ATOSS Software AG
Germany - Software

HAUCK & AUFHÄUSER
Investment Banking

Hold (Initiation)

Price target: EUR 187.00 (Initiation)

Price:	EUR 171.60	**Next result:**	Q1'21 26.04.21
Bloomberg:	AOF GR	**Market cap:**	EUR 1,364.8 m
Reuters:	AOFG.DE	**Enterprise Value:**	EUR 1,354.6 m

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Work smarter not harder – Initiating with HOLD

In a world of scarce talent, expensive labour, demanding unions as well as complex employee protection rules, the **efficient management of staff is a must.** Still, many companies handle this task with error-prone, in-house, excel- and paper-based solutions.

Alternatively, they could opt for **ATOSS' workforce management solution and get their money back within 6 to 12 months, while saving up to 15% of personnel expenses**. The company's unique focus is evident in a comprehensive suite ranging from time and attendance tracking all the way to algorithm based scheduling, all of which in compliance with fluctuating and intricate regulations.

The **competitive landscape is fragmented but ATOSS' high differentiation**, helps it outperform local peers thanks to a broader functionality set and higher efficiency, while global heavy weights lack the depth of its local regulatory knowledge. All of which results in an estimated **12% market share in German-speaking Europe**, featuring blue-chip customers and a churn rate of below 5%.

ATOSS has historically focused on the DACH region but **will expand into Benelux and the Nordics in the near future**. These countries offer an annual recurring revenue opportunity of € 276m (eH&A). At the same time, **growth potential in ATOSS home turf remains attractive** as the adoption of WFM software is still on the rise and ATOSS usually manages to upsell customers from 40% to 80% of available modules during their lifetime. In sum, **revenues look set to grow by 16% p.a. into 2025E**.

Moreover, the legacy on premise business is steadily shifting into the cloud. The cloud share of 2020 software revenues was already 23% and looks set to grow above 75% by 2025E. With that, the **recurring revenue share should rise from 46% of total sales in 2020 to 72% in 2025E, resulting in rock solid earnings visibility**.

New market entries and cloud migration should burden EBIT margins short- to mid-term. We therefore expect **EBIT to grow at a CAGR of 18% to € 59m in 2025E**, implying a margin expansion of 2pp to 32%. Thanks to strong scalability, this capital light business model should be able to generate **sustainable EBIT margins of 40% and ROCE > 60% further down the road**.

Shares trade on a 4.1x PEG ratio vs. peers 4.7x leaving currently limited room for upside. Initiate with **HOLD**, **PT € 187** based on DCF.

Y/E 31.12 (EUR m)	2019	2020	2021E	2022E	2023E	2024E	2025E
Sales	71.4	86.1	99.0	115.0	135.0	158.0	183.2
Sales growth	14 %	21 %	15 %	16 %	17 %	17 %	16 %
EBITDA	22.5	29.8	30.8	34.0	41.6	53.3	65.3
EBIT	19.3	26.2	26.7	29.6	36.7	48.0	59.4
Net income	13.5	17.7	18.2	20.1	24.9	32.4	39.9
Net debt	-6.1	-13.2	-17.0	-21.9	-29.8	-41.3	-54.5
Net gearing	-24.7 %	-40.7 %	-45.6 %	-50.1 %	-55.6 %	-61.4 %	-65.7 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS pro forma	1.70	2.23	2.29	2.53	3.13	4.07	5.02
CPS	1.52	2.47	2.15	2.34	2.88	3.79	4.71
DPS	1.28	1.67	1.72	1.90	2.35	3.06	3.77
Dividend yield	0.7 %	1.0 %	1.0 %	1.1 %	1.4 %	1.8 %	2.2 %
Gross profit margin	70.3 %	72.4 %	72.2 %	72.0 %	73.0 %	74.0 %	75.0 %
EBITDA margin	31.5 %	34.6 %	31.1 %	29.5 %	30.8 %	33.8 %	35.6 %
EBIT margin	27.0 %	30.4 %	27.0 %	25.7 %	27.2 %	30.4 %	32.4 %
ROCE	49.1 %	55.3 %	49.8 %	49.8 %	54.4 %	60.6 %	63.2 %
EV/sales	19.1	15.8	13.7	11.7	9.9	8.4	7.2
EV/EBITDA	60.7	45.6	44.0	39.7	32.3	24.9	20.2
EV/EBIT	70.8	51.9	50.7	45.7	36.5	27.7	22.2
PER	100.8	77.0	74.8	67.8	54.8	42.1	34.2
Adjusted FCF yield	1.0 %	1.3 %	1.3 %	1.5 %	1.8 %	2.4 %	3.0 %

Source: Company data, Hauck & Aufhäuser Close price as of: 21.04.2021, per share data reflect stock split

Source: Company data, Hauck & Aufhäuser

High/low 52 weeks:	197,00 / 80,50
Price/Book Ratio:	36,5
Relative performance (-):	
3 months	-
6 months	-
12 months	-

Changes in estimates

		Sales	EBIT	EPS
2021	*old:*	99.0	26.7	2.29
	Δ	-	-	-
2022	*old:*	115.0	29.6	2.53
	Δ	-	-	-
2023	*old:*	135.0	36.7	3.13
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs)	8.0
Authorised capital: (in € m)	-
Book value per share: (in €)	4.7
Ø trading volume: (12 months)	5,300

Major shareholders:

Andreas Obereder	50.0 %
Free Float	50.0 %
MainFirst AM	5.9 %
Rentrop Investment Office	2.8 %

Company description:
ATOSS is a provider of software for workforce management supporting companies with time and attendance solutions as well as forecasting and scheduling of their workforce.

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Introducing ATOSS

ATOSS is a software provider for workforce management (WFM). In a nutshell, ATOSS' software enables companies to employ the right person with the right skills at the right place and time. Hence, **avoiding over- or under-staffing and improving operational efficiency**.

Solutions include not only the efficient scheduling of shifts but more importantly, forecasting workforce demand as well as planning capacity in the mid-term and optimizing the personnel structure in the long term. Naturally, **ATOSS serves personnel intense end markets** such as production, (24% of sales), retail (24% of sales) and services (18% of sales).

While ATOSS has historically operated a business model involving an up-front license and recurring maintenance fee, it is transforming into a cloud based software provider accounting for **23% of software revenue already in FY'20** vs. 47% maintenance and 30% license fees.

Taken together software sales make for 65% of total group sales with the remainder being consulting (28%) and hardware (5%). **Annual recurring revenue (ARR) stood at € 40m, i.e. 46% of total group sales in FY'20.**

ATOSS Product Overview

Product	ATOSS Staff Efficiency Suite (ASES)	ATOSS Time Control (ATC)	Crewmeister
Financials			
Revenue '20 (€m)	72.0	13.1	1.0
In % of total	84%	15%	1%
Functions and features			
Time and attendance management (T&A)	✓	✓	✓
Real time monitoring and schedule updates	✓	✓	×
Workforce scheduling	✓	✓	✓
Workforce forecasting	✓	(✓)	×
Capacity planning	✓	×	×
Personnel structure optimization	✓	×	×
Delivery option	On premise / cloud	On premise / cloud	Public cloud
Customers			
Target customer	> 500 employees	30-1000 employees	<30 employees
Number of customers	ca. 2000	ca. 3900	ca. 4100
Average churn rate	4% p.a. cloud, 2% p.a. maintenance	4% p.a. cloud, 2% p.a. maintenance	19% p.a.
Pricing and contract structure			
Revenue model	License/ SaaS, by # of employees and chosen modules	License/ SaaS, by # of employees and chosen modules	SaaS, from € 9.99/month (up to 5 employees)
Standard contract duration	48 months (cloud)	48 months (cloud)	Customer chooses between monthly and annual subscription
Implementation time	Six to nine months	Up to six months	Instantly available to the customer

Source: Company data; H&A estimates

The company addresses customers of all sizes with three different products:

I) ATOSS Staff Efficiency Suite (ASES), 84% of sales

ASES is ATOSS' core product and targets enterprise customers with more than 500 employees across Europe. It is available on premise or via cloud.

Main functions include, time and attendance management (T&A), as well as forecasting of employee demand and automated scheduling.

Forecasting is based on a sophisticated algorithm that can take various input parameters into account, e.g. the number of employees in the previous year, revenue growth over the past weeks, seasonality, the weather, etc.

Scheduling only takes one click and materially complies with all applicable laws and regulations. On top, scheduling can be done with a service-oriented approach or a budget-driven approach allowing management to optimize according to its strategy and goals. In retail for example, this could mean having enough employees on the shop floor to cover a certain service level or ensuring the best possible service level with a given budget.

Given the number of functions, the product is able to solve complex problems and takes some six to nine months to implement.

Pricing is based on the number of employees as well as the number of chosen modules out of 30 available options, e.g. T&A, scheduling, forecasting, performance tracking, etc. Customers typically start with 40% of the available modules and upgrade to more than 80% in subsequent years.

According to management, the average on premise ticket size for this product is around € 160k per license, plus a 20% maintenance fee. Note, that the SaaS version spreads the license cost over the contract duration of typically 4 years and includes a component for the provision of IT infrastructure, i.e. computing power and server capacity.

II) ATOSS Time Control (ATC), 15% of sales

ATC is the intermediate product intended for companies with 30 to 1000 employees.

Functionality is slightly lower compared to ASES, i.e. only manual forecasting and scheduling. At the same time, the product is more standardized allowing for quicker implementation, i.e. in no more than six months.

Similar to ASES, pricing is based on the number of chosen modules as well as the number of employees.

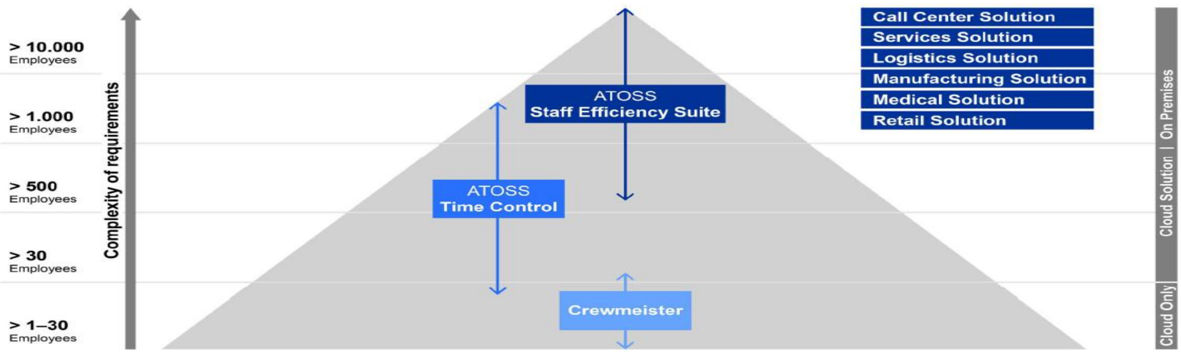
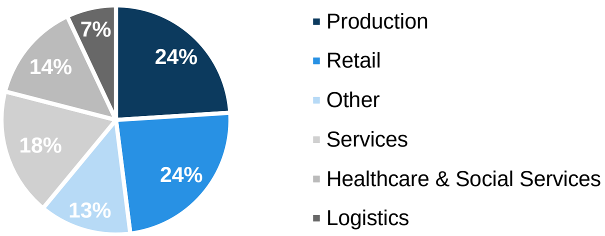
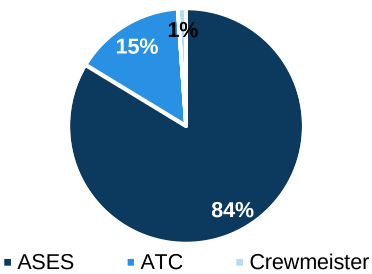
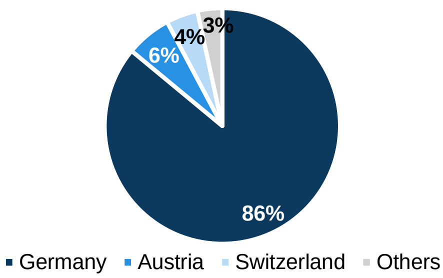
III) Crewmeister, 1% of sales

Crewmeister is the lower-end product and is available only via cloud. The offer starts at a fixed base price of € 9.99 per month for the management of up to five employees.

