Company Analysis

DR. KALLIWODA | RESEARCH GmbH

Equity Research

September 10, 2010

Small Cap | Europe | Germany

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

Target Price: 5.00 EUR

Beta Systems Software AG

Margin increases and risk is down with the sale of ECM

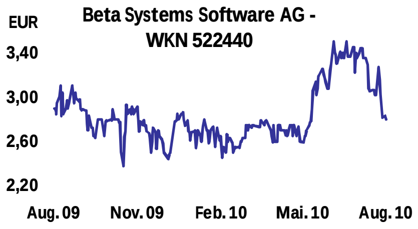
Industry	Software
Country:	Germany
WKN:	522440
Reuters:	BSSG.DE
Website:	www.betasystems.com

Curr. Price:		2.98
	High	**Low**
Price 52 W.:	3.60	2.32
Market Cap. (Mill. EUR)		39.24
No. of Shares (in Mill.)		13.17

Shareholders	
Freefloat	34%
Heidelberger Beteiligshold.	20%
Deutsche Balaton AG	17%
Axxion S.A.	10%
William P. Schmidt	10%
Familie Tauchnitz	9%

Performance	
4 Weeks	-7.45%
13 Weeks	14.62%
26 Weeks	9.56%
52 Weeks	1.02%
YTD	7.19%

Dividend	**in EUR**	**in %**
2008	0.00	0.00 %
2009	0.00	0.00 %
2010e	0.00	0.00 %
2011e	0.00	0.00 %



- The second quarter was characterized by the sale of the weak-on-margins business unit ECM. Beta Systems is now reorienting becoming an exclusive infrastructure software provider. In the process the company is well positioned having long-term client relationships with the big players in the financial sector.
- Sales revenues in continued business areas went down considerably in the first six months (-18 percent). Costs could be significantly lowered, however not to the same scale as sales had dropped. This is why the result for the period before one-time effects turned out negative at -1.4mn Euro. Under inclusion of the earnings from the sale of ECM, the group result in H1 was 2.2mn Euro. The operative cash-flow was at 7.9mn Euro in H1 (H1 2009: 6.5mn Euro).
- The hardly profitable business sector ECM was divested. This will lead to rising margins in the future. At the same time, complexity and risk of the business model were reduced. Beta Systems' liquidity increases with the sale. Besides, no investments will have to be made that would have been required if ECM had remained in the group.
- We are of the opinion that Beta Systems has taken the right step for the future with the sale. The current stock price does not yet reflect the new orientation and the improved risk profile connected to it (no financial debt from 2011 onward, higher equity ratio (rising margin).
- After adjustment of our estimates we arrive at a fair value of 4.98 Euro per share. This fair value reflects the lowered risk and risen efficiency of the newly structured Beta Systems Software AG in our opinion.

EUR m	2008	2009	2010E	2011E	2012E
Revenue	90.44	81.11	50.60	52.12	53.68
EBITDA	10.33	4.87	5.66	8.35	9.98
EBIT	6.45	1.38	2.15	4.90	6.50
Net Income	4.81	1.24	5.26	3.99	5.35
EPS	0.36	0.09	0.40	0.30	0.41
BVPS	2.17	2.26	2.38	2.80	3.22
CFPS	0.18	-0.24	0.69	1.06	0.77
RoE	16.81 %	4.17 %	16.82 %	10.81 %	12.61 %
RoS	5.31 %	1.53 %	10.40 %	7.65 %	9.97 %
EBIT margin	7.13 %	1.71 %	4.25 %	9.40 %	12.10 %

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Inhalt

1 Company Profile

After the sale of the business unit Enterprise Content Management (ECM), Beta Systems Software AG is reorienting as an exclusive infrastructure software provider. The remaining segments are Data Center Infrastructure (DCI) and Identity Management (IdM). Focus rests on optimization of important IT processes in all areas to be covered.

Beta Systems commands - even after adjustment for the sale of the ECM business - more than 1,000 clients – of these are 200 clients in Canada and the U.S. – and thus has a very solid "blue chip" client base. So far more than 3,000 systems have been installed. Beta Systems achieves the largest share of sales Europe-wide with large corporations in the financial and insurance sector. Among the client base are clients such as Fortis Banque, SEB IT Service, DnB NOR (Den norske Bank), Credit Suisse, Allianz Shared Infrastructure Services and Commerzbank, as well as the large central IT service providers in the sector of "Sparkassen- and Volksbanken", the German savings and credit unions (FinanzInformatik or Fiducia). Beta Systems employs approx. 350 staff and has been listed at the stock exchange since 1997.

