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RESEARCH REPORT  
UPDATE

ATOSS Software AG

August 2003



**ATOSS**<sup>®</sup>  
Software AG

n:evolution in time!

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ATOSS Software AG

Results well above expectations

Rating: **BUY**Share Price on 06.08.2003: **EUR 12.20****Fair Value: EUR 13.40**

Reuters Symbol	AOFG.DE
ISIN	DE0005104400
Index	Prime Standard
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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 for companies of all sizes, ATOSS offers total solutions comprising consulting, software and services. With 170 employees at 8 business locations, ATOSS is represented in Germany, Austria and Switzerland.**

**TOPICS**

- **Q2 figures pleasing and slightly above expectations: Sales EUR 6.01 million, +10.9% year on year, EBIT in Q2/2003: EUR 0.83 million (previous year: EUR 0.11 million), EPS: EUR 0.20**
- **Outlook positive for Q3 2003 and full financial year 2003: Further sales and earnings growth anticipated, Sales 2003e: EUR 24.49 million, EBIT 2003e: EUR 2.42 million**
- **Distribution entitlement of EUR 1.50 per share for shareholders as of 29 December 2003, to be paid out on 30 December 2003**

Corporate data and estimates	2002	6 months 2003	2003 E
Sales (in € million)	23.25	11.80	24.49
EBIT (in € million)	1.29	1.12	2.42
EBIT margin (in %)	5.55%	9.49%	9.88%
EPS undiluted	0.32	0.24	0.49
EPS fully diluted	0.31	0.22	0.47

## Economic development in Q2 2003

ATOSS Software AG presented extremely pleasing figures for the second quarter too, and did not disappoint our expectations. Our sales revenue estimate was exceeded slightly, while earnings showed a marked increase on our estimate.

	Q2/2001	Q2/2002	Q2/2003
Sales (in Mio. Euro)	4.839	5.418	6.009
Change on year		11.97%	10.91%

For the second quarter of 2003, software manufacturer ATOSS reported sales of EUR 6.0 million, up 10.9% on the same period in 2002. Our estimate for Q2 2003 was EUR 5.9 million, so it was exceeded by EUR 0.1 million.

Sales development by segment – Quarterly comparison – Q2/2001-Q2/2003					
In 1000 Euro	Sales Q2/2003	In % Change	Sales Q2/2002	In % Change	Sales Q2/2001
<b>Software</b>	3321	21.43%	2735	-0.65%	2753
Thereof software li- cences	1471	40.10%	1050	-10.87%	1178
Thereof software main- tenance	1850	9.79%	1685	6.98%	1575
<b>Consulting</b>	1748	-7.51%	1890	46.63%	1289
Thereof IT-Services	1254	9.23%	1148	0.97%	1137
Thereof consulting	494	-33.42%	742	378.71%	155
<b>Hardware</b>	561	7.47%	522	-4.57%	547
<b>Miscellaneous</b>	380	39.71%	272	11.02%	245
<b>Total</b>	<b>6010</b>	<b>10.91%</b>	<b>5419</b>	<b>12.10%</b>	<b>4834</b>

In **sales trends by segment**, **software sales** totalling EUR 3.3 million were well ahead on the year at +21.4% on Q2 2002.

**Software license revenues** in particular were 40.1% up on the year at EUR 1.5 million and up 13.5% on the first quarter of 2003. In the second quarter, ATOSS benefited from two large new orders. One was from Aldi Süd, the south German region of the well-known retail group, which in future will be using the ATOSS TIME CONTROL software solution throughout its German branch network. ATOSS also reported a follow-up order placed by the Meyer Werft shipyard, a leading provider in the world market for cruise vessels.

The **software maintenance** segment continues to make good progress, too, and reported a 9.8% increase in sales to EUR 1.85 million.

**Consulting** sales, comprising IT services and consulting, were down 7.5% on the year in the second quarter, but we were expecting sales to drop in this segment, given that the Q2 2002 figures included a large chunk of a project with Lufthansa. That is why figures for the **con-**

**sulting** segment were well down on the year in the second quarter. The **IT services** segment, in contrast, reported sales 9.2% up on the year.