It is a plug and play product that is accessible on the website and in common app stores. The software is instantly available to the customer, i.e. no implementation by ATOSS needed.

It is targeted at small businesses with less than 30 employees. Key functions include T&A as well as absence management.

Company Background

	Software	Consulting	Hardware	Others	Group
Products					
Sales 20 (€ m)	56,0	24,1	3,9	2,0	**86,1**
Sales share	65%	28%	5%	2%	
ARR 20					**39,5**
End markets	ATOSS typically serves labour-intensive industries where employees tend be paid hourly. It offers specialized solutions for the logistics, medical, manufacturing, retail and service industry as well as for call centers.				
Market positions	ATOSS is a leading player in the fragmented German-speaking workforce management software market. The European market for WFM has a total size of € 2.6bn (eH&A). In the DACH region, ATOSS' market share is estimated to be ca. 12%. In Europe ATOSS holds a 3% market share.				
Customers	ATOSS has ca. 10k customers of which ca. 2000 are enterprise customers. In total, ATOSS' customers employ over 3.5m workers. Most customers are based in the DACH region but operate globally. Hence, the software is installed in 46 countries. The top three customers account for less than 10% of revenue.				
Competitors	ISGUS Unternehmensgruppe, REFLEXIS, LEGION, CERIDIAN, workday, Quinyx, ADP, prosoft, injixo, NICE, tamigo				
Suppliers	Hardware, e.g. timeclocks, is procured from various external suppliers including Dormakaba, Datafox and PCS Systemtechnik. Server capacity and computing resources are rented from Microsoft Azure and Deutsche Telekom. Going forward ATOSS intends to pursue a Hyperscaler agnostic approach in terms of server capacity.				
Employees	537 employees; thereof 101 in Sales & Marketing, 161 in Consulting, 196 in R&D and 79 in G&A.				
Sales distribution by product and region (20)					
EBIT 20 (€ m)					**26,2**
EBIT-margin					**30%**
ROCE 20					**55%**

Source: Company data, H&A estimates

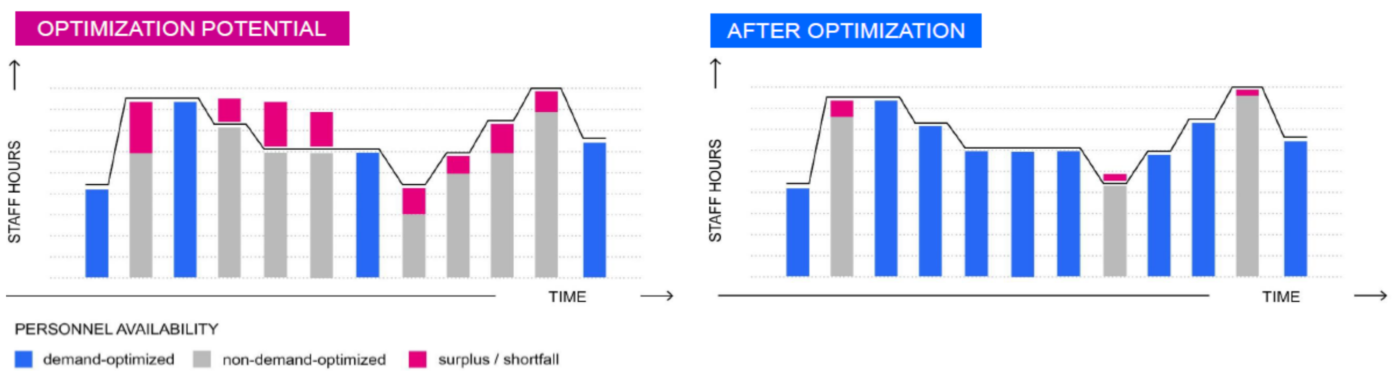
Quality

- **Value & Perception:** High ROI product attracting blue-chip customer base with low churn
- **Strong differentiation** in a fragmented market based on strong functionality arsenal and focus on Europe
- **Solid business quality**: Recurring revenue share of 46%; ROCE exceeding 50%

Efficiency gains provide high value-add and ROI

ATOSS' quality is evident in the high value-add and ROI of its offering. It helps customers to do away with over- or understaffing by precisely forecasting labour demand and scheduling the workforce accordingly.

Avoiding over- and understaffing



Source: Company data

This 'simple' proposition translates into a compelling business case for customers. Here are some examples:

- **Customers are able to lower personnel expenses by up to 15% at equal staff levels**. Considering that personnel expense can make up to 40% of revenue in some verticals, e.g. retail where companies are eager to maximize the surface area productivity of their stores, this **can have a significant impact on the customer's margins**.

- **Costly overtime hours can be reduced by up to ~80%**. Notably, this not only saves personnel expense but also keeps employees happy and healthy. Hence, increasing productivity during regular hours and more importantly playing positively into the employer brand and helping to attract scarce talent.

- **The short term planning and scheduling effort is cut by up to 95%** in some cases, freeing up capacity for more important things like the long term, strategic personnel capacity planning.

Taken all together, the software increases efficiency and at the same time improves employee satisfaction dramatically. This makes for a **strong ROI for customers evident in a payback time of six to twelve months** after implementation.

Competitive landscape: A fragmented market with a few strong leaders

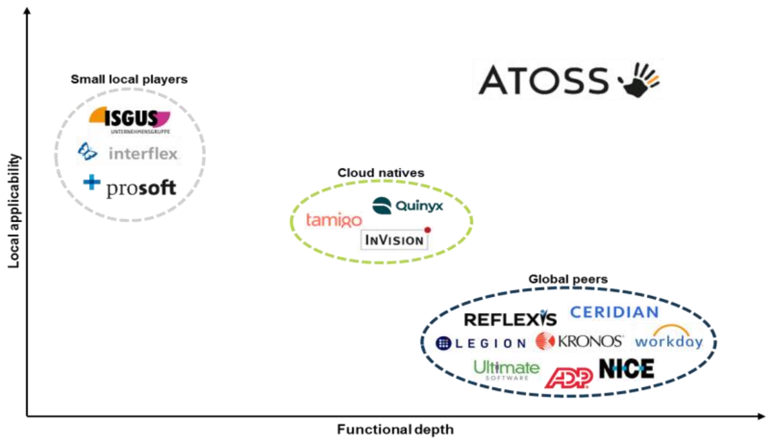
The strong value-add of WFM software makes for a strongly growing market, i.e. 8% p.a., driven by digitalization, scarcity of talent requiring more efficient use of labour as well as increasing legal requirements.

Entry barriers are rather limited, at least on the low-end side, resulting in a fragmented market with a large amount of small, mostly national players. In Germany alone, we estimate ATOSS to face competition from at least 15-20 different vendors. However, **in the enterprise market entry barriers are much higher due to complex regulatory requirements** particularly in combination with forecasting and scheduling.

Competition can be grouped in three clusters:

- A large number of established national players characterized by limited product functionality that focuses mainly on T&A. They tend to have revenue below € 30m.
- A handful of young, cloud native, players offering good functionalities in cloud-only products. They are mostly, small but strongly growing.
- International, mainly US providers with deep pockets, often offering more than just WFM software. In fact, some of them offer complete Human Capital Management (HCM) suites. Those one-stop-shops however lack the deeper functionalities of pure WFM software players. International pure play WFM providers have highly sophisticated algorithms, just like ATOSS. However, most of them are based in the US and lack the local European knowledge.

Competitive landscape



Source: H&A estimates

Differentiation rooted in strong functionality set and local European focus

Within this landscape, ATOSS is a **market leader with a roughly 12% market share in the German-speaking regions** (eH&A). The reason: ATOSS differentiates from smaller low-end peers via its **sophisticated functionality array** and from heavy weight international peers through its **in-depth knowledge of the local circumstances and regulatory frameworks in Europe**:

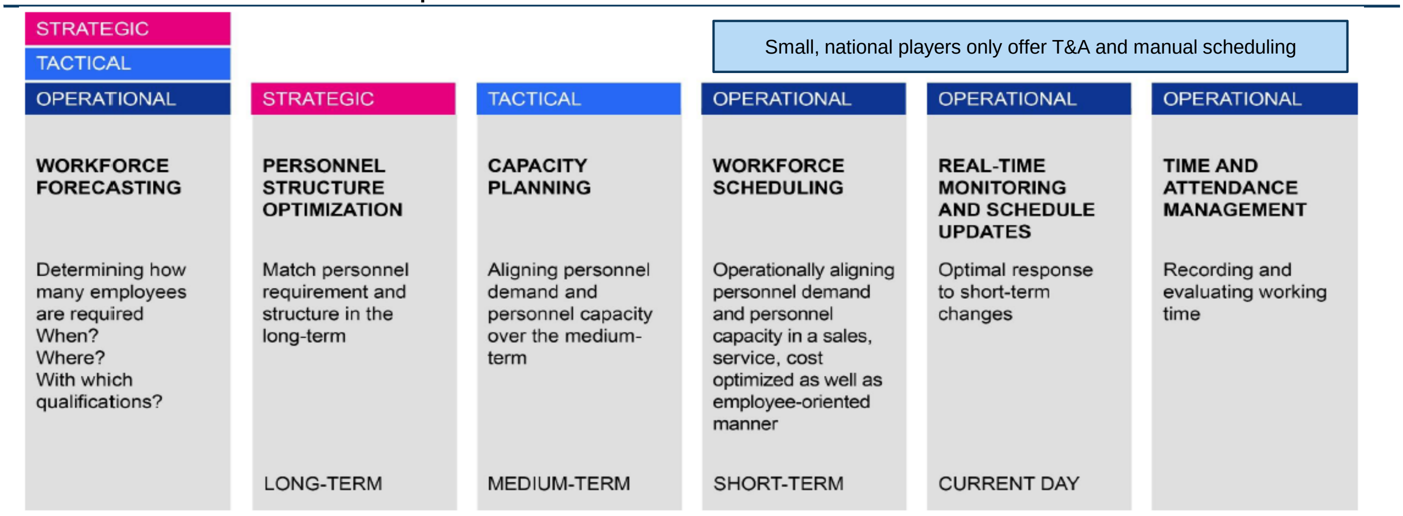
I) Functionality

Having been in the WFM market for more than 30 years, **ATOSS' solution is state-of-the-art in terms of functionalities**. Most small peers only offer T&A solutions but lack the scheduling abilities. Slightly better solutions will include scheduling but only on a manual base, much like ATOSS' ATC product.

