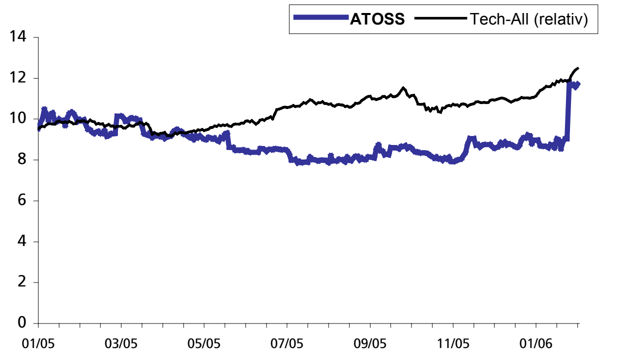
SES RESEARCH

ATOSS Software

Hold (old: Buy) | **Risk:** Medium | **Target: 12,40 €**

Successful restructuring

Bloomberg:	DE0005104400	Price:	11,70 €
Reuters:	AOFG.DE	Tech-AS:	858,17
ISIN:	AOF		
Internet:	www.ATOSS.com		
Segment:	Prime Standard		
Sector:	Software/IT		



Price quotes: Bloomberg 31.01.2006 / market close

Price High / Low 52 weeks:	12,40 € / 7,76 €
Market capitalisation:	47,10 €m
No. of shares:	4,03 million

Shareholders:	Free float	40,0%
	Founders family	54,9%
	Own shares	5,1%

Calendar: Annual Report 2005 17.03.2006

On 31st January 2006, the ATOSS Software AG presented the preliminary figures for FY 2005. After the last fiscal year took a promising start for ATOSS, the sales in Q1 did keep below the level of the previous year due to structural difficulties in marketing and marketing (please read report 15.09.2005). In order to fight this development the company did invest strongly into the ongoing development of its products, into market access, and also into the existing sales team. Stabilization in marketing and an upturn of the market did arrive in Q4 and the sales total of 5,8 €m in that quarter was again clearly above the level of the previous quarters and of FY 04. The fact that the company was able to achieve an EBIT margin of c. 14% in Q4 underlines the quality of the growth, which was mainly supported by higher license revenues (+47% q-o-q Q3/2005) and higher hardware sales (+35% q-o-q).

According to statements made by the management, the upturn of business has continued over the first weeks of the new fiscal year, but the company does keep its rather conservative outlook for 2006. After ATOSS achieved an EBIT margin of just below 3% in the last fiscal year, the management now expects a „secure“ EBIT-Marge of 5% for this year.

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End fiscal year	12/04	12/05e	12/06e	12/07e	CAGR
Sales	21,8	20,4	21,4	23,2	2,1%
Sales (old)	21,8	19,5	20,0	22,4	
Delta		4,7%	7,2%	3,7%	
EBITDA	2,1	1,2	2,3	3,1	13,9%
Margin	*9,67%*	*5,82%*	*10,84%*	*13,42%*	
EBITDA (old)	2,1	0,4	1,2	2,6	
Delta		197,2%	93,6%	19,9%	
EBIT	1,2	0,6	1,5	2,2	21,2%
Margin	*5,63%*	*2,76%*	*6,84%*	*9,42%*	
EBIT (old)	1,2	-0,4	0,4	1,7	
Delta		n.m.	266,5%	28,7%	
Net profit	0,9	0,5	1,0	1,3	13,4%
Margin	*4,02%*	*2,36%*	*4,64%*	*5,51%*	
Net profit (old)	0,9	0,0	0,3	1,2	
Delta		n.m.	231,8%	6,6%	
EpS	0,22	0,12	0,24	0,31	13,2%
EpS (old)	0,22	-0,01	0,08	0,31	
Delta		n.m.	205,7%	1,1%	
Dividend	0,11	5,50	0,10	0,13	4,5%
Yield	*0,94%*	*47,01%*	*0,84%*	*1,07%*	
Dividend (old)	0,11	0,00	0,03	0,12	
Delta		n.m.	226,1%	4,5%	
EpS in €, all other in €m, Price: 11,70 €					
Price/Sales	2,18	2,33	2,22	2,05	
P/E	54,17	98,62	47,84	37,32	
EV/Sales	0,93	0,99	0,94	0,87	
EV/EBITDA	9,59	17,04	8,72	6,50	