2 Business Development

The second quarter was characterized by the sale of the weak-on-margins business unit ECM. Thereby, Beta Systems turned the page to a new chapter in its company history. The unprofitable and risk-attached business unit was sold in order to focus on the core business. With the development to an exclusive infrastructure software provider has not only complexity of the business model declined, but the risk profile of the company itself has improved. Beta Systems has large and well-known clients in the infrastructure software business. The business model is profitable and the company is established in the market. Yet high growth without acquisitions is unlikely because of intense competition. However, Beta Systems will be able to increase its margin considerably after the reorientation with its new strategy and structure for the company which is to be implemented this year.

Had the business unit ECM remained in the Beta Systems Group, investments in the upper single-digit millions would have been incurred and those do not need to be spent now. In contrast, with the sale there was an inflow of liquidity to Beta Systems which could already be used for repayment of debt. Still owed profit-tied purchase price payments are intended to be used for repayment of loans among other things so that Beta Systems will have as good as no debts with banks from 2010 onward (long-term debt will only arise from lease obligations for a mainframe serving purposes of development). The equity ration already rose from 39 percent on 12/31/2009 to 50 percent on the due date on 6/30/2010 reflecting the lowered risk of Beta Systems.

Beta Systems Group in H1

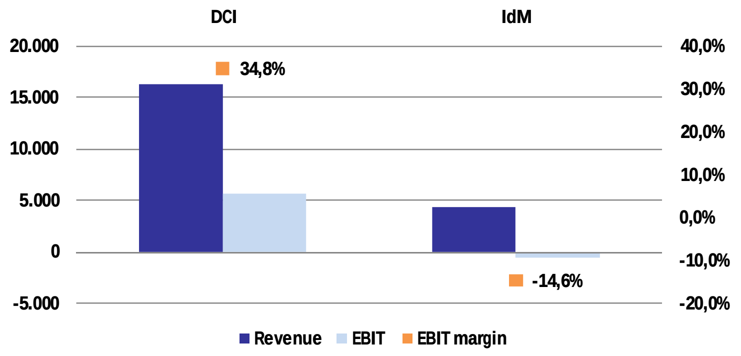
The figures of the first half year were characterized by the sale as well. In order to ensure comparability with previous periods, the continued business sectors are examined. Sales from continued business sectors declined in the first half year by 17.9 percent to 20.7mn Euro compared to the period in the year before. On a quarters basis the decline was 24.4 percent. Reason was delays in large projects as well as hesitant decisions by some clients. Although costs of sales reduced due to lower costs of personnel and expenditures for royalties, such was however in smaller scale than sales (-7.9 percent to 9.1mn Euro). Operative costs as well could not be lowered to exactly the same scale as sales declined (-13.5 percent to 13.5mn Euro). Accordingly the operative result of -1.8mn Euro compares to -0.3mn Euro in H1 of 2009. The result of the period after taxes without one-time earnings was at -1.4mn Euro in the first half year.

Under inclusion of the earnings from the sale in the divestment of the segment ECM, the group result was 2.2mn Euro after taxes. Earnings from the sale before taxes were 4.9mn Euro.

Segments

The business unit Data Center Infrastructure (DCI) had a share in sales of about 80 percent with 16.3mn Euro in H1. Identity Management (IdM) achieved sales of 4.4mn Euro. IdM reached a negative operative result with -0.6mn Euro in the first six months, however was able to clearly improve it in the second quarter compared to Q1. The operative result of DCI was 5.7mn Euro, equivalent to a margin of 34.8 percent. One year ago the operative margin was still 42.7 percent.

Revenue and EBIT by Segments

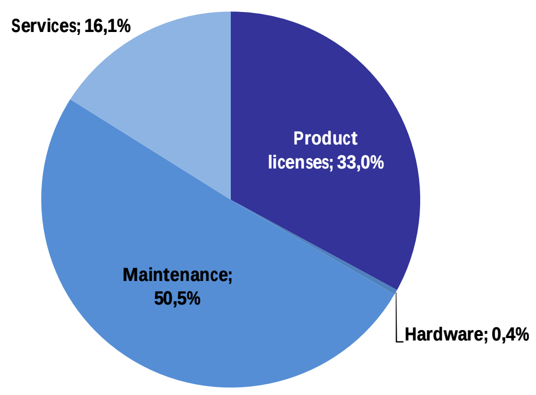


Source: company

Areas

With the sale of the segment ECM sales in the area of hardware declined further. On comparable basis (without ECM) sales rose in the first half year in contrast, yet only make up a small share of sales (0.4 percent). The steepest decline materialized in the area of software licenses. Here, sales were 32 percent below the figures of the previous year in H1. Revenues from maintenance servicing with 50 percent from central sales drivers dropped compared to H1 2009 (-11.5 percent). The area of services could reach the level of the first six months of 2009 again.