ATOSS' unique selling proposition to customers mostly stems from efficient planning and scheduling by reducing over- and understaffing. In other words, ‘T&A only’ products are nice to have but are hardly competitive in labour intense sectors that require sophisticated shift planning.

Unsurprisingly, the low-end segment is somewhat price sensitive, whereas the **higher functionality products enjoy healthy pricing**, explaining the EBIT margin difference between higher-end (>20% eH&A) and lower-end players (<15% eH&A).

Main functions and features of ATOSS' products



Source: Company data

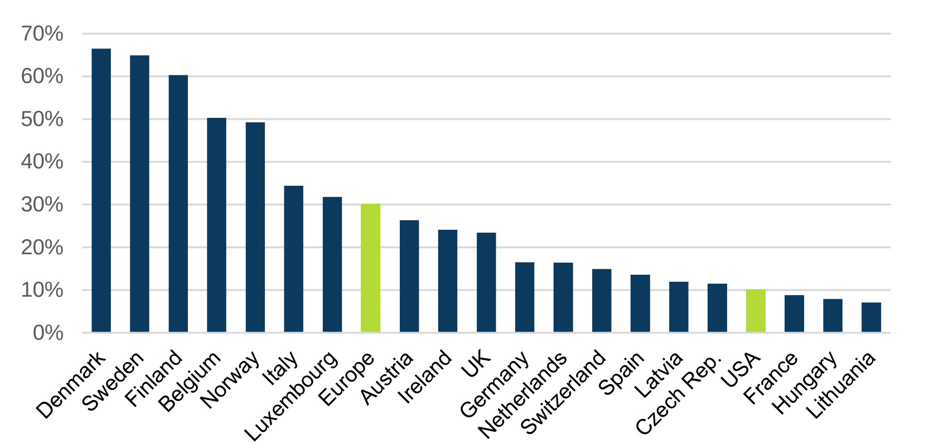
II) Local strength

Larger, mainly US peers also offer powerful planning and scheduling solutions. However, most of them lack the in-depth know-how of local legal frameworks.

Compared to the US, the **European labour market is characterized by a maze of rules and regulations with national specificities**. Think about, labour unions, workers councils, etc. The flood of rules requires a strong, standardized ‘rules engine’ since non-upgradeable customer specific programming solutions lack scalability and convenience.

ATOSS is one of only very few players capable of providing such a rules engine to reflect the specific laws. In some cases, this edge allows ATOSS to win over customers from larger global peers, which are not able to provide the necessary local capabilities.

Labour union density



Source: OECD database, 2018 or latest available year, H&A estimates

Consistent R&D investments ensure defensibility of competitive edge

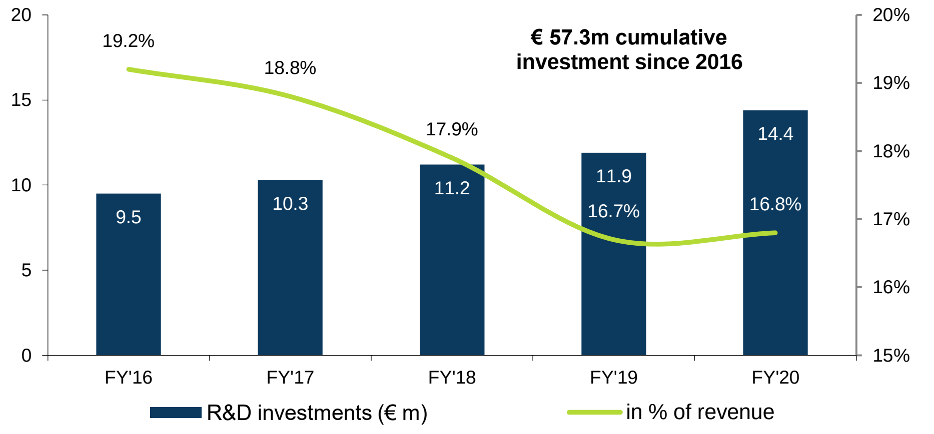
ATOSS defends its leading edge in terms of functionality as well as local know-how by **investing more than 16% of sales, i.e. € 14m in 2020, into R&D each year**, the highest among WFM software providers in Europe.

Notably, larger US peers with deep pockets historically focused on highly standardized software solutions enabling good scalability in the rather homogenous US market. Rare special situations would rather be implemented on a case-by-case basis, making subsequent updates costly and making the European market less attractive for these players.

ATOSS on the other hand has a **'rules engine' built into its standard software allowing the user to specify parameters in order to reflect the applicable laws**. Hence, no case-by-case coding is needed.

Considering that the North American market should be much more homogenous than and at least as large as the European one, US peers might shy away from investing into incremental software development to achieve a similar standard.

Consistently high R&D investments

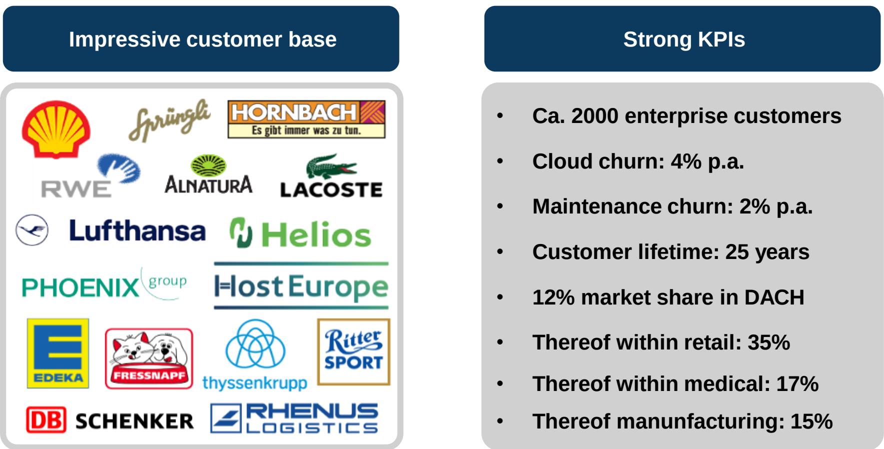


Source: Company data, Hauck & Aufhäuser

All of these traits are valued by customers allowing ATOSS to take roughly 12% market share in the DACH region. Value and perception is also reflected in an illustrious customer base as well as strong customer loyalty and low churn.

At the same time, the **customer base is well diversified** with the top three accounts making for less than 10% of revenues.

Value & Perception



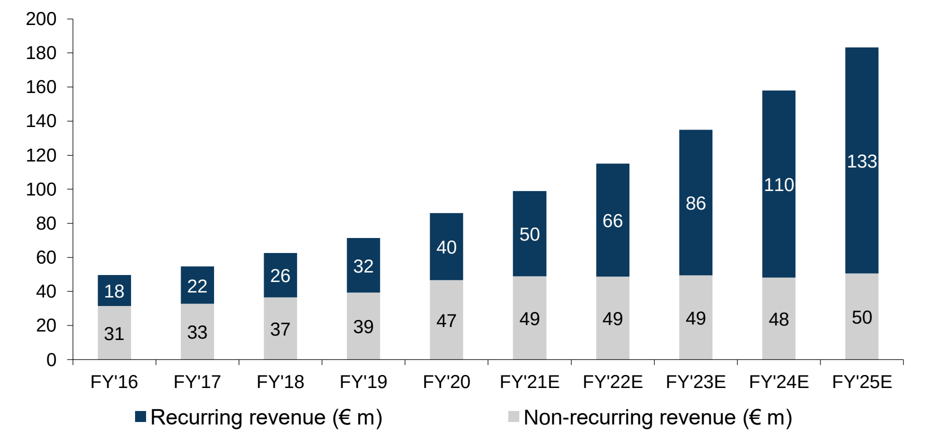
Source: Company data, H&A estimates

Business quality

Operating the typical, cloud based software business model, **ATOSS benefits from a high and increasing share of recurring revenues as well as strong scalability** translating into **impressive returns,** very well above the cost of capital.

- The share of recurring revenues is seen to grow from 46% of total sales in 2020 to 72% by 2025E, carried by increasing cloud sales.

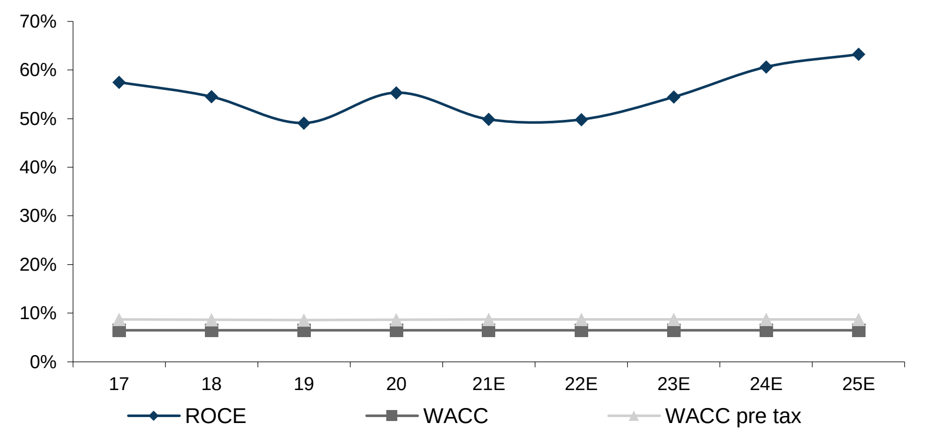
Increaseing share of recurring revenue



Source: Company data, H&A estimates

- A high degree of standardization of ATOSS' software and limited incremental costs once the software is installed, i.e. only data centre rent as well as customer support, should drive scalability.
- ROCE is expected to remain above 50%, vastly exceeding WACC, driven by improving profitability due to scalability and strong capital efficiency on the back of a capital light software business model.

Returns



Source: Company data, H&A estimates

Growth

- **Strong underlying market growing at 8% CAGR** driven by digitalization and labour scarcity
- **ATOSS is set to outgrow the market with 16% CAGR into 2025E** thanks to market share gains particularly outside DACH
- **Cloud revenue and ARR to grow disproportionately**
- **EBIT is seen to grow at a CAGR of 18% into 2025E** slightly burdened by growth investments and the shift to the cloud until 2023E but benefitting from scale and recurring revenues in subsequent years.

Market growth

According to various studies, the **global market for WFM software is seen to have a size of roughly € 6bn**.

To derive an estimate for the European market we look at ATOSS' recurring revenues, ignoring hardware and consulting revenues and assuming that existing on premise maintenance customers switch to the cloud.

To reflect this, we reverse engineer the potential cloud revenue from existing on premise maintenance customers by dividing the maintenance revenues by 45% in-line with the typical 45% share of the maintenance component in a cloud subscription model.

Under these assumptions, ATOSS' recurring revenue in 2020 amounted to € 72m. Dividing this by the 3.5m employees managed with ATOSS software, implies an annual recurring revenue of € 21 per employee. Applying this to the number of employees in relevant sectors across Europe leads to an **addressable market of € 2.4bn**.