Analysis: SES Research

Publication: **01.02.2006**
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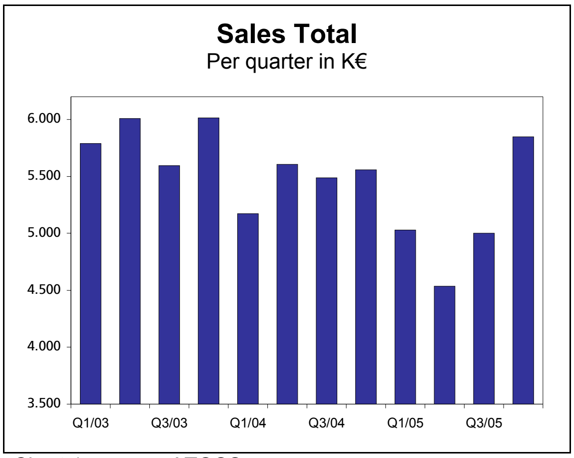

Chart 1; source: ATOSS

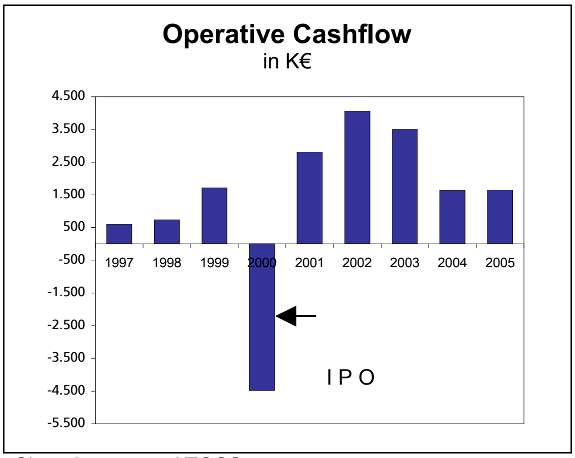

Chart 2; source: ATOSS

The EBIT margin being caused by cost effects already realised and also by the one-off revenue of 0,4 €m generated with the selling of the software product AENEIS to the company intellior AG (please see News-Flash of 23.12.2005).

The year 2005 is stamped by three major developments in particular: On one side the high expenditure for R&D, on the other side cost for the development of the market for mid-size enterprises and the enforcement of the sales team - and thirdly the temporary strong sales slump.

In the field of Research and Development the company spent a total of 4,1 €m - around 20% of sales (a considerable quota even for a smaller software house). The targeted ongoing development of the software is in our opinion the essential factor for ATOSS's business success. Except for the year of the initial price offering in 2000, ATOSS always achieved positive cash flows. Despite the sales decline by c. 4% in 2005 the company was able to increase sales from 1,6 €m in 2004 to still 1,7 €m.

We believe that ATOSS will continue to generate strongly positive cash flows in the future, which will finance and allow for the intended growth and investments.

With funds in a size of 27,8 €m (previous FY: 26,6 €m) the balance sheet is downright solid. The liquid funds are not entirely required for operations and are in our opinion dwarfing the achievement of an attractive equity return. For this reason we appreciate the management decision: at the AGM on 2nd May there will be a proposal for a special dividend of 5,50 € per share (please read News-Flash dated 24.01.2006). We assume that this proposal will be agreed upon. After the concluded distribution of around 22 €m, still around 6 €m liquid funds will remain with the company.

Due to the continuous technological developments ATOSS does have integrated solutions for all main customer groups, especially also for the small-and midsize enterprises, which are especially approached by the company's sales partners. ATOSS plans a further expansion of the market share by a broader customer basis and also by the acquisition of major orders in the premium segment.

Due to the fact that ATOSS was above our prognoses for sales and for the earnings in 2005, we believe that restructuring is at a faster pace than we had estimated so far and we have now adjusted our estimations accordingly.

The Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (BITKOM) predicts a sales growth in the sector software of 5,0% up to a sales volume of 16,9 €bn. We assume that ATOSS will be able to keep up with this prognosis on the sales side in 2006. Such growth should be supported by the strongly upwarding business with smaller and midsize companies, employing staff up to 500 employees, but mainly by the business in the premium segment, in which the number of new customers was lightly higher than one year ago. Until the end of Q3, the new order business came by 64% from the existing clientele. In Q4 ATOSS has acquired more new customers, so that the ratio of new : existing customers went up to 40:60 (y-o-y: 56:44), remaining yet still below last year's level.

We consider a EBIT margin of just below 7% to be a realistic assumption for ATOSS in 2006 and we also believe that the company will be able to return to a double-digit margin level upon mid-term view – such as proven quite impressively in Q4/2005 with a margin of 14%. The price development of the share is another positive issue – since November 2005 the share has gained almost 45% in value. We see the price target at 12,40 € and change our rating to HOLD, as the present share price is not very distant to the fair value.