Germany
Niche ERP

1 March 2001

Atoss

Q4 – turnaround in sight

EUR 11.8

Buy

Year End 31 Dec	Sales (DEM m)	EBIT (DEMm)	EPS (DEM)	PER (x)	EV/ EBITDA (x)	EV/ Sales (x)
1999A	35.1	3.2	0.37	62.8	20.4	2.5
2000P	42.1	-1.2	-0.03	Neg	60.5	0.5
2001E	51.4	4.5	0.84	27.4	2.8	0.3
2002E	66.4	11.3	1.70	13.6	1.0	0.2
2003E	87.0	16.4	2.34	9.9	0.5	0.1

Market Cap
US$45m
(EUR 48m)

Reuters
AOFG.F

Bloomberg
AOF NM

Following Q3's negative earnings surprise, Q4 showed Atoss back on track for growth. The company managed to beat our forecasts with a record December pushing revenues to just over DEM 42m, with software and maintenance the main contributors to growth. This represents only 1% growth, but that compares to a decline in sales in Q3. For the month of December alone, sales increased by 88%. We have reduced our top line growth forecasts slightly to reflect the uncertain situation. We believe this is a quality company in a relatively unexploited niche. At current valuation levels, the stock is very attractively priced, particularly on an EV basis (given the large amount of cash remaining in the balance sheet).

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- **Repeat business is a major contributor to revenue**, representing 36% of total software licence sales. Just over 20% of sales comes from maintenance and is therefore of a recurring nature. We believe this gives Atoss good quality of earnings.
- **Software sales increased by 34% in the final quarter**, increasing the installed base on which maintenance revenues can be charged. It appears that hardware and services were the weaker areas, though the full breakdown figures are not yet available.
- **These were not yet conclusive figures** in terms of a turnaround. However, operating margins in the final quarter appear to have reached 14%, a quite respectable figure, making the company's target 8% operating margin for next year eminently achievable.
- **Cash in the balance sheet represents 84% of the share price.** Atoss has always, previously, been a profitable company, and we anticipate it returning to profit in 2001, thus there is no cash burn to consider. The implied value of the businesses after subtracting the cash is some EUR 7m for a business that should generate EUR 11m EBIT next year.
- **The DCF analysis suggests the shares should be worth EUR 27 even on reduced forecasts.**

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