Total adressable market Europe	
I: Employees managed with ATOSS software (in m)	3.5
II: Reported cloud revenue 2020 (in €m)	12.9
III (=a/b): Theoretical cloud revenue from existing maintenance customers (in €m)	59.1
a: Reported maintenance revenue 2020 (in €m)	26.6
b: Typical share of the maintnenance component in a cloud contract	45%
IV (=II+III): Recurring revenue potential 2020 (in €m)	72.0
A (=IV/I): Average revenue per managed employee p.a. (in €)	20.6
B: Total employees in EU-28 in 2019 (in m)	193.8
C: Share of employees in relevant sectors	59%
Total adressable market in €m (AxBxC)	**2,365**
ATOSS market share	3.0%

Source: Eurostat, H&A estimates

ATOSS holds a mere **3% market share in Europe and 12% share in the DACH region, implying ample growth potential ahead**. Notably in DACH, ATOSS is seen to have an 18% share within the enterprise segment, i.e. >250 employees, as well as a 7% share among mid-sized companies with 50-249 employees.

The **market looks set to grow at 8% p.a. over the coming years**, driven by strong structural trends:

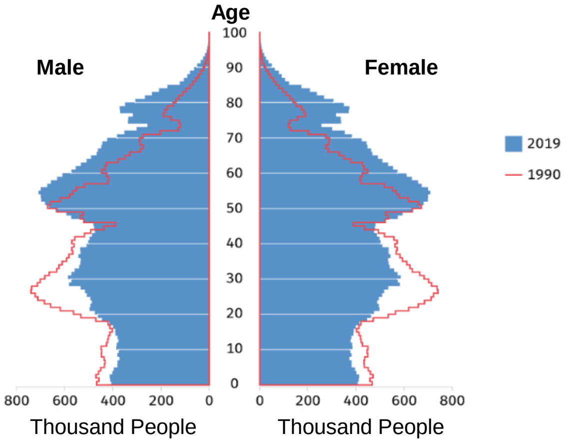
- **Mounting labour shortages:** Demographic change should increase the shortage of skilled workers and thus fuel the demand for professional workforce management solutions to maximize utilization.

  Particularly in industrialized countries, companies see themselves increasingly confronted with a shortage of skilled workers due to demographic change, which turns employees into an increasingly scarce asset. Looking at the German market, which is currently the most important for ATOSS, the significance of this megatrend becomes particularly clear.

  According to the German Federal Statistical Office (Statistisches Bundesamt), every second person in Germany is now over 45 and every fifth over 66. In addition, the proportion of women without children is increasing significantly, which will accelerate this aging process.

  It is expected that already in 2030 the German labour force will comprise more people aged 65-74 than people under 20.

Age structure of the German population 2019



Source: Federal Statistical Office, H&A

  Companies are feeling the effect of demographic change already. In a recent survey the German Federal Employment Agency (Bundesagentur für Arbeit) reported that vacancies remain advertised for over double the time before they are filled. While in 2010 a vacancy was filled after an average of 57 days, it took 132 days in 2020.

  This forces companies to deploy existing employees as efficiently as possible to mitigate labour shortages, hence fuelling demand for WFM software.

- **Increasing complexity of labour laws:** Increasingly complex regulations (EuGH) boost demand for T&A systems.

  Especially Germany and the European Union are characterized by complex regulations and strong labour unions, which pose various challenges, particularly with regard to time control. In addition, individual regulations within the EU member states can differ significantly in some cases, requiring a highly individual solution for time recording and control. ATOSS software solutions are tailored to those complex regulations from the outset, ensuring that personnel deployment planning and time control are always in line with national rules.

In addition, the European Court of Justice (EuGH) recently ruled that time recording will be mandatory across all industries. Once this regulation has been transposed into national law in the respective EU states, it should significantly drive demand for professional and, above all, digital workforce management solutions.

Top-line growth

ATOSS looks set to grow by a CAGR of 16% into 2025E, clearly outperforming the market. Main contributor should be **Software sales with a CAGR of 19%**, especially internationally, with a 66% CAGR.

Sales growth ATOSS	FY'19	FY'20	FY'21E	FY'22E	FY'23E	FY'24E	FY'25E	CAGR `20-25E
Software sales	46.5	56.0	66.0	79.0	94.0	112.0	133.0	19%
yoy	*18%*	*20%*	*18%*	*20%*	*19%*	*19%*	*19%*	
in % of total sales	*65%*	*65%*	*67%*	*69%*	*70%*	*71%*	*73%*	
thereof license	14.5	16.5	15.8	12.6	8.5	2.2	0.3	-56%
yoy	*9%*	*14%*	*-4%*	*-20%*	*-33%*	*-74%*	*-88%*	
in % of software sales	*31%*	*29%*	*24%*	*16%*	*9%*	*2%*	*0%*	
thereof maintenance	24.2	26.6	31.0	33.2	33.8	33.6	31.7	4%
yoy	*11%*	*10%*	*17%*	*7%*	*2%*	*-1%*	*-6%*	
in % of software sales	*52%*	*47%*	*47%*	*42%*	*36%*	*30%*	*24%*	
thereof cloud & subscription	7.8	12.9	19.1	33.2	51.7	76.2	101.1	51%
yoy	*87%*	*66%*	*48%*	*73%*	*56%*	*47%*	*33%*	
in % of software sales	*17%*	*23%*	*29%*	*42%*	*55%*	*68%*	*76%*	
Consulting sales	19.5	24.1	26.5	29.0	31.7	34.9	38.4	10%
yoy	*10%*	*23%*	*10%*	*9%*	*9%*	*10%*	*10%*	
in % of total sales	*27%*	*28%*	*27%*	*25%*	*23%*	*22%*	*21%*	
Hardware	3.7	3.9	4.6	5.3	6.2	7.1	8.2	16%
yoy	*-10%*	*6%*	*17%*	*15%*	*17%*	*15%*	*15%*	
in % of total sales	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*4%*	
Other sales	1.6	2.0	1.9	1.7	3.1	3.9	3.7	13%
Total sales	71.4	86.1	99.0	115.0	135.0	158.0	183.2	16%
yoy	*14%*	*21%*	*15%*	*16%*	*17%*	*17%*	*16%*	
thereof DACH	69.9	83.1	94.1	106.4	119.7	133.2	146.6	12%
yoy	*15%*	*19%*	*13%*	*13%*	*13%*	*11%*	*10%*	
in % of total sales	*98%*	*97%*	*95%*	*93%*	*89%*	*84%*	*80%*	
thereof international	1.5	2.9	4.9	8.6	15.3	24.8	36.6	66%
yoy	*-12%*	*100%*	*65%*	*78%*	*77%*	*63%*	*48%*	
in % of total sales	*2%*	*3%*	*5%*	*8%*	*11%*	*16%*	*20%*	

Source: Company data, H&A estimates

Key drivers of growth are the (I) European expansion, (II) continuous domestic growth, supported by increasing adoption of WFM software and successful upselling, and (III) the switch to the cloud.

- **European expansion:** ATOSS has historically focused on customers based in the DACH region. Since, the software is available in nine different languages already and is being deployed by domestic customers in subsidiaries across Europe, ATOSS is now targeting foreign-based customers as well.

  In a first step, ATOSS should be targeting to leverage its recently opened sales hubs in the **Benelux area as well as the Nordics**. Like Germany, these areas are characterized by high complexity of labour protection laws making ATOSS' sophisticated product very relevant. Additionally, the Nordics are traditionally software and digitalisation affine.

The company should also be **benefitting from SAP**, which is offering ATOSS' product to customers based on an app center partner arrangement.

In a second step, ATOSS plans to **expand into further adjacent countries** such as France, Poland or Spain.

To ensure solid execution of the internationalization strategy, ATOSS recently appointed Dirk Häußermann as new Co-CEO. Mr. Häußermann worked in leading positions for IBM as well as Heiler Software and SAP. He brings solid international and cloud computing experience.

The **recurring revenue potential in the targeted areas is seen at € 1.2bn** (eH&A) and splits across the countries as shown in the picture below. Considering the 12% current market share in its home turf, the DACH region, we think **ATOSS can capture at least c. 3% share in the international markets until 2025E**. This would put international sales at 20% of total sales vs. 3% today.

Adressable markets in Europe

DACH	€ 586m
Benelux	€ 137m
France	€ 268m
Nordics	€ 138m
Spain	€ 200m
Portugal	€ 50m
Italy	€ 224m
Poland	€ 161m
Czechia	€ 58m
UK	€ 302m

Source: Company data, Eurostat, H&A estimates

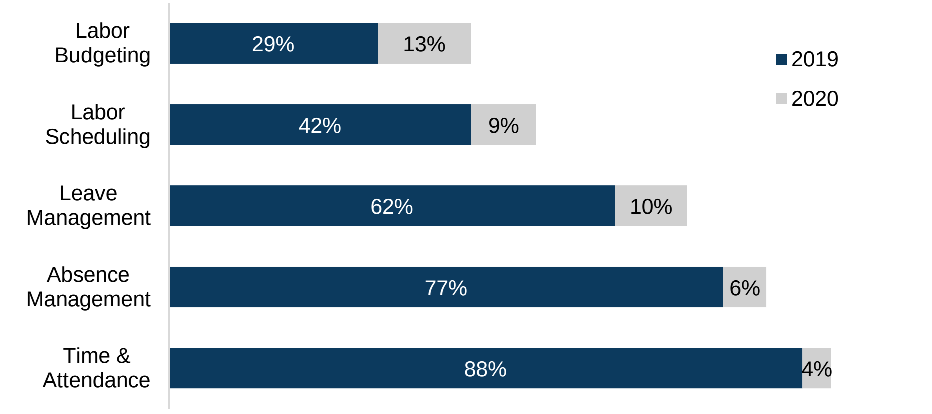
- **Domestic growth:** Aside from the international growth opportunity, ATOSS still has plenty of room for growth in the DACH region where it currently holds a 12% market share.

  Market share gains should come especially from the substitution of Excel and paper-based in-house models as rules and regulations gain in complexity and **more and more companies make a push towards digitalisation**.

  ATOSS should be able to continue capturing market share from T&A-only peers. **Market penetration of T&A software is seen to be above 90% already**, while more sophisticated **Scheduling & Forecasting modules as offered by ATOSS are currently used by only 51% of companies** according to a survey by Sierra-Cedar.

  According to Sierra-Cedar, the **adoption of scheduling modules grew by 9% in 2020 vs. 4% for T&A** highlighting that corporates are increasingly keen on full service providers such as ATOSS.

Workforce Management Application Adoption in 2019 and 2020



Source: Sierra-Cedar HR Survey 22nd annual edition, H&A

On top, **growth should be driven by upselling the existing customer base**. ATOSS was historically able to sell 40% of its module stack to a new customer while managing to raise the share to 80% throughout the customer's lifetime.

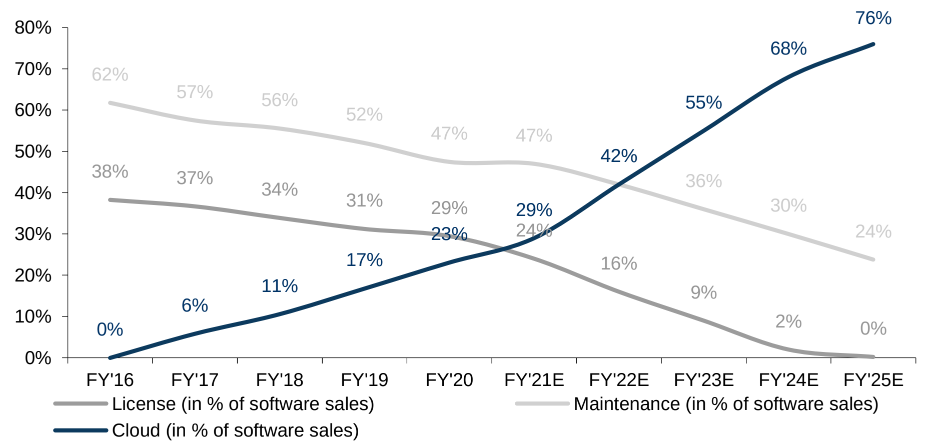
All in all, **DACH sales are expected to grow at a 12% CAGR into 2025E**, to € 147m.

