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Research Report

UPDATE

ATOSS Software AG

April 2003



ATOSS[®]
Software AG

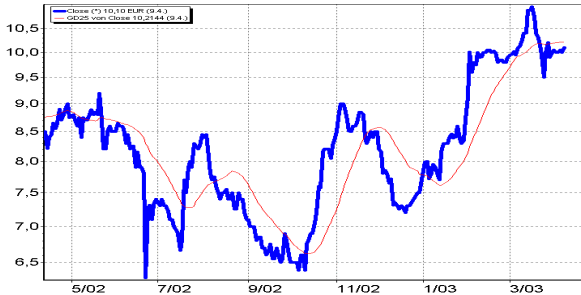
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ATOSS Software AG

Successful financial year 2002 – Positive expectations for 2003

Rating: **BUY**

Share price on 14.04.2003: € **10.51**



Reuters' symbol	AOF.FSE
ISIN.	DE000510440
Index	Prime Standard
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Profile

ATOSS AG develops and sells software solutions with which cost-effective personnel deployment and, as a result, the implementation of flexible working-time organisation can be planned and managed in companies. Over 1,500 firms already use ATOSS software. ATOSS currently employs approximately 171 staff in Germany, Austria, Switzerland and France.

TOPICS

- **Successful business development in financial year 2002 despite difficult market environment.** Sales +9.13%; positive EBIT: +€ 1.29 million (previous year: –€ 1.41 million); EPS € 0.32. Services segment in particular was highly successful.
- **Extraordinary dividend payout planned for 2002 to adjust dividend to liquidity planning.** This move is to mark the beginning of a consistent dividend policy.
- **Further sales and profit increases expected for FY 2003**
- **Continued high equity ratio, current market valuation is not ambitious and should make further share price increases possible. Favourable valuation when compared with peer group**

Corporate data and estimates	2001	2002	2003e
Sales (in € million)	21.23	23.25	24.32
EBIT (in € million)	-1.41	1.29	2.33
EBIT margin (in %)	-6.65%	5.55%	9.58%
EPS undiluted	-0.05	0.32	0.49
EPS fully diluted	-0.05	0.31	0.47

Economic environment continues to be difficult in the technology sector

Contrary to the expectations of leading economic research institutes, underlying economic conditions in Germany failed to improve in 2002 and the country continued to suffer from a low inclination to invest and a lack of consumer and corporate confidence. Key features of the overall economic situation were, accordingly, a sharp increase in the number of corporate insolvencies and in unemployment and industrial production that even went into decline.

As a consequence, the economic environment remained difficult for the technology sector too in 2002 despite the expectations of numerous market researchers and industrial associations. The technology sector was hit by a further price decline, by a decline in investment and by a low readiness on the banks' part to provide financing. In the wake of the stock market slump, opportunities to raise equity capital were likewise few and far between. Keynotes of 2002 for the industry were therefore marked cost retrenchment and heavy staff reductions.

Many industrial associations, such as Bitkom, or market research organizations, such as IDC, revised their forecasts downward more than once in 2002. Bitkom, Germany's IT, telecommunications and new media association, finally reported 2002 software sales were down 0.8% and revenues from IT services were down 0.3%. Bitkom estimates that the entire IT market declined by 1.3% last year, while market researchers at IDC pitch their estimate at -2.3%.

Only at the end of the third quarter of 2002 did slight signs of recovery appear in the IT market, and although the underlying mood for 2003 is cautiously optimistic, no-one anticipates a marked recovery in the immediate future. Bitkom does not expect a recovery before 2004. We share this assessment and expect 2003 to continue to be difficult for the industry, with reluctance to invest making growth very hard to achieve. We anticipate further consolidation in the IT and software sectors, with companies needing to optimise their cost structures further and deploy their resources in an especially efficient manner.

Pleasing development at ATOSS in FY 2002 despite negative sectoral environment

Despite the ongoing difficulties that the industry faced in 2002, ATOSS Software AG nonetheless succeeded in presenting pleasing figures for the financial year.

	2001	2002
Sales (in € million)	21.234	23.245
Change on year	-1.35%	9.47%

For the financial year 2002, ATOSS reported sales revenues totalling € 23.24 million, up 9.47% on the year. The maintenance and services segments showed especially clear sales growth, whereas software licences sustained a sales downturn.