**Hardware**, too, performed well in the second quarter, reporting sales growth of 9.2%.

Sales development by segment – Quarterly comparison										
In Mio. Euro	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002	Q1 2003	Q2 2003
<b>Software</b>	<b>3.436</b>	<b>2.754</b>	<b>2.516</b>	<b>3.194</b>	<b>3.155</b>	<b>2.735</b>	<b>3.008</b>	<b>3.392</b>	<b>3.076</b>	<b>3.321</b>
Thereof Software licences	2.257	1.178	1.085	1.769	1.451	1.050	1.319	1.677	1.296	1.471
Thereof Maintenance	1.179	1.576	1.431	1.425	1.704	1.685	1.689	1.715	1.780	1.850
<b>Consulting</b>	<b>1.289</b>	<b>1.292</b>	<b>1.394</b>	<b>1.543</b>	<b>1.369</b>	<b>1.890</b>	<b>1.871</b>	<b>2.055</b>	<b>1.747</b>	<b>1.748</b>
Thereof IT- Services	1.174	1.137	1.015	1.125	951	1.148	1.202	1.415	1.221	1.254
Thereof Consul- ting	115	155	379	418	419	742	670	645	526	494
<b>Hardware</b>	<b>628</b>	<b>547</b>	<b>882</b>	<b>714</b>	<b>615</b>	<b>522</b>	<b>676</b>	<b>766</b>	<b>746</b>	<b>561</b>
<b>Miscellaneous</b>	<b>320</b>	<b>245</b>	<b>270</b>	<b>210</b>	<b>299</b>	<b>272</b>	<b>305</b>	<b>317</b>	<b>219</b>	<b>380</b>

#### Development of results at ATOSS Software AG:

Comparison of performance figures		
In 1000 Euro (US-GAAP)	Q2/2003	Q2/2002
EBITDA	1086	395
EBIT	825	111
EBT	1048	568
Net Income	751	344
Cash Flow	37	362
EPS (in Euro)	0,20	0,09
EPS diluted (in Euro)	0,19	0,08

The second-quarter results were especially pleasing and exceeded our expectations markedly. **Earnings Before Interest and Taxes (EBIT)** totalled EUR 0.8 million - a multiple of the Q2 2002 result. In the process, ATOSS achieved an EBIT margin of 13.5% after 2.3% in Q2 2002 and 5.1% in Q1 2003. For the full year we anticipate an EBIT margin of just under 10%.

Consolidated **Earnings Before Taxes (EBT)** were also well up on the year at EUR 1.05 million. **Net Income** was stated to be EUR 0.75 million, amounting to an EPS of EUR 0.20. Net Income too was therefore well above the figure for Q2 2002, when Earnings Per Share were EUR 0.08. This very good figure for the quarter was due in part to a tax ratio of just 28.3%.

#### *Distribution entitlement for shareholders as of 29 December 2003, to be paid out on 30 December 2003*

ATOSS has now received confirmation of the Commercial Register entry and statutory publication of the capital measures approved at the general meeting of shareholders held on 30 April 2003.

The Register court entered the capital increase approved at the general meeting on 6 June and the subsequent capital reduction on 10 June 2003, publishing them on 17 and 26 June respectively. It follows that the distribution of EUR 1.50 per share will be paid out on 30 December 2003. Entitlement will accordingly be limited to ATOSS Software AG shareholders at the end of trading on the day before distribution, 29 December 2003.

The reason for this distribution date is, as published by the company on 31 January 2003, a statutory six-month blocking period from the date of publication of the Commercial Register entry made in respect of these capital measures.

As far as is known at present, the distribution is tax-free for free float shareholders. The company notes that to the best of its knowledge it is tax-free for shareholders whose holding in its equity is not substantial, i. e. less than 1% of the capital stock.

For the years ahead ATOSS plans to pursue a long-term dividend policy. The company says it plans to distribute to shareholders a dividend equivalent to between 30% and 50% of the balance sheet profit. In addition to participation in share price gains, shareholders are offered the prospect of a reliable dividend yield. ATOSS Software AG will be making a further statement on the details in the immediate run-up to the distribution.