- **Shift to the cloud:** To our understanding, management will make a dedicated push into the cloud over the next years. While the share of cloud subscriptions grew by some 5-6ppt p.a. over the past 4 years, the **aim is to increase the cloud share of software sales from 23% in 2020 to c. 77% in 2025E**, i.e. an average annual increase of 11ppt.

  On the back of the many advantages, such as improved availability, reliability and flexibility, companies are generally becoming more open to cloud based solutions. In fact, **Gartner forecasts that at least 99% of new workforce management application sales will leverage cloud-based deployment models by 2024**. On top, ATOSS is increasing the incentive for sales representatives for achieving cloud transitions.

  Given that the cloud pricing model is based on recurring subscription fees rather than a lumpy upfront fee, t**he accelerated shift is going to hamper top-line growth in the near term**, however growth is seen to reaccelerate the following years as the recurring revenue share rises.

Cloud penetration on the rise



Source: Company data, H&A estimates

Bottom-line growth

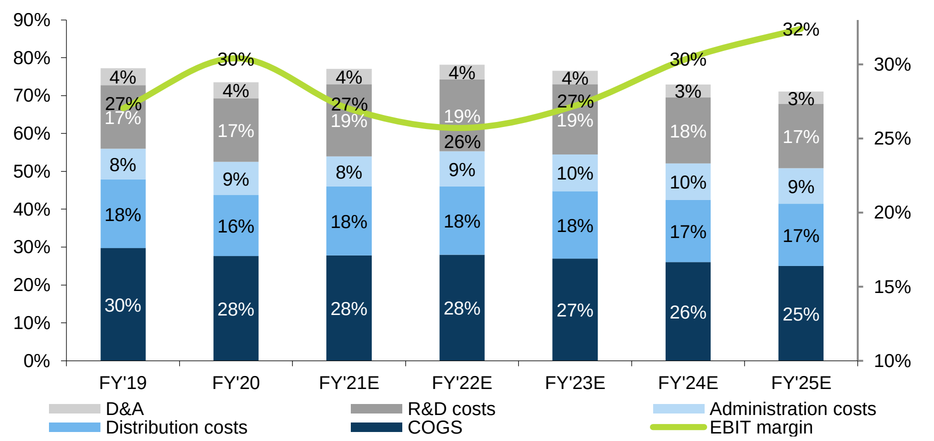
ATOSS has historically been able to achieve **sound gross margins >70% as well as EBIT margins in the 26-30% range**.

In the course of its push into the cloud, ATOSS is seen to increase investments into R&D in the coming years. As a result **R&D intensity should be lifted to 19% of revenues** before returning to earlier levels of c. 16%. Importantly, the move to the cloud should allow for **higher gross margins down the road**. In fact, we anticipate COGS to decline from 28% of sales in 2020 to 25% in 2025E.

Furthermore, **marketing and distribution costs are expected to be somewhat inflated during the early stages of the international roll out**, i.e. 18% of sales vs. 16% in 2020.

In the longer run a **sustainable EBIT margin of 40% seems achievable** considering the scalability of the business model. The **47% incremental EBIT margin in 2020** supports this view.

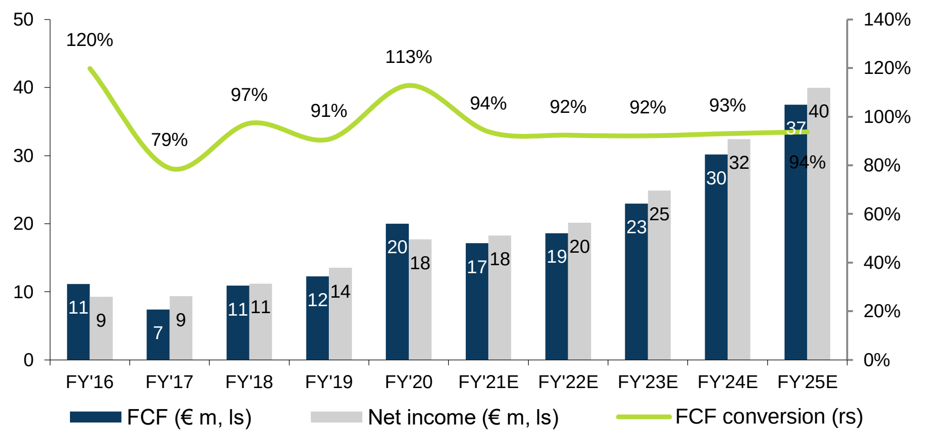
EBIT margin and cost ratios



Source: Company data, H&A estimates

ATOSS boasts a **strong free cash flow conversion, indicating solid earnings quality**. Notably, R&D costs are expensed as incurred and capex as well as working capital intensity is limited due to the capital light nature of the business model.

Strong FCF conversion



Source: Company data, H&A estimates

Valuation

- **DCF valuation implies a fair PT of € 187**, indicating that the stock is fairly valued
- **Peer group analysis confirms that most is priced in at current levels**

DCF

The DCF valuation derives a **fair value of € 187 per share** for ATOSS with the terminal value accounting for 85% of the total value. The high terminal value reflects the short-term profitability burden from the switch to the cloud and the international expansion. In the mid- to long-term, we expect **ATOSS to achieve better profitability levels**. The key assumptions of the model are:

- **Terminal EBIT margin**: The terminal year EBIT margin of 40% compares to an EBIT margin of 30% in 2020.
- **Terminal growth**: A terminal year growth rate of 3.0% has been chosen to reflect strong structural growth drivers of cloud WFM software.
- **WACC**: The WACC of 6.5% is made up of a 0.5% risk free rate, 6% equity risk premium, and 1.0x beta.

Looking at the sensitivity analysis below, a 1.0ppt lower (higher) terminal year EBIT margin and a simultaneous 1.0ppt decrease (increase) in WACC would imply a fair value of € 275 per share (€ 140 per share).

DCF (EUR m) (except per share data and beta)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Terminal value
NOPAT	17,8	19,7	24,4	31,9	39,5	48,2	57,8	68,4	76,3
Depreciation	4,0	4,4	4,9	5,3	5,9	6,6	7,3	8,1	8,0
Increase/decrease in working capital	-1,1	-1,5	-1,9	-2,2	-2,5	-2,7	-3,1	-3,5	-0,8
Increase/decrease in long-term provisions and accruals	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Capex	-1,4	-1,8	-2,4	-5,3	-5,9	-6,6	-7,3	-8,1	-8,0
Acquisitions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Capital increase	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Cash flow	**19,3**	**20,7**	**24,9**	**29,7**	**37,0**	**45,5**	**54,8**	**64,9**	**75,5**
Present value	18,4	18,6	21,0	23,5	27,5	31,8	35,9	39,9	1.247,9
WACC	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%

DCF per share derived from	
Total present value	1.465
thereof terminal value	85%
Net debt (net cash) at start of year	-13
Financial assets	18
Provisions and off balance sheet debt	9
Equity value	1.487
No. of shares outstanding	8,0
Discounted cash flow per share	**187**
upside/(downside)	**9%**
Share price	**171,60**

DCF avg. growth and earnings assumptions	
Short term growth (2020-2023)	16,2%
Medium term growth (2023 - 2028)	15,6%
Long term growth (2028 - infinity)	3,0%
Terminal year EBIT margin	40,0%

WACC derived from	
Cost of borrowings before taxes	2,0%
Tax rate	32,4%
Cost of borrowings after taxes	1,4%
Required return on invested capital	6,5%
Risk premium	6,0%
Risk-free rate	0,5%
Beta	100,0%

Sensitivity analysis DCF

	Long term growth					
WACC		2,0%	2,5%	3,0%	3,5%	4,0%
	8,5%	101,5	107,7	115,0	123,8	134,5
	7,5%	121,5	131,0	142,6	157,0	175,6
	6,5%	151,3	166,9	187,0	213,7	251,1
	5,5%	199,3	228,2	268,5	329,1	430,0
	4,5%	287,5	352,9	461,8	679,7	1333,5

Sensitivity analysis DCF

	EBIT margin terminal year					
WACC		38,0%	39,0%	40,0%	41,0%	42,0%
	8,5%	110,7	112,8	115,0	117,1	119,3
	7,5%	136,9	139,7	142,6	145,4	148,3
	6,5%	179,0	183,0	187,0	190,9	194,9
	5,5%	256,5	262,5	268,5	274,5	280,6
	4,5%	440,0	450,9	461,8	472,7	483,6

Source: H&A estimates

Peer group – Quality and growth largely priced in

To validate our DCF valuation, we compare ATOSS with a group of Human Capital Management (HCM) software providers, which show a similar exposure to the relevant demand drivers such as demographic change, increasing regulatory complexity, digitalization and overall productivity improvements.

Thus, we have included well-known companies such as ADP, Ceridian or Workday in our peer group. Similar to ATOSS, the majority of peers offer their services as a cloud-based subscription model.

HCM software peer group	EV/Sales			EV/EBITDA			EV/EBIT			P/E			PEG		
	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023	2021	2022	2023
NICE LTD -SP ADR	8.0	7.3	-	22.7	20.6	-	27.7	24.0	-	36.2	32.6	-	3.7	3.3	-
AUTOMATIC DATA	5.6	5.2	4.9	22.4	20.6	18.8	25.1	23.2	20.7	32.4	30.0	27.3	6.2	5.8	5.2
CERIDIAN HCM HOL	15.2	13.0	10.9	87.1	66.7	49.9	156.2	105.8	-	225.7	148.8	-	14.6	9.7	-
VERINT SYSTEMS	4.5	4.3	4.1	15.1	16.0	14.3	16.7	18.6	16.2	13.4	19.3	16.9	-1.1	-1.6	-1.4
WORKDAY INC-A	14.0	12.1	10.3	54.0	52.8	43.6	72.9	70.6	56.6	89.0	84.7	67.0	5.0	4.8	3.8
PAYCOM SOFTWARE	22.7	18.2	14.7	57.7	45.2	36.5	74.7	58.2	-	94.4	72.4	57.3	4.1	3.1	2.5
PAYLOCITY HOLDIN	16.3	13.2	10.9	66.2	50.2	39.7	122.2	109.7	-	109.6	87.6	65.4	5.8	4.7	3.5
PAYCHEX INC	8.8	8.2	7.8	21.5	19.9	18.7	24.4	22.5	20.9	32.5	30.2	28.2	8.6	8.0	7.4
INTUIT INC	11.9	10.4	9.3	33.1	28.2	24.9	35.6	30.5	26.8	48.6	41.0	35.6	3.0	2.6	2.2
Median	**11.9x**	**10.4x**	**9.8x**	**33.1x**	**28.2x**	**30.7x**	**35.6x**	**30.5x**	**20.9x**	**48.6x**	**41.0x**	**35.6x**	**5.0x**	**4.7x**	**3.5x**
ATOSS SOFTWARE	**13.5x**	**11.6x**	**9.8x**	**43.4x**	**39.2x**	**31.8x**	**50.0x**	**45.0x**	**36.0x**	**73.8x**	**66.9x**	**54.1x**	**4.6x**	**4.1x**	**3.3x**
Premium (+) / Discount (-)	13%	12%	0%	31%	39%	3%	40%	48%	72%	52%	63%	52%	-10%	-11%	-4%
Implied fair value per share	151	153	169	131	123	164	123	116	99	111	104	112			