Sales development by segment – Year-on-year comparison

	2002 sales	Change on year	2001 sales	Change on year	2000 sales
Software	12289	3,27%	11900	-7,53%	12869
There out Software Licences	5496	-12.61%	6289	-27.24%	8644
There out Maintenance	6793	21.07%	5611	32.80%	4225
Services	7185	30.21%	5518	38.50%	3984
Hardware	2579	-6.93%	2771	-21.26%	3519
Other	1192	14.07%	1045	-9.37%	1153
Total	23245	9.47%	21234	-1.35%	21525

Software sales (Licence plus Maintenance) totalled € 12.29 million in 2002, up 3,27% despite difficult market environment.

Software licence sales totalled € 5.5 million in 2002, down 12.61% on 2001. This segment was particularly hard hit by the industry environment and investment restraint in the first two quarters and bottomed out in the second quarter. In the second half, tendencies toward a recovery in software licence sales were apparent. While Q2 sales amounted to a mere € 1.05 million, they increased markedly to € 1.68 million in Q4.

Maintenance developed pleasingly. After high software solution sales, especially in previous years, maintenance revenues increased in the wake of software sales by 21% to € 6.79 million. On the basis of long-term maintenance contracts, ATOSS Software AG should be able to rely on a firm sales foundation in this segment.

Distinct sales increase in services segment

The services segment, comprising consulting and IT services, was able to report marked 30% growth to € 7.19 million. Growth in this segment therefore made a major contribution toward total sales revenues and higher sales at ATOSS. There was an especially marked sales increase in the fourth quarter. Success in this segment is due to a change in customer behaviour. While the focus used to be on sales of software products, the emphasis as expected and demanded is now increasingly on total solutions (software and services).

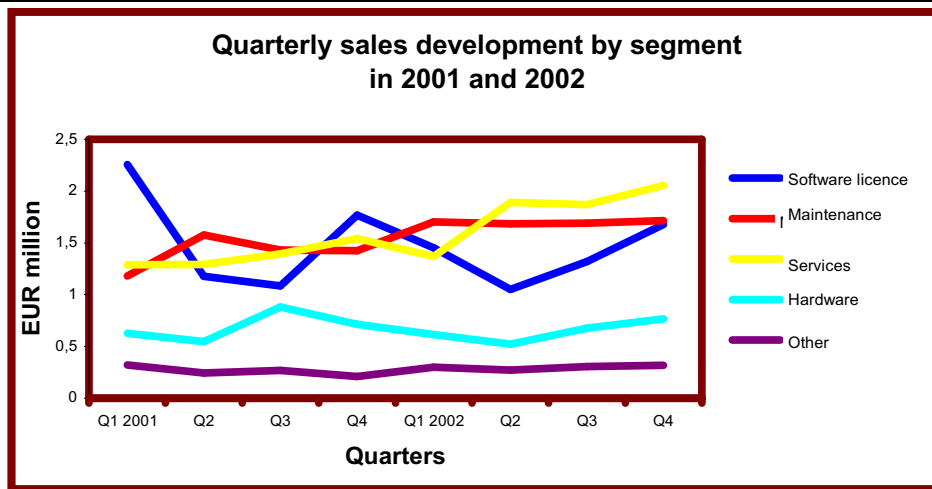
Sales decline in hardware segment lower than expected

Hardware sales totalled € 2.58 million and were down 7% on the year. A decline in this segment was expected, but was lower than anticipated due to a recovery in the second half.

Other sales revenues also show marked improvement

Other sales revenues increased by 14.07% to € 1.19 million in the year under review, taking them back to the 2000 level. They consist of customer-specific programming.