Percentage of Sales by Areas

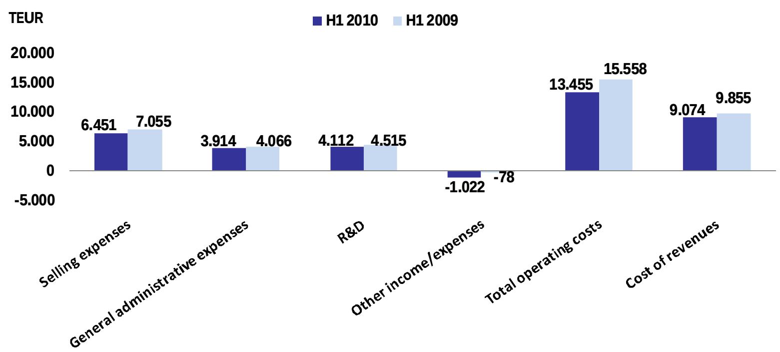


Source: company

Costs

Beta Systems was able to reduce costs considerably in the first half year. Sales costs declined by -7.9 percent, in particular due to lower costs of personnel and lower expenditures for royalties in maintenance servicing. In the area of operative costs for general administration, expenses for personnel could be reduced. Thus administrative costs were lowered by -3.7 percent. Costs for distribution (-8.6 percent) as well as for R&D (-8.9 percent) declined in about the same measure. An important reason for the lowering of operative costs was the significant rise of EUR 78K in H1 2009 to 1.0mn Euro for other earnings included therein. After the sale of the unit ECM, Beta Systems provided services such as accounting and similar in the transition phase which amounted to 0.6mn Euro in other earnings. In sum, operative expenses could be lowered by -13.5 percent.

Development of Costs



Source: company

Cash flow

The operative cash-flow developed positively in the first half year owed to an optimized claims management. It rose to 7.9mn Euro after 6.5mn Euro in the first six months of last year. The cash-flow from investment was positive with 1.3mn Euro because of the sale of ECM. Due to repayment of short-term debt in the amount of 9.3mn Euro, the cash-flow from financing operations was also negative (-9.9 Euro).

3 Perspective

With the sale of the business unit ECM, estimates naturally have to be adjusted. The management as well published a new guidance, according to which sales revenues of rounded 50mn Euro are to be achieved in the business year 2010. The EBIT margin is to be in the mid single-digits. Towards the end of the year when clients generally commission large projects, Beta Systems expects a boost in sales. Contributing to it is that clients are currently acting hesitant as concerns large investments in IT projects. When these investments are decided on client side, Beta Systems will profit from it. The pressure on costs and thus the necessity to design processes more efficiently still remains in high demand at banks and insurance companies. Beta Systems with its products for secure and efficient processing of large amounts of data should be profiting from this in the future.

The Margin is rising

We expect that the margins of Beta Systems will rise after the sale of ECM. Although the sold business area had contributed to a big share of sales (45 percent in Q1) it could not deliver corresponding contribution to the bottom line however. Therefore, we presume a rising EBIT margin for the future (double-digit from 2012 onward). The result of the business year 2010 will be characterized by the earnings from the sale, for which we expect a profit-tied payment in the amount of 3mn Euro in H2. At the same time, one-time expenses for the restructuring and reorientation of the Group are incurred. Here, we assume costs of 3mn Euro.

Risk Profile Improved

The divestment of ECM does not only provide rising margins, but also improves the risk profile of Beta Systems. On one hand, it helps that the business segment is no longer integrated in the Group, since investments in the upper single-digit millions would have arisen in the near future. On the other hand, the sale has liquidity flowing into the cash register of Beta Systems what has already been used for the repayment of debt and which will be used in the future. The company can lower its credit lines with it to 0 until 2011. Besides, liquidity is available for smaller acquisitions. The equity ratio has already increased to 50 percent (from 39 percent 6 months ago) and will rise further in the future. The risk of the Beta Systems stock has thereby clearly declined. At the same time, the company is focusing on its core business and is operating profitably.