### ***Outlook for the third quarter and full year 2003***

For the current quarter, Q3 2003, we anticipate a further year-on-year increase in sales. In Q3 2002, ATOSS sales totalled EUR 5.86 million. For the third quarter of 2003 our overall sales estimate is EUR 6.01 million, or a slight increase of 2.5%. We therefore expect sales to be roughly on a par with the first quarter of 2003.

<b>Sales estimate second Q2 2003</b>	
In Mio. Euro	
<b>Software</b>	<b>3.250</b>
thereof software licences	1.320
thereof Software maintenance	1.930
<b>Consulting</b>	<b>1.880</b>
thereof IT-Services	1.350
thereof Consulting	530
<b>Hardware</b>	<b>580</b>
<b>Miscellaneous</b>	<b>300</b>
<b>Total</b>	<b>6.010</b>

Earnings Before Interest and Taxes (EBIT) would then, as we see it, amount to EUR 0.51 million. We anticipate third-quarter Earnings Per Share of EUR 0.11.

After an outstanding second quarter we expect the figures for the full financial year 2003 to show a slight increase in sales and a marked increase in profits despite the poor state of the economy and difficult market environment. We have increased our EBIT and profits estimates slightly and now forecast an operating result of EUR 2.4 million and an EPS of EUR 0.49. We have left our sales estimate unchanged at EUR 24.49 million.

With first-half sales of EUR 11.8 million, Earnings Before Interest and Taxes of EUR 1.1 million and Earnings per Share of EUR 0.24, ATOSS is well on the way toward reaching our estimates for the financial year 2003.

#### **CONCLUSION AND SUMMARY:**

The figures ATOSS published for the second quarter of 2003 were extremely positive once more, and results in particular were well above our expectations, thereby backing up our positive forecast for the full year. In the second quarter the company demonstrated gratifyingly that its cost structure is lean and that slight sales increases lead to a significant improvement in results.

Using our valuation model we estimate the fair value of ATOSS stock to be EUR 13.40 on the basis of our forecasts for the year 2003. In view of what is still a very difficult market environment we took a conservative approach and did not include in our valuation model any marked improvement in results in the years ahead. We therefore see the fair value stated as being conservative and achievable. The EUR 1.50 distribution and the dividend policy as announced also make the share interesting with these aspects in mind.

That is why we are reconfirming our **“BUY”** rating for ATOSS Software AG. What is more, the following peer group comparison indicates that ATOSS stock is still not too expensive when compared with the market.

### Peergroup-comparison

Companies	Share price 30.07.2003 in Euro	Shares in in Mio.	Market cap. in Mio. Euro	Sales 2002 in Mio. Euro	Sales in 2003 in Mio. Euro	Earnings per Share 2002	Earnings per share 2003E	Book- Value per share in Euro**
IDS Scheer	12.10	31.77	384.42	181,40	199.50	0.41	0.47	3.81
FJA	27.50	7.65	210.38	130,00	138.00	2.20	2.26	13.16
P&I *	2.95	7.70	22.72	37,39	39.75	0.16	0.20	3.16
IXOS Software *	4.93	21.53	106.12	135,38	143.50	0.05	0.25	2.84
plenum	1.82	9.58	17.43	47,50	47.00	-1.11	0.13	1.02
<b>ATOSS Software</b>	<b>12.24</b>	<b>3.79</b>	<b>46.41</b>	<b>23.30</b>	<b>24.49</b>	<b>0.32</b>	<b>0.49</b>	<b>9.64</b>

Company	Marketcap/sales 2002	Marketcap/sales 2003E	PE 2002	PE 2003E	Marketcap/ book value*
IDS Scheer	2.12	1.93	29.51	25.74	3.18
FJA	1.62	1.52	12.50	12.17	2.09
P&I *	0.61	0.57	18,44	14,75	0.93
IXOS Software *	0.78	0.74	98,6	19,72	1.74
plenum	0.37	0.37	-1.64	14.00	1.78
<b>ATOSS Software</b>	<b>1.99</b>	<b>1.90</b>	<b>38.25</b>	<b>24.98</b>	<b>1.27</b>

\* FY 2002/2003 respective 2003/2004

\*\* less Goodwill

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