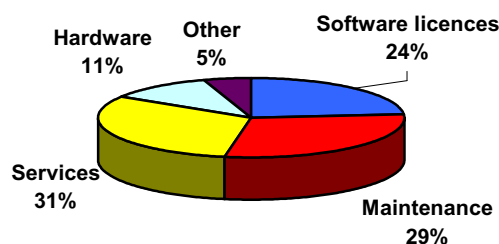
Sales development by segment (in EUR million) – Quarterly comparison								
	Q1 2001	Q2 2001	Q3 2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002
Software	3,436	2,754	2,516	3,194	3,155	2,735	3,008	3,392
There out Software licences	2.257	1.178	1.085	1.769	1.451	1.05	1.319	1.677
There out Maintenance	1.179	1.576	1.431	1.425	1.704	1.685	1.689	1.715
Services	1.289	1.292	1.394	1.543	1.369	1.89	1.871	2.055
Hardware	0.628	0.547	0.882	0.714	0.615	0.522	0.676	0.766
Other	0.32	0.245	0.27	0.21	0.299	0.272	0.305	0.317



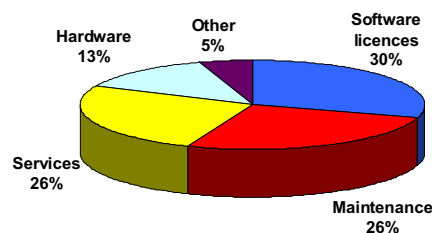
Medical, a separate business unit, was reported by ATOSS as having been particularly successful in 2002. It was set up in 2001 to provide solutions for the healthcare sector’s complex sector-specific requirements. In 2002, Medical doubled its number of new customers on the year and contributed around 10% toward total consolidated sales. It was already serving about 80 clinics and hospitals with a combined payroll in excess of 88,000. Further growth potential for ATOSS solutions is seen in a healthcare sector that is under heavy cost pressure, bearing in mind how personnel-intensive hospitals are and the resulting marked opportunities for improving efficiency.

Services accounted for 31% of sales, followed by maintenance with 29% and software licences with 24%. Services and maintenance have accordingly made further gains in importance.

Sales development by segment in 2002



Sales development by segment in 2001



Development of results:

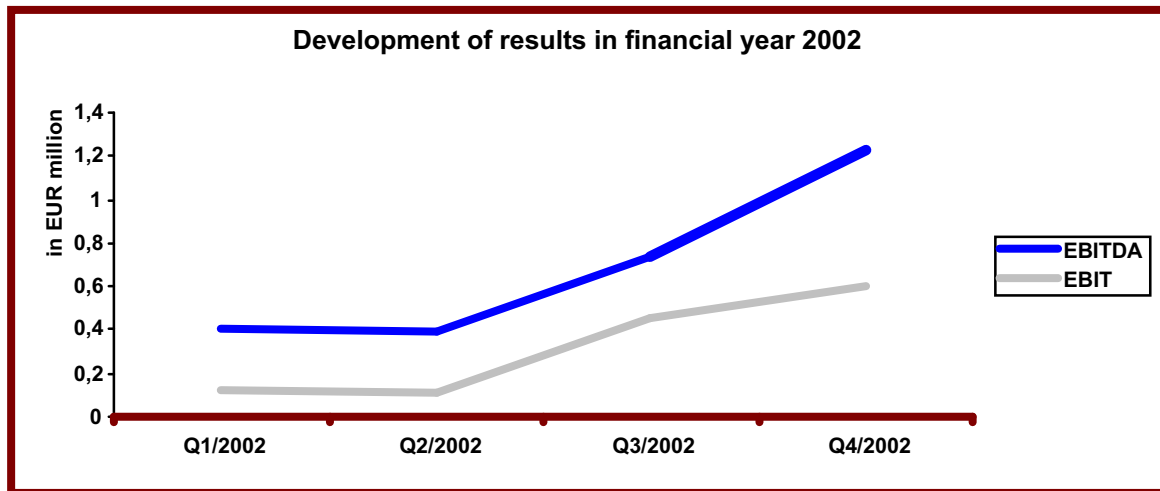
Comparison financial year 2002 versus 2001		
In EUR'000 (US-GAAP)	2002	2001
EBITDA	2766	-169
EBIT	1291	-1412
EBT	2119	-177
Net Income	1256	-206
Cash Flow	4134	2811
EPS (in EUR)	0,32	-0,05
EPS diluted (in EUR)	0,31	-0,05

The results development figures that ATOSS presented were very pleasing. EBITDA (earnings before interest, taxes and depreciations) and earnings before interest and taxes (EBIT) increased steadily, quarter by quarter in financial year 2002. As a result, ATOSS has reported positive results for the last four quarters in succession and has therefore achieved the turnaround that we were expecting. The consistent improvement in cost structure has proved particularly effective.