Source: Bloomberg, H&A estimates, as of 20th April 2021

Name	Market cap	FX	Sales	EBITDA	EBITDA margin	EBIT	EBIT margin	Sales growth	Sales
in € m			**2020**	**2020**	**2020**	**2020**	**2020**	**20-23E**	**2023E**
NICE LTD -SP ADR	14,986	USD	1,652	572	35%	468	28%	9.5%	2,169
AUTOMATIC DATA	82,117	USD	14,514	3,533	24%	3,197	22%	5.2%	16,896
CERIDIAN HCM HOL	14,142	USD	837	159	19%	111	13%	15.4%	1,287
VERINT SYSTEMS	3,124	USD	1,358	331	24%	-	-	-12.3%	916
WORKDAY INC-A	63,250	USD	3,615	746	21%	475	13%	17.7%	5,888
PAYCOM SOFTWARE	23,965	USD	833	324	39%	251	30%	23.3%	1,560
PAYLOCITY HOLDIN	10,578	USD	559	148	26%	111	20%	18.8%	938
PAYCHEX INC	34,706	USD	4,036	1,662	41%	1,456	36%	3.8%	4,514
INTUIT INC	114,345	USD	7,423	2,664	36%	2,460	33%	15.9%	11,571
Average	**40,135**		**3,870**	**1,127**	**29%**	**1,066**	**24%**	**11%**	**5,082**
ATOSS	1,408	EUR	**86**	**30**	**35%**	**26**	**30%**	**16%**	**135**

Source: Bloomberg, H&A estimates

ATOSS currently trades on 11.6x EV/sales 2022, which compares to a median of 10.4x EV/sales for the chosen peer group. Also looking at EV/EBITDA, EV/EBIT as well as PE ratio, ATOSS is trading at a premium compared to the peer group.

However, looking at the peer group in a more differentiated way, a much more balanced picture emerges. Ceridian and Workday are seen as the closest peers, offering planning and forecasting components similar to ATOSS. While pure time control mechanisms are already widely established, planning and forecasting systems are currently used by far fewer companies. Consequently, this offers higher growth potential for Ceridian, Workday and ATOSS and therefore justifies higher valuations compared to most other peers. Compared to Ceridian and Workday, ATOSS even trades at a discount in terms of EV/EBITDA, EV/EBIT as well as P/E.

Using the PEG ratio for valuation, to take the different growth prospects into account, ATOSS seems fairly valued with a 2022 PEG ratio of 4.1x, indicating an 11% discount to the peer group with 4.7x.

Theme

Solid Q1 ahead

ATOSS will report Q1'21 figures on April 26th. We expect the company to turn in a solid set of numbers with revenue growing by 15% yoy to € 23m and EBIT growing by 7% yoy to € 5.5m, implying a 24% margin, slightly below the previous year driven by increased investments in R&D and the international roll out.

Software sales are expected to grow by 18% yoy to € 14m driven by strongly growing Cloud revenues (+65% yoy), while license revenues are expected to decline yoy on the back of ATOSS' dedicated push to the cloud.

ATOSS quarterly KPIs	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021E
Total sales	19.8	20.9	20.5	24.9	22.7
yoy	17%	23%	15%	26%	15%
Software sales	11.8	14.3	13.2	16.7	13.9
yoy	9%	28%	15%	28%	18%
Thereof License	2.7	4.7	3.0	6.1	2.5
yoy	-20%	39%	-8%	35%	-8%
Thereof Maintenance	6.4	6.6	6.7	6.9	7.0
yoy	9%	10%	11%	10%	9%
Thereof Cloud & Subscription	2.7	3.1	3.4	3.8	4.5
yoy	73%	68%	64%	60%	65%
Consulting sales	6.2	5.5	5.9	6.6	6.8
yoy	25%	22%	18%	28%	10%
Hardware sales	1.2	0.6	1.0	1.2	1.4
yoy	57%	-42%	3%	16%	17%
Other	0.5	0.5	0.5	0.5	0.6
EBITDA	6.0	7.3	6.7	9.7	6.5
margin	31%	35%	33%	39%	28%
EBIT	5.1	6.4	5.8	8.8	5.5
margin	26%	31%	28%	35%	24%
Net profit	3.4	4.8	3.7	5.8	3.7
margin	17%	23%	18%	23%	16%
EPS	0.86	0.61	0.46	0.73	0.47

Source: Company data, H&A estimates

Increasing capital markets awareness

ATOSS is so far only covered by two brokers and is not represented in any of the large German indices, meaning market visibility is rather low. However, we think this could potentially change going forward.

Two things are critical for a potential entry into the SDAX: 1) the free float market cap where ATOSS ranks 140 and 2) the order volume, where ATOSS ranks 160. To enter the index a minimum rank of 155 is required. Considering the improvement in order volume from rank 188 to rank 160 over the past year, a fast entry in June or a regular entry in September could be possible.

Covid-19 an accelerator

According to a Gartner study, COVID-19 has led to a renewed focus on WFM among existing users, and has led organizations to expand the use of WFM beyond its traditional user base.

In fact, the analysts have noted increased interest in and deployment of WFM solutions in office environments. Gartner also states that WFM vendors have confirmed that they, too, are seeing rising interest in WFM beyond the typical use case of hourly and blue-collar workers.

New applications in WFM include solutions to reduce infection risk, e.g. office booking, as well as solutions to enable flexible working such as shift swapping. Especially the latter should be in high demand even after the crisis as more and more companies allow flexible work and manage office space more dynamically.

Company Background

History

Founded in 1987 with a team of five employees and the vision to offer intelligent workforce management systems, which go far beyond pure time and attendance recording (T&A), ATOSS established itself as one of the leading players in the German and European workforce management market within a remarkably short time.

In 1991, just four years after its foundation, ATOSS successfully convinced renowned companies such as Deutsche Bahn, Bayer and Lufthansa to adopt its innovative workforce management solutions, and continues to count them among its loyal customers to this day.

ATOSS started its expansion from Germany in 1999 by opening sales offices in Vienna and Zurich, and later in 2004 a software development hub in Timisoara, Romania. In 2013, ATOSS also opened a subsidiary in Utrecht, Netherlands.

New innovative products have always characterized ATOSS' development. For instance, in 2015 the latest product "Crewmeister" was released, which is specifically designed to suit small companies and start-ups with up to 50 employees. The same year, ATOSS also began offering all of its products as cloud-based solutions via a subscription model.

Two years later, ATOSS launched a solution that links ATOSS' Staff Efficiency Suite with SAP SuccessFactors Employee Central to intensify the collaboration that already started in 2011. In 2020, ATOSS than became an official SAP silver partner.

Business Model

Due to the current shortage of skilled workers in almost all industries, personnel is becoming an increasingly scarce asset. Companies are therefore forced to deploy existing personnel capacities more intelligently. To survive in global competition, companies must be able to adapt quickly and agilely to changing conditions at any time.

With its software solutions, ATOSS helps its customers to respond to fluctuations in demand and to synchronize the workload and working hours at all times in the best possible way. Intelligent time management, demand-optimized scheduling and exact determination of personnel requirements avoid expensive overtime or idle time and thus improve overall efficiency.

ATOSS' product portfolio is essentially divided into three different software solutions, which the customers can book either cloud-based as a subscription or via license on premises.

1. **Staff Efficiency Suite** – The "Staff Efficiency Suite" is ATOSS' flagship product and currently accounts for around 80% of sales. Designed primarily for enterprise customers with over 800 employees, it offers the most comprehensive range of services. In addition to the pure recording and monitoring of work time, it also includes forecasting mechanisms and capacity planning to achieve an overall optimization of the personnel structure. By using comprehensive algorithms and Big Data Analysis, ATOSS enables its customers to determine how to assign their employees (How many?, When?, Where?, With which qualifications?) in order to ensure the most efficient deployment possible.

2. **Time Control** – ATOSS' "Time Control" solution addresses medium-sized companies with 30 to 800 employees and currently accounts for 17-18% of sales. In contrast to the "Staff Efficiency Suite", "Time Control" does not include algorithm-based forecasting, planning and optimization of staff deployment. Nevertheless, it offers all solutions for recording and monitoring working hours, periods of sickness and vacation, as well as absences and overtime, thus creating more transparency and a better overview over the whole workforce. Based on the resulting data, the customer can then carry out his own staff planning in the system and configure different deployment scenarios.

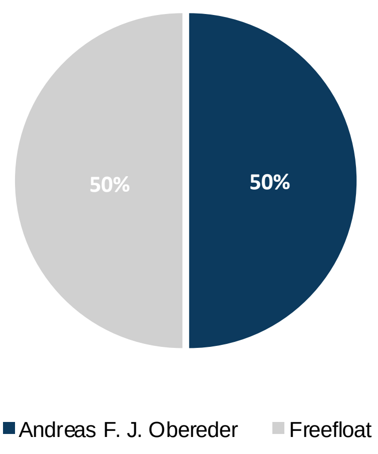
3. **Crewmeister** – The "Crewmeister" solution is designed for start-ups and small companies with less than 50 employees. Crewmeister provides a quick and easy way to record working hours and manage periods of sickness and vacation. Employees can clock in and out with a single click using their smartphone, laptop or PC. "Crewmeister" is only available as a cloud-based solution, giving customers quick and easy access to the software.

Every ATOSS solution takes into account all national regulations as well as tariff specifications and special regulations, which ensures a proper recording and planning process in every case.

Shareholder Structure

Currently, the founder Andreas Obereder holds a little more than 50% of the shares, whereas the remaining 50% are in free float. In order to strengthen the free float and improve liquidity, Mrs. Obereder sold 480k shares, i.e. 6% of share capital, in the beginning of 2021.

Shareholder Structure



Source: Bloomber, Hauck & Aufhäuser

Customers

ATOSS offers companies of all sizes - start-ups, SMEs and large corporations - workforce management tools tailored to their specific needs. The software solutions can be used across all industries, which leads to a wide customer base:

- Industrial companies use ATOSS software to manage volatile order situations
- Retail companies manage changing customer frequencies
- Call centres coordinate their staff based on call volumes
- Hospitals deal with fluctuating patient volume
- Logistics companies balance out seasonal peaks

Among ATOSS' customers are well known companies such as Deutsche Bahn, RWE, Edeka, Shell, Deutsche Telekom and Lufthansa.

Management

Andreas F.J. Obereder – CEO

Andreas Obereder founded ATOSS in 1987 and has been CEO of the company ever since. Previously, he gathered experience as a programmer at Philips Data Systems and was Sole Proprietor of an IT service provider.