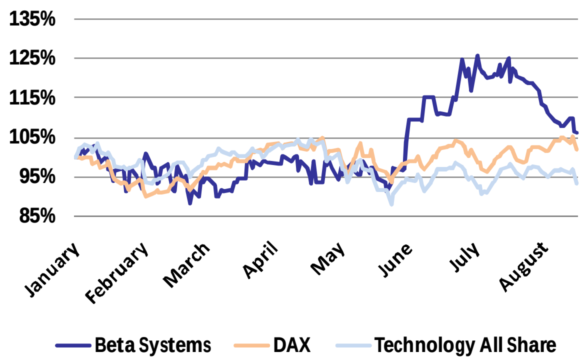
New Fair Value

We are of the opinion that the new profile (business model/risk) of Beta Systems is not yet reflected in the stock price. We adjusted our estimates regarding the lower sales revenues and the higher margin. The liquidity gained by the divestment of the segment ECM could be used for smaller acquisitions. Since no specific plans are known yet, we did not include any acquisitions in our model. Sales revenues are pitted against expenditures for restructuring amounting up to 5mn Euro. We assume one-time expenditures of 3mn Euro for H2. In our DCF model we arrive at a fair value of 4.98 Euro per share. This corresponds to an upside potential of 67 percent compared to the current price which reflects the value of the company after the sale of ECM.

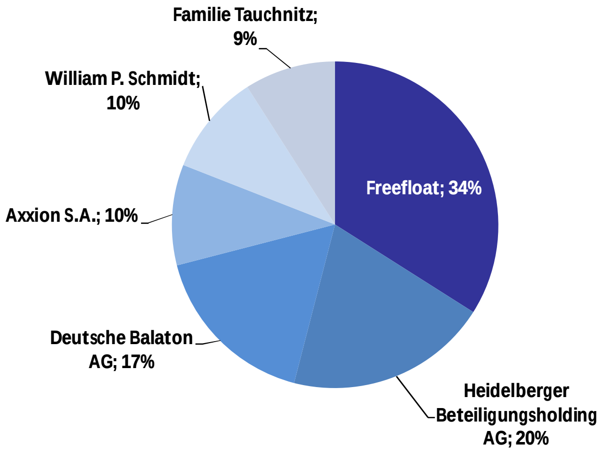
4 Stock

In the first five months of the year the stock of Beta Systems AG developed similar as the market did. After slight gains in the beginning of the year a weaker phase followed in March. In June the Beta Systems stock jumped to a plus of about 25%. Since mid-June it has weakened slightly again and is currently at a plus of six percent. The DAX lists in the level of the beginning of the year, while the Technology All Share Index is in the negative with 7 percent.