EBITDA was € 2.77 million, EBIT € 1.3 million against negative results for both in the previous year. For the full year, ATOSS reported an EBIT margin of 5.6%, with the quarterly figures showing a steady improvement. In the fourth quarter, the EBIT margin even reached 9.2%, so the result was in excess of our forecast. We were expecting an EBIT of € 1.18 million in 2002.

As with the sales figures, the services segment made a particularly strong contribution toward the company's 2002 result. While the software segment (software licenses and maintenance) showed a slightly negative EBIT of –€ 0.66 million, earnings before interest and taxes in the services segment amounted to € 1.36 million.

Consolidated earnings before taxes (EBT) at € 2.1 million and net profit for the year of € 1.3 million were both well in line with our expectations. Earnings per share were € 0.33.



Dividend and Payout Policy

In view of the promising development of results and against the backdrop of an extremely lavish capital base, the company has decided to pursue a long-term dividend policy.

It is scheduled to start with an extraordinary dividend of € 1.50. To pay out this dividend, ATOSS must for legal reasons undertake a capital increase from company funds, followed by a corresponding capital reduction. These moves for one serve the purpose of making the dividend payout possible. They also serve to create free capital reserves.

They must first be approved by the general meeting of shareholders on 30th April 2003. If they are, the payout will probably go ahead, subject to registration of the individual capital measures, at the end of 2003 or the beginning of 2004. This long run-up period is a result of company law requirements.

The future dividend policy to be pursued by ATOSS AG is aimed at paying out to shareholders between 30% and 50% of distributable annual balance sheet profits. In addition, sufficient free capital reserves are to be created to provide for an annual minimum dividend regardless of the course of business while also making possible sustained share buyback programmes such as have been undertaken in the past.

This dividend and payout policy is being pursued with several aims in mind. For one, it is to enable a meaningful adjustment to the company's liquidity planning, taking equity to a more appropriate level and returning to the shareholders equity capital that is not required.

What is more, the company will be making a positive improvement to its return on equity and thereby fulfilling a general demand by the capital market for equity to earn an adequate return or to be returned to the shareholders. Even after the extraordinary dividend the company will still have sufficient funds at its disposal to finance both organic and external growth.

Lastly, by pursuing a consistent dividend policy ATOSS is meeting the capital market's current requirement for shareholders to participate appropriately in the company's performance via dividend payments. The company is thereby demonstrating to shareholders

its reliability and predictability and showing that its corporate focus is on the interests of its shareholders.

We accordingly welcome unreservedly the proposed dividend and payout policy measures, which we see as clearly shareholder-friendly. We are also working on the assumption that they will lend a further positive momentum to the ATOSS share price, which has already increased markedly since we first recommended the stock at € 5.00.

Outlook for financial year 2003

There is unlikely to be any relaxation of tension in the economic situation in Germany this year, and the situation will remain difficult in the IT sector too. New investment budgets are likely to remain very tight, with the emphasis on replacement investment. Strong growth in the software and hardware markets is highly unlikely. Economic research estimates around the world assume growth in expenditure on IT services and hard- and software of between 2% and 3% in 2003. For Germany, industry association Bitkom forecasts a mere 0.4% increase in sales.

For the financial year 2003, ATOSS forecasts an increase in both sales and earnings despite the poor state of the economy. In view of the company's sound positioning, we too share this assessment and see 4.6% sales growth as possible. We anticipate 2003 sales revenues of € 24.32 million. We continue to forecast an EBIT of € 2.33 million, equivalent to an EBIT margin of 9.6%.

By segment we anticipate further growth in sales revenues from services and maintenance. Services revenue is already running at a high level, but in view of growing customer demand for total solutions, we see further growth as possible. We also foresee a further slight recovery in software sales.

For the first quarter we anticipate sales revenues slightly in excess of the previous year's or, at a cautious estimate, sales totalling € 5.6 million. We are not expecting major sales growth until the third and fourth quarter. First-quarter EBIT is likely to be in the region of € 0.28 million and, in our view, to increase significantly in the second half too. We anticipate earnings per share of € 0.49 in 2003.