Christof Leiber LL.M. – CFO

Christof Leiber started his professional career as an Associate at Sherman & Sterling in New York and joined Rau & Partner, a Munich based law firm, after one year as an attorney. After his time at Rau & Partner, Mr Leiber switched to PMSC to take up a position as General Counsel. In 1999, he joined ATOSS as Director Corporate Affairs and after 4.5 years moved to the Board of Directors as CFO.

Dirk Häußermann – Co-CEO

Dirk Häußermann started his career in 2011 at IBM Germany, where he held various management positions in sales. Subsequently, he was a member of the Management Board of Heiler Software AG, where he was responsible for marketing sales and professional services. After the acquisition by Informica, he served as Managing Director and Vice President Central Region. Most recently, Mr Häußermann was Head of Platform and Technologies Central and Eastern Europe at SAP (on premise and cloud).

Supervisory Board

Moritz Zimmermann – Chairman

Moritz Zimmermann started his career in 1998 by founding his own company – Hybris AG. Hybris AG is a German company that specialises in selling omnichannel and product content management software and was acquired by SAP in 2013. Following the acquisition of SAP, Mr Zimmermann worked as

Senior Vice President Global Presales at SAP Hybris from 2014 to 2017. Subsequently, he worked three years as CTO for SAP Customer Experience. Since 2021, Mr Zimmermann is a General Partner of 42CAP Manager GmbH.

Rolf Baron Vielhauer von Hohenhau

Rolf Baron Vielhauer von Hohenhau started his career as Public Relations Officer for the Chamber of Crafts for Swabia. In 1980, he became Vice President of the Taxpayers Association in Bavaria for which he is still active as Predident since 1984. Since 1986, Mr Vielhauer von Hohenhau is also President of the Taxpayers Assiciation in Europe and simultanesly works as Vice Predient for the World Taxpayers Assiciation (WTA) in Washington. Besides those positions, he is also entrepreneurial active as Executive Chairman of Retirment Home Lechbruck and with his own consultancy.

Klaus Bauer

Klaus Bauer started his professional career as an accountant at Triumph-Adler after completing his training as an industry clerk. In 1979, he switched to Müller GmbH in Heilbronn as Head of Finances and Accounting and subseqently worked one year at the United Insurance Group in Nuremberg. He then returend to Triumph-Adler where he held various management positions in the field of controlling for over 7 years. In 1989, Mr Bauer joined Puma AG, where he most recently served as Managing Director and Chief Operating Officer until 2012.

Investment Risk

As with any investment there are certain risks associated with investing in ATOSS. The Key investment risks, in our view, include:

- **Market Risk** – ATOSS operates in a market that is characterized by constant technological innovation and disruption. With insufficient innovative strength, ATOSS could lose significant market share to competitiors. However, ATOSS is well positioned to counter those risks through consistently high R&D expenditures and the associated promotion of technological innovations.

- **Cyber Security Risk** – A major risk is posed by successfully executed cyberattacks in which sensitve client data is stolen. Particularly in view of the switch to cloud, wherby client data is stored on externally rented servers and no longer in house at the customer’s premises, the risk appears to be increasing. However, ATOSS is aware of the risk and invests heavily in cyber security.

- **Hunt for Talents** – Skilled employees, especially in the German IT market, are an increasingly scarce asset, which leads to the risk that a large number of employees could be poached by a competitior. In addition, it could become more difficult for ATOSS to recruit new talents in order to realize the ambitious growth course.

Financials

Profit and loss (EUR m)	2019	2020	2021E	2022E	2023E	2024E	2025E
Sales	**71.4**	**86.1**	**99.0**	**115.0**	**135.0**	**158.0**	**183.2**
Sales growth	*14.0 %*	*20.5 %*	*15.0 %*	*16.2 %*	*17.4 %*	*17.0 %*	*16.0 %*
Cost of sales	21.2	23.8	27.5	32.2	36.5	41.1	45.8
Gross profit	**50.2**	**62.3**	**71.5**	**82.8**	**98.6**	**116.9**	**137.4**
Sales and marketing	12.9	13.9	18.0	20.7	24.0	26.1	30.2
General and administration	5.8	7.6	7.9	10.7	13.1	15.2	17.0
Research and development	11.9	14.4	18.8	21.9	25.0	27.6	31.1
Other operating income	0.3	0.2	0.3	0.3	0.5	0.5	0.9
Other operating expenses	0.5	0.4	0.3	0.3	0.3	0.5	0.5
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**22.5**	**29.8**	**30.8**	**34.0**	**41.6**	**53.3**	**65.3**
Depreciation	3.0	3.3	3.8	4.1	4.6	5.1	5.7
EBITA	**19.5**	**26.4**	**27.0**	**29.8**	**37.0**	**48.3**	**59.6**
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	**19.3**	**26.2**	**26.7**	**29.6**	**36.7**	**48.0**	**59.4**
Interest income	0.8	0.4	0.8	0.8	0.8	0.8	0.8
Interest expenses	0.2	0.4	0.1	0.1	0.1	0.1	0.1
Other financial result	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	0.6	0.0	0.7	0.7	0.7	0.7	0.7
Recurring pretax income from continuing operations	**19.9**	**26.2**	**27.4**	**30.3**	**37.4**	**48.7**	**60.1**
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	**19.9**	**26.2**	**27.4**	**30.3**	**37.4**	**48.7**	**60.1**
Taxes	6.4	8.5	9.2	10.1	12.5	16.3	20.1
Net income from continuing operations	**13.5**	**17.7**	**18.2**	**20.1**	**24.9**	**32.4**	**39.9**
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**13.5**	**17.7**	**18.2**	**20.1**	**24.9**	**32.4**	**39.9**
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (reported)	**13.5**	**17.7**	**18.2**	**20.1**	**24.9**	**32.4**	**39.9**
Average number of shares	8.0	8.0	8.0	8.0	8.0	8.0	8.0
EPS reported	**1.70**	**2.23**	**2.29**	**2.53**	**3.13**	**4.07**	**5.02**

Profit and loss (common size)	2019	2020	2021E	2022E	2023E	2024E	2025E
Sales	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Cost of sales	29.7 %	27.6 %	27.8 %	28.0 %	27.0 %	26.0 %	25.0 %
Gross profit	**70.3 %**	**72.4 %**	**72.2 %**	**72.0 %**	**73.0 %**	**74.0 %**	**75.0 %**
Sales and marketing	18.1 %	16.1 %	18.2 %	18.0 %	17.8 %	16.5 %	16.5 %
General and administration	8.2 %	8.8 %	8.0 %	9.3 %	9.7 %	9.6 %	9.3 %
Research and development	16.7 %	16.8 %	19.0 %	19.0 %	18.5 %	17.5 %	17.0 %
Other operating income	0.4 %	0.3 %	0.3 %	0.3 %	0.4 %	0.3 %	0.5 %
Other operating expenses	0.6 %	0.5 %	0.3 %	0.3 %	0.2 %	0.3 %	0.3 %
Unusual or infrequent items	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBITDA	**31.5 %**	**34.6 %**	**31.1 %**	**29.5 %**	**30.8 %**	**33.8 %**	**35.6 %**
Depreciation	4.2 %	3.9 %	3.8 %	3.6 %	3.4 %	3.2 %	3.1 %
EBITA	**27.4 %**	**30.7 %**	**27.3 %**	**25.9 %**	**27.4 %**	**30.6 %**	**32.5 %**
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	0.3 %	0.3 %	0.3 %	0.2 %	0.2 %	0.2 %	0.1 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT (inc revaluation net)	**27.0 %**	**30.4 %**	**27.0 %**	**25.7 %**	**27.2 %**	**30.4 %**	**32.4 %**
Interest income	1.2 %	0.5 %	0.8 %	0.7 %	0.6 %	0.5 %	0.4 %
Interest expenses	0.3 %	0.5 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	0.9 %	0.0 %	0.7 %	0.6 %	0.5 %	0.4 %	0.4 %
Recurring pretax income from continuing operations	**27.9 %**	**30.4 %**	**27.7 %**	**26.3 %**	**27.7 %**	**30.8 %**	**32.8 %**
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	**27.9 %**	**30.4 %**	**27.7 %**	**26.3 %**	**27.7 %**	**30.8 %**	**32.8 %**
Tax rate	32.1 %	32.4 %	33.5 %	33.5 %	33.5 %	33.5 %	33.5 %
Net income from continuing operations	**18.9 %**	**20.6 %**	**18.4 %**	**17.5 %**	**18.4 %**	**20.5 %**	**21.8 %**
Result from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	**18.9 %**	**20.6 %**	**18.4 %**	**17.5 %**	**18.4 %**	**20.5 %**	**21.8 %**
Minority interest	neg.	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net profit (reported)	**19.0 %**	**20.6 %**	**18.4 %**	**17.5 %**	**18.4 %**	**20.5 %**	**21.8 %**

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2019	2020	2021E	2022E	2023E	2024E	2025E
Intangible assets	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Property, plant and equipment	15.0	13.5	13.5	13.5	13.5	13.5	13.5
Financial assets	1.3	1.3	1.3	1.3	1.3	1.3	1.3
FIXED ASSETS	**16.6**	**15.1**	**15.1**	**15.1**	**15.1**	**15.1**	**15.1**
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	7.7	8.9	10.2	11.8	13.9	16.3	18.9
Other current assets	12.2	16.4	16.4	16.4	16.4	16.4	16.4
Liquid assets	17.5	23.4	27.2	32.2	40.0	51.5	64.7
Deferred taxes	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Deferred charges and prepaid expenses	2.3	2.6	2.6	2.6	2.6	2.6	2.6
CURRENT ASSETS	41.5	52.9	58.0	64.6	74.5	88.4	104.1
TOTAL ASSETS	**58.1**	**68.0**	**73.1**	**79.7**	**89.6**	**103.5**	**119.2**
SHAREHOLDERS EQUITY	24.8	32.4	37.3	43.8	53.6	67.3	83.0
MINORITY INTEREST	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Long-term debt	11.4	10.2	10.2	10.2	10.2	10.2	10.2
Provisions for pensions and similar obligations	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Other provisions	0.6	1.8	1.8	1.8	1.8	1.8	1.8
Non-current liabilities	**18.7**	**18.9**	**18.9**	**18.9**	**18.9**	**18.9**	**18.9**
short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.9	0.5	0.8	0.9	1.0	1.1	1.3
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	8.9	12.4	12.4	12.4	12.4	12.4	12.4
Deferred taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Deferred income	4.7	3.7	3.7	3.7	3.7	3.7	3.7
Current liabilities	**14.6**	**16.8**	**17.0**	**17.1**	**17.2**	**17.4**	**17.5**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**58.1**	**68.0**	**73.1**	**79.7**	**89.6**	**103.5**	**119.2**