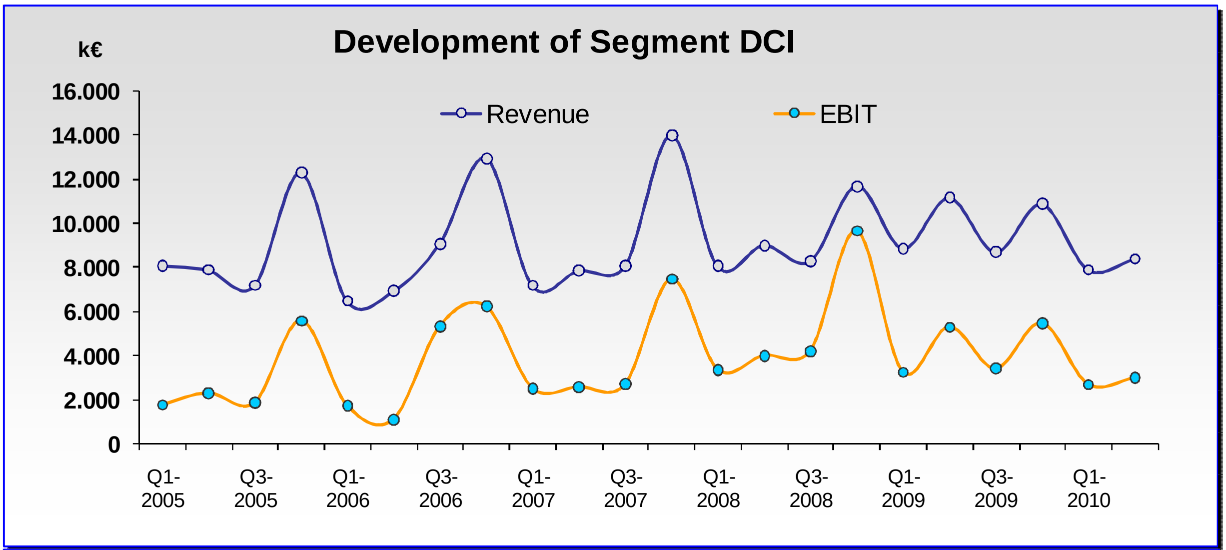
Performance of Beta Systems Stock 2010

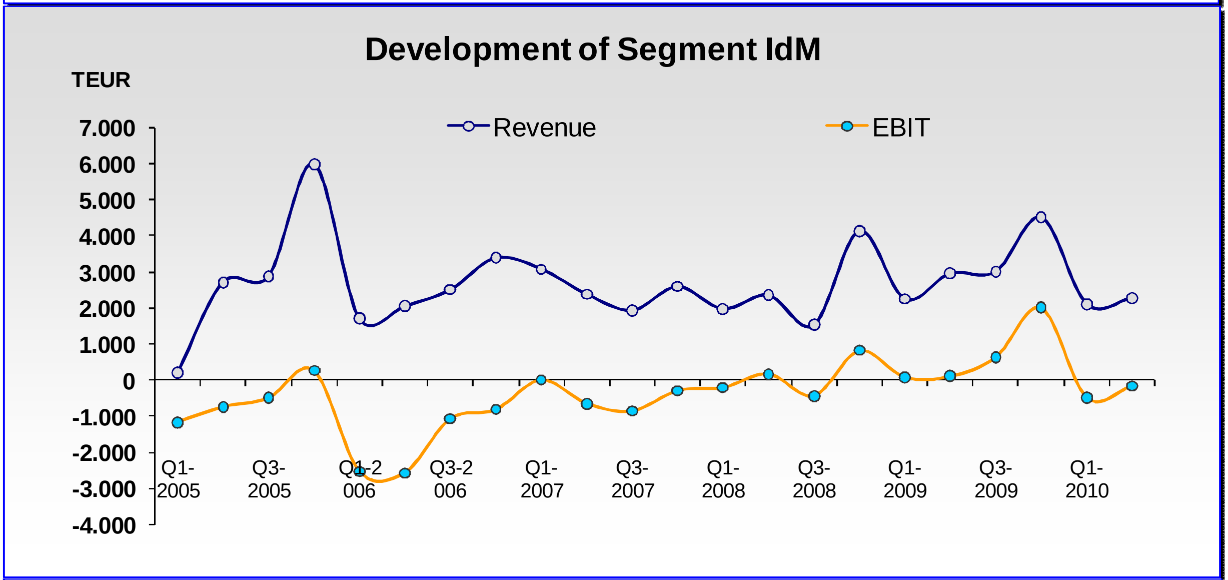


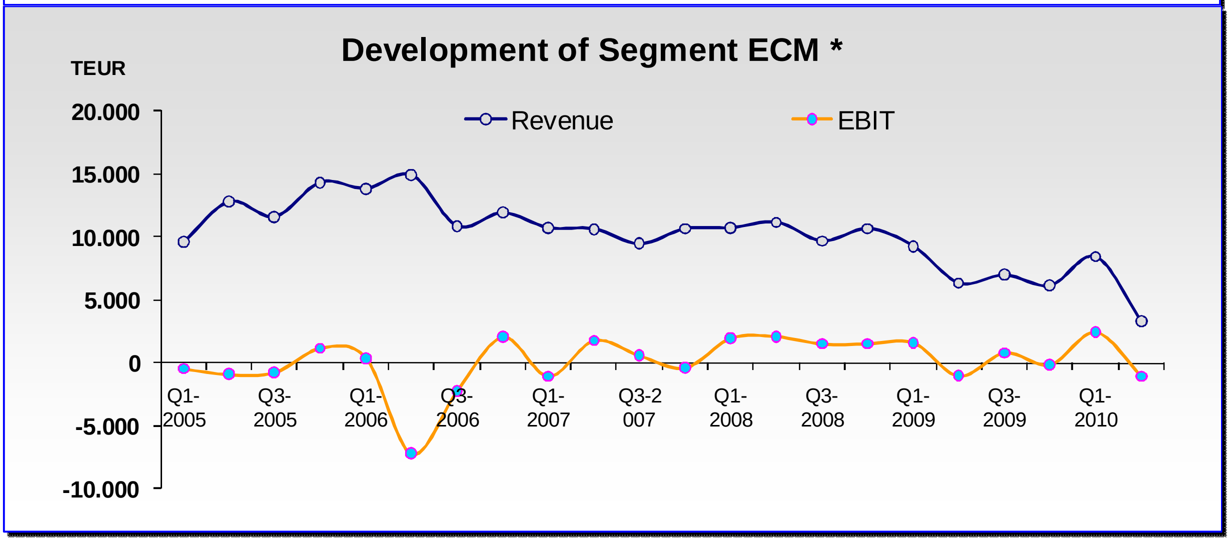
Shareholder Structure



5 Timeline: Development of Business Segments







* Figures for Q2 2010 of the sold business segment ECM refer to the period of 4/1/2010 until the date of the separation of the segment from the Beta Systems Group on 5/31/2010.