CONCLUSION:

The figures that the company presented for 2002 were most pleasing. ATOSS demonstrated that profitability can be regained even in a difficult market environment by means of hard work and efficient optimising of costs. Given the improvement in cost structure and anticipated sales growth of around 5%, we foresee a further marked improvement in operating results for 2003.

We approve of the proposed payout and dividend payment moves because the company is thereby doing justice to the concept of shareholder value and will be returning to the shareholders liquidity that it does not require.

For our valuation of ATOSS Software AG we have undertaken a peer group comparison that is designed to reflect well the market's current valuation criteria (see overleaf). At first glance

ATOSS Software may appear, when compared with its peer group, to be expensive, especially in respect of its price-sales and price-earnings ratios.

At a closer look ATOSS appears not expensive because ATOSS differs markedly from its peer group in its financing structure. Almost all of its market capitalisation is covered by liquid assets and by substance. In its price-book value ratio, which we see as decisive, the ATOSS Software share price is only slightly above the company's book value at a level where the market has not factored in any further growth and which still appears to be good value when compared with the peer group. The peer group comparison reveals noticeably that the market is very cautious in its valuation of all the IT and software stocks compared. That is arguably understandable against the background of the difficult situation the industry faces. If ATOSS succeeds in deriving above-average profit from an economic recovery, and we expect it to do so, shareholders should be able to look forward to further interesting returns.

We reconfirm our Buy rating for ATOSS Software AG.

ATOSS Software AG peer group companies

In brief:

IDS Scheer is an IT service provider and software company specialising in business process management. It pursues an integrated concept. The range of IT services provided includes recording existing business process flow and subjecting them to critical scrutiny, drawing up and implementing measures designed to improve them by means of customer-specific implementation of standard software and information systems to manage business processes and continuously optimise them.

FJA AG develops and sells software products for insurance, financial services and building societies. In addition, the company provides international consulting services in this field. In application systems and consulting for insurance companies, FJA claims to be a market leader in the German-speaking area. In this field, its product range consists of harmonised standard software for insurance product development, management and sales.

P&I Personal & Informatik AG develops and sells under license standard software for personnel applications (payroll and management) and provides corresponding services (consulting) and maintenance. Its focus is on the LOGA brand that was positioned even more strongly with the launch in 2000-01 of the LOGA-net Internet portal. The company also sells limited quantities of hardware, software and forms (third-party business).

IXOS SOFTWARE AG describes itself as a services-oriented provider of single-source e-business document management solutions for corporate customers all over the world. It sees itself as an international leader in solutions of this kind in the SAP R/3 environment. Its installations cover all major areas of electronic business communications, but especially Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Line of Business Applications (LOB) and groupware.

plenum AG specialises in planning and implementing information technology innovations in the service sector. Its core competences are the evaluation and implementation of the latest information and communications technologies linked with modern organisational and management structures. The company's three business units are plenum Management Consulting, plenum Systems and plenum Communication. Between them they offer an end-to-end performance chain from the idea via the concept to its implementation.

Peer group companies' fundamental data

Company (all figures in EUR)	Share price on 14.04.2003	Market cap. in EUR million	2002 sales in EUR million	2003E sales in EUR million	2002 EPS	2003E EPS	Book value per share
IDS Scheer	7.10	223.95	181	196	0.41	0.45	4.23
FJA	15.85	121.25	130	138	2.20	2.25	13.23
P&I	2.75	21.18	37.39	38.50	0.10	0.12	3.21
IXOS Software	4.25	91.48	135.38	142	0.42	0.43	3.53
plenum	1.05	10.06	47,50	47	- 1.11	0.12	1.02
ATOSS Software	10.51	40.69	23.30	24.35	0.32	0.49	9.37

These figures lead to the following price-sales (P/S) and price-earnings (P/E) ratio multipliers:

Company	P/S 2002	P/S 2003e	P/E 2002	P/E 2003e	P/B*
IDS Scheer	1.24	1.14	17.31	15.77	1.68
FJA	0.93	0.88	7.20	7.04	1.20
P&I	0.57	0.55	27.25	22.92	0.86
IXOS Software	0.68	0.64	10.12	9.88	1.20
plenum	0.21	0.21	-	8.75	1.03
ATOSS Software	1.75	1.67	32.84	21.45	1.12

P/S = price-sales ratio · P/E = price-earnings ratio · P/B = price-book value ratio

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