Balance sheet (common size)	2019	2020	2021E	2022E	2023E	2024E	2025E
Intangible assets	**0.6 %**	**0.4 %**	**0.4 %**	**0.3 %**	**0.3 %**	**0.3 %**	**0.2 %**
Property, plant and equipment	25.8 %	19.8 %	18.4 %	16.9 %	15.0 %	13.0 %	11.3 %
Financial assets	2.2 %	2.0 %	1.8 %	1.7 %	1.5 %	1.3 %	1.1 %
FIXED ASSETS	**28.6 %**	**22.2 %**	**20.6 %**	**18.9 %**	**16.8 %**	**14.6 %**	**12.7 %**
Inventories	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts receivable	13.3 %	13.0 %	13.9 %	14.9 %	15.5 %	15.7 %	15.8 %
Other current assets	21.0 %	24.1 %	22.4 %	20.6 %	18.3 %	15.8 %	13.7 %
Liquid assets	30.2 %	34.4 %	37.3 %	40.4 %	44.7 %	49.8 %	54.2 %
Deferred taxes	3.0 %	2.3 %	2.2 %	2.0 %	1.8 %	1.5 %	1.3 %
Deferred charges and prepaid expenses	4.0 %	3.9 %	3.6 %	3.3 %	2.9 %	2.5 %	2.2 %
CURRENT ASSETS	71.4 %	77.8 %	79.4 %	81.1 %	83.2 %	85.4 %	87.3 %
TOTAL ASSETS	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
SHAREHOLDERS EQUITY	42.8 %	47.7 %	51.1 %	54.9 %	59.8 %	65.1 %	69.6 %
MINORITY INTEREST	neg.	neg.	neg.	neg.	neg.	neg.	neg.
Long-term debt	19.6 %	15.0 %	14.0 %	12.8 %	11.4 %	9.9 %	8.6 %
Provisions for pensions and similar obligations	11.4 %	10.1 %	9.4 %	8.6 %	7.6 %	6.6 %	5.7 %
Other provisions	1.1 %	2.7 %	2.5 %	2.3 %	2.0 %	1.8 %	1.5 %
Non-current liabilities	**32.1 %**	**27.8 %**	**25.8 %**	**23.7 %**	**21.1 %**	**18.2 %**	**15.8 %**
short-term liabilities to banks	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	1.6 %	0.8 %	1.0 %	1.1 %	1.1 %	1.1 %	1.1 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	15.4 %	18.3 %	17.0 %	15.6 %	13.8 %	12.0 %	10.4 %
Deferred taxes	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Deferred income	8.1 %	5.5 %	5.1 %	4.7 %	4.2 %	3.6 %	3.1 %
Current liabilities	**25.2 %**	**24.7 %**	**23.2 %**	**21.5 %**	**19.2 %**	**16.8 %**	**14.7 %**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2019	2020	2021E	2022E	2023E	2024E	2025E
Net profit/loss	13.5	17.7	18.2	20.1	24.9	32.4	39.9
Depreciation of fixed assets (incl. leases)	3.0	3.3	3.8	4.1	4.6	5.1	5.7
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Others	-3.0	1.4	0.0	0.0	0.0	0.0	0.0
Cash flow from operations before changes in w/c	13.7	22.7	22.3	24.5	29.7	37.7	45.9
Increase/decrease in inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in accounts receivable	-1.5	-1.1	-1.3	-1.6	-2.1	-2.4	-2.6
Increase/decrease in accounts payable	0.4	-0.4	0.2	0.1	0.1	0.1	0.1
Increase/decrease in other working capital positions	2.6	2.1	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	1.5	0.5	-1.1	-1.5	-1.9	-2.2	-2.5
Cash flow from operating activities	**15.3**	**23.2**	**21.1**	**23.0**	**27.8**	**35.5**	**43.4**
CAPEX	0.9	0.7	1.5	1.6	1.9	2.2	2.5
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	3.9	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	**-0.9**	**-4.6**	**-1.5**	**-1.6**	**-1.9**	**-2.2**	**-2.5**
Cash flow before financing	14.4	18.6	19.7	21.4	25.9	33.3	41.0
Increase/decrease in debt position	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	15.9	10.1	13.3	13.7	15.1	18.7	24.3
Others	-2.2	-1.4	-2.6	-2.8	-3.0	-3.2	-3.5
Effects of exchange rate changes on cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	**-18.1**	**-12.7**	**-15.9**	**-16.4**	**-18.1**	**-21.8**	**-27.8**
Increase/decrease in liquid assets	-3.8	5.9	3.8	4.9	7.9	11.5	13.2
Liquid assets at end of period	**17.5**	**23.4**	**27.2**	**32.2**	**40.0**	**51.5**	**64.7**

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2019	2020	2021E	2022E	2023E	2024E	2025E
Domestic	61.3	74.0	84.2	95.5	108.0	120.8	133.8
yoy change	15.5 %	20.8 %	13.7 %	13.4 %	13.1 %	11.9 %	10.7 %
Rest of Europe	10.1	12.1	14.9	19.6	27.0	37.1	49.5
yoy change	5.8 %	19.2 %	23.2 %	31.6 %	38.1 %	37.5 %	33.3 %
NAFTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TTL	**71.4**	**86.1**	**99.0**	**115.0**	**135.0**	**158.0**	**183.2**
yoy change	14.0 %	20.5 %	15.0 %	16.2 %	17.4 %	17.0 %	16.0 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2019	2020	2021E	2022E	2023E	2024E	2025E
P&L growth analysis							
Sales growth	14.0 %	20.5 %	15.0 %	16.2 %	17.4 %	17.0 %	16.0 %
EBITDA growth	25.1 %	32.2 %	3.4 %	10.4 %	22.4 %	28.3 %	22.4 %
EBIT growth	14.1 %	35.6 %	2.2 %	10.6 %	24.2 %	30.8 %	23.6 %
EPS growth	20.8 %	31.0 %	3.0 %	10.3 %	23.7 %	30.2 %	23.3 %
Efficiency							
Total operating costs / sales	43.2 %	42.0 %	45.2 %	46.3 %	45.8 %	43.6 %	42.6 %
Sales per employee	144.8	160.2	167.6	173.1	179.1	184.2	188.8
EBITDA per employee	45.7	55.4	52.1	51.1	55.2	62.2	67.3
Balance sheet analysis							
Avg. working capital / sales	8.8 %	8.8 %	9.0 %	8.9 %	8.8 %	8.9 %	8.9 %
Inventory turnover (sales/inventory)	18,452.2	28,428.6	28,428.6	28,428.6	28,428.6	28,428.6	28,428.6
Trade debtors in days of sales	39.4	37.6	37.6	37.6	37.6	37.6	37.6
A/P turnover [(A/P*365)/sales]	15.8	8.3	10.0	10.0	10.0	10.0	10.0
Cash conversion cycle (days)	23.7	29.4	27.6	27.6	27.6	27.6	27.6
Cash flow analysis							
Free cash flow	12.3	20.0	17.1	18.6	22.9	30.2	37.5
Free cash flow/sales	17.2 %	23.2 %	17.3 %	16.2 %	17.0 %	19.1 %	20.5 %
FCF / net profit	90.6 %	112.9 %	93.9 %	92.4 %	92.2 %	93.1 %	93.8 %
Capex / depn	28.2 %	127.4 %	36.1 %	37.4 %	38.9 %	40.6 %	41.5 %
Capex / maintenance capex	21.1 %	15.4 %	93.4 %	94.0 %	94.5 %	95.0 %	95.5 %
Capex / sales	1.3 %	5.3 %	1.5 %	1.4 %	1.4 %	1.4 %	1.3 %
Security							
Net debt	-6.1	-13.2	-17.0	-21.9	-29.8	-41.3	-54.5
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / equity	neg.	neg.	neg.	neg.	neg.	neg.	neg.
Interest cover	85.9	66.6	267.3	295.6	367.2	480.2	593.6
Dividend payout ratio	74.9 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %	75.0 %
Asset utilisation							
Capital employed turnover	1.6	1.7	1.8	1.8	1.9	1.8	1.8
Operating assets turnover	3.3	3.9	4.3	4.7	5.1	5.5	5.9
Plant turnover	4.8	6.4	7.3	8.5	10.0	11.7	13.6
Inventory turnover (sales/inventory)	18,452.2	28,428.6	28,428.6	28,428.6	28,428.6	28,428.6	28,428.6
Returns							
ROCE	49.1 %	55.3 %	49.8 %	49.8 %	54.4 %	60.6 %	63.2 %
ROE	54.5 %	54.7 %	48.8 %	46.0 %	46.4 %	48.1 %	48.2 %
Other							
Interest paid / avg. debt	2.0 %	3.6 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
No. employees (average)	493	537	591	664	754	857	970
Number of shares	8.0	8.0	8.0	8.0	8.0	8.0	8.0
DPS	1.3	1.7	1.7	1.9	2.3	3.1	3.8
EPS reported	1.70	2.23	2.29	2.53	3.13	4.07	5.02
Valuation ratios							
P/BV	54.9	42.1	36.5	31.2	25.5	20.3	16.5
EV/sales	19.1	15.8	13.7	11.7	9.9	8.4	7.2
EV/EBITDA	60.7	45.6	44.0	39.7	32.3	24.9	20.2
EV/EBITA	69.9	51.4	50.2	45.3	36.3	27.6	22.1
EV/EBIT	70.8	51.9	50.7	45.7	36.5	27.7	22.2
EV/FCF	111.2	67.9	79.1	72.6	58.5	44.1	35.2
Adjusted FCF yield	1.0 %	1.3 %	1.3 %	1.5 %	1.8 %	2.4 %	3.0 %
Dividend yield	0.7 %	1.0 %	1.0 %	1.1 %	1.4 %	1.8 %	2.2 %

Source: Company data, Hauck & Aufhäuser

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Company	Disclosure
ATOSS Software AG	2, 6, 8

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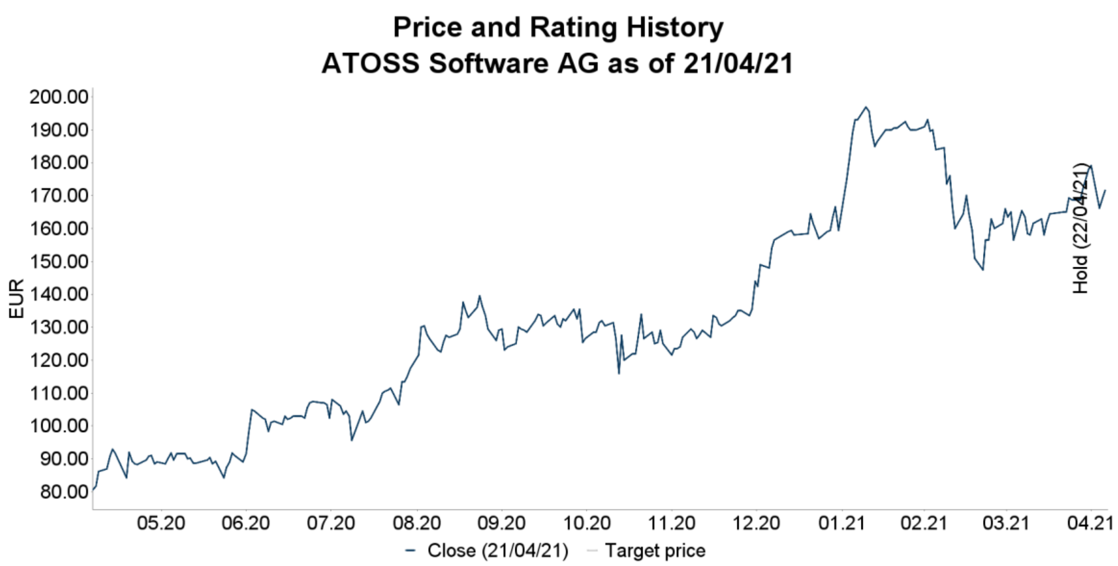

Initiation coverage
22-April-21

Company	Date	Analyst	Rating	Target price	Close

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