6 Financials

6.1 Profit & Loss

Profit & Loss - Beta Systems						
	Fiscal Year					
Numbers in k€	2008	2009	2010E	2011E	2012E	2013E
Revenues from:						
• Product licences	29,179	25,429	16,695	17,196	17,712	18,244
• Hardware	6,215	3,094	210	217	223	230
• Maintenance	40,533	40,569	25,567	26,334	27,124	27,937
• Services	14,512	12,014	8,128	8,371	8,622	8,881
Revenues	**90,439**	**81,106**	**50,600**	**52,118**	**53,682**	**55,292**
Cost of revenues	-40,769	-37,222	-22,011	-22,411	-22,546	-24,052
Gross profit	49,670	43,884	28,589	29,707	31,135	31,240
• *Selling expenses*	-22,501	-21,597	-12,903	-12,508	-12,830	-12,994
• *General administrative expenses*	-7,903	-7,681	-5,440	-5,108	-4,295	-3,870
• *Research and development expenses*	-13,796	-14,017	-9,108	-7,713	-8,052	-7,741
Other income/expenses	975	795	1,010	521	537	553
Operating result (EBIT)	**6,445**	**1,384**	**2,149**	**4,899**	**6,495**	**7,188**
• *Interest income*	472	920	323	700	1,150	1,550
• *Interest expenses*	-966	-612	-402	-138	0	0
Result before income taxes of continued operations	**5,951**	**1,692**	**2,070**	**5,461**	**7,645**	**8,738**
Income taxes	-1,146	-451	-437	-1,474	-2,294	-2,621
Net income (loss) of continued operations	**4,805**	**1,241**	**1,633**	**3,987**	**5,352**	**6,117**
Extraordinary income from discontinued operations	**-**	**-**	**6,628**	**-**	**-**	**-**
Extraordinary expenses fpr restructuring	**-**	**-**	**-3,000**	**-**	**-**	**-**
Net income (loss)	**4,805**	**1,241**	**5,261**	**3,987**	**5,352**	**6,117**
Earnings per share	0.36	0.09	0.40	0.30	0.41	0.46
YoY						
Revenues from:						
• *Product licences*	0.63%	-12.85%	-34.35%	3.00%	3.00%	3.00%
• *Hardware*	89.48%	-50.22%	-93.20%	3.00%	3.00%	3.00%
• *Maintenance*	-3.05%	0.09%	-36.98%	3.00%	3.00%	3.00%
• *Services*	-0.01%	-17.21%	-32.35%	3.00%	3.00%	3.00%
Revenues	2.08%	-10.32%	-37.61%	3.00%	3.00%	3.00%
Cost of revenues	2.00%	-8.70%	-40.87%	1.82%	0.60%	6.68%
Gross profit	2.14%	-11.65%	-34.85%	3.91%	4.81%	0.34%
• *Selling expenses*	-4.56%	-4.02%	-40.26%	-3.06%	2.57%	1.28%
• *General administrative expenses*	4.25%	-2.81%	-29.18%	-6.10%	-15.92%	-9.87%
• *Research and development expenses*	14.49%	1.60%	-35.02%	-15.31%	4.39%	-3.87%
Other income/expenses	-344.97%	-18.46%	27.04%	-48.40%	3.00%	3.00%
Operating result (EBIT)	10.76%	-78.53%	55.24%	128.02%	32.59%	10.66%
• *Interest income*	521.05%	94.92%	-64.89%	116.72%	64.29%	34.78%
• *Interest expenses*	-2.52%	-36.65%	-34.31%	-65.67%	-100.00%	
Result before income taxes of continued operations	21.35%	-71.57%	22.31%	163.88%	40.00%	14.29%
Income taxes	-55.82%	-60.65%	-3.14%	237.53%	55.55%	14.29%
Net income (loss) of continued operations	108.01%	-74.17%	31.56%	144.18%	34.25%	14.29%
Earnings per share	50.00%	-73.82%	323.90%	-24.22%	34.25%	14.29%
% of revenues						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of revenues	-45.08 %	-45.89 %	-43.50 %	-43.00 %	-42.00 %	-43.50 %
Gross profit	54.92 %	54.11 %	56.50 %	57.00 %	58.00 %	56.50 %
• *Selling expenses*	-24.88 %	-26.63 %	-25.50 %	-24.00 %	-23.90 %	-23.50 %
• *General administrative expenses*	-8.74 %	-9.47 %	-10.75 %	-9.80 %	-8.00 %	-7.00 %
• *Research and development expenses*	-15.25 %	-17.28 %	-18.00 %	-14.80 %	-15.00 %	-14.00 %
Other income/expenses	1.08 %	0.98 %	2.00 %	1.00 %	1.00 %	1.00 %
Operating result (EBIT)	7.13 %	1.71 %	4.25 %	9.40 %	12.10 %	13.00 %
• *Interest income*	0.52 %	1.13 %	0.64 %	1.34 %	2.14 %	2.80 %
• *Interest expenses*	-1.07 %	-0.75 %	-0.79 %	-0.26 %	0.00 %	0.00 %
Result before income taxes of continued operations	6.58 %	2.09 %	4.09 %	10.48 %	14.24 %	15.80 %
Income taxes	-1.27 %	-0.56 %	-0.86 %	-2.83 %	-4.27 %	-4.74 %
Net income (loss) of continued operations	5.31 %	1.53 %	3.23 %	7.65 %	9.97 %	11.06 %

