estimates for 2004 and 2005:**

We have revised our sales estimate for the full year 2004 slightly downward to EUR 21.8 million from EUR 22.3 million. We now anticipate EBITCB for the full year of EUR 1.49 million, or a 6.82% margin, and EBIT of EUR 1.21 million, or a marked 50.4% decline. Given the higher tax ratio we are revising our earnings estimate to EUR 0.24 per share (previous: EUR 0.33 per share).

For 2005, however, we are more optimistic and anticipate at least a return to the 2003 sales level and therefore a marked improvement in EBITCB, EBIT and net profits (see page 2). This presupposes, however, that the growth strategy starts to pay off, which we expect it to do. In addition, the industry environment is likely to pick up a little, making it easier for ATOSS to achieve a rebound. It must be borne in mind that in 2005 personnel and taxation effects of the convertible bonds program will continue to apply. In 2006 other instruments could be used to bond employees that at least do not have the present taxation effect.

**Evaluation and Conclusion:**

In spite of the poorer results anticipated for 2004, ATOSS shows interesting evaluation ratios at the present share price. On the basis of the revised estimate for 2004 the EV/EBITDA multiple is 6.2 and based on the estimate for 2005 a mere 4.0. We continue to see this as attractive. Using our adjusted valuation model based on our assumption that the earnings situation at ATOSS will recover next year, the target price continues to be EUR 11.20, or a price potential of over 15%.

That is why we continue to give the share an ACCUMULATE rating and see ATOSS as still being a highly interesting investment. Share price weaknesses should therefore continue to be seen as an opportunity to build up shareholdings.



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