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6.2 Balance Sheet

Balance Sheet - Beta Systems

Numbers in k€	Fiscal Year 2008	2009	2010E	2011E	2012E	2013E
Assets						
Cash	1,822	1,888	1,874	14,104	23,324	32,058
Trade receivables	38,317	37,911	26,020	24,123	22,365	20,656
Construction contracts	4,676	209	400	356	322	359
Inventories	3,323	72	230	325	209	255
Prepaid expenses	0	0	0	0	0	0
Other current assets	4,557	1,703	9,263	3,659	2,655	2,876
Income tax assets	115	334	359	395	363	372
Total current assets	**52,810**	**42,117**	**38,146**	**42,962**	**49,237**	**56,577**
Property, plant & equipment	3,197	1,835	2,208	2,566	2,447	2,007
Goodwill	2,029	3,371	3,370	3,365	3,269	2,802
Other intangible assets	2,490	2,582	2,726	1,806	2,141	1,566
Acquired software products	2,408	2,574	3,098	2,305	2,566	1,963
Deffered tax assets	7,295	7,680	8,645	8,010	8,112	8,256
Other non-current assets	751	795	997	924	905	942
Total non-current assets	**18,170**	**18,837**	**21,044**	**18,976**	**19,440**	**17,535**
Assets of disposal groups classified as held for sale	0	16,036	0	0	0	0
Total assets	**70,980**	**76,990**	**59,190**	**61,937**	**68,677**	**74,112**
Short-term debt	7,120	13,187	0	0	0	0
Trade payables	6,678	2,046	2,511	2,279	2,395	2,337
Deffered income	6,876	6,159	9,000	7,580	8,290	7,935
Other current liabilities	7,551	7,413	3,980	3,150	2,842	2,218
Total current liabilities	**28,225**	**28,805**	**15,491**	**13,008**	**13,527**	**12,489**
Long-term debt	1,675	1,735	1,000	500	500	500
Employee benefits	2,922	1,824	1,750	1,663	1,579	1,500
Deffered tax liabilities	8,812	9,071	8,915	9,143	9,580	9,261
Other non-current liabilities	759	502	750	739	1,059	899
Total non-current liabilities	**14,168**	**13,132**	**12,415**	**12,045**	**12,718**	**12,160**
Liabilities of disposal groups classified as held for sale	0	5,311	0	0	0	0
Total liabilities	**42,393**	**47,248**	**27,906**	**25,053**	**26,245**	**24,650**
Equity:	0	0	0	0	0	0
Share capital	17,276	17,276	17,276	17,276	17,276	17,276
Capital reserve	10,709	10,709	10,709	10,709	10,709	10,709
Retained earnings (loss)	-145	1,096	2,729	8,235	13,787	20,839
Other comprehensive income	1,166	1,080	989	1,083	1,080	1,058
Treasury shares	-419	-419	-419	-419	-419	-419
Total shareholder's equity	**28,587**	**29,742**	**31,284**	**36,884**	**42,433**	**49,463**
Total liabilities and shareholder's equity	**70,980**	**76,990**	**59,190**	**61,937**	**68,677**	**74,112**

Company Analysis

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6.3 Cash Flow Statement

Cash Flow Statement - Beta Systems

Numbers in k€	2008	2009	2010E	2011E	2012E	2013E
	Fiscal Year					
Net income (loss)	4,805	1,241	1,633	3,987	5,352	6,117
Depreciation and amortization	3,884	3,484	3,516	3,455	3,485	3,485
(Gain) loss on the disposal of property, plant & equipment and intangible assets, net	51	4	20	33	28	19
Finance result, net	494	-308	-466	289	-552	-465
Interest income	0	0	0	0	0	0
Tax expenses	1,424	-113	-437	-1,126	-1,011	-635
Changes in assets and liabilities						
(Increase) decrease in trade receivables	595	-2,651	11,891	1,897	1,758	1,709
Increase (decrease) in trade payables	763	-3,472	465	-233	116	-58
Changes in other assets and liabilities	-9,659	-1,305	-7,560	5,604	1,004	-221
Net cash from operating activities	**2,357**	**-3,120**	**9,062**	**13,906**	**10,180**	**9,951**
Acquisition of property, plant & equipment and intangible assets	-658	-556	-632	-745	-559	-814
Proceeds from sale of property, plant & equipment	397	0	0	0	0	0
Interest received	32	81	15	37	26	19
Proceeds from sale of assets	2,400	0	0	0	0	0
Acquisition of financial investments	-5,091	-1,816	0	0	0	0
Cash paid for investments, net of acquired cash	0	0	-1,000	0	0	0
Proceeds from sale of subsidiaries	0	0	6,628	0	0	0
Net cash from investing activities	**-2,920**	**-2,291**	**5,011**	**-708**	**-533**	**-795**
Net increase (decrease) in short-term debt	-1,112	6,067	-13,187	0	0	0
Changes in long-term debt	425	60	-735	-500	0	0
Interest paid	-173	-466	-173	-523	-366	-411
Interest received	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Other cash flows from investing activities	0	0	0	0	0	0
Net cash from financing activities	**-860**	**5,661**	**-14,095**	**-1,023**	**-366**	**-411**
Effect of exchange rate fluctuations on cash	69	-86	-90	55	-61	-10
Increase (decrease) in cash	**-1,423**	**250**	**-22**	**12,175**	**9,281**	**8,745**
Cash at the beginning of the fiscal period	3,176	1,822	1,986	1,874	14,104	23,324
Cash at the end of the fiscal period	**1,822**	**1,986**	**1,874**	**14,104**	**23,324**	**32,058**

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7 Valuation

7.1 DCF-Model

In order to determine the fair value, we established a three-stage discounted cash flow model and used market data for the peer group companies. All data are based on the consolidated financial statements.

Through discounting the operative free cash flows to the valuation date we accommodated the during the period valuation date. As the valuation date we chose September 1, 2010. As far as non operating assets are concerned, their value was derived separately and added to the present value of the payouts.

Tying in with this, the phase of terminal value follows, for which we calculated with a growth rate of 3% p.a.

/ Discounted Cash Flow-Model (Basis 9/2010)

			Phase 1			
(EUR m)	2010e	2011e	2012e	2013e	2014e	2015e
Revenues	**50.60**	**52.12**	**53.68**	**55.29**	**60.82**	**66.90**
Rate of change	-	3%	3%	3%	10%	10%
EBIT	**2.15**	**4.90**	**6.50**	**7.19**	**7.83**	**8.11**
Rate of change	-	128%	33%	11%	9%	3%
Margin	4.2%	9.4%	12.1%	13.0%	12.9%	12.1%
Interest and Shareholding Income	-0.08	0.56	1.15	1.55	-0.21	-0.13
EBT	2.07	5.46	7.65	8.74	7.62	7.98
Operational tax expenses	-0.44	-1.47	-2.29	-2.62	-2.40	-2.51
Effective Tax Rate (ex. Interest Income)	21.1%	27.0%	30.0%	30.0%	31.5%	31.5%
Depreciation and Amortization	3.52	3.46	3.49	3.49	3.65	4.01
Depreciation Ratio (% Revenues)	6.9%	6.6%	6.5%	6.3%	6.0%	6.0%
Changes in long-term provisions	-0.07	-0.09	-0.08	-0.08	-0.12	-0.13
Proportion of Revenues	-0.1%	-0.2%	-0.2%	-0.1%	-0.2%	-0.2%
Cash Flow-Business needs (change WC)	4.80	7.27	2.88	1.43	-2.25	-4.45
Working-Capital-Ratio (% Revenues)	9.5%	13.9%	5.4%	2.6%	-3.7%	-6.7%
Investments into fixed assets	5.01	-0.71	-0.53	-0.80	-1.64	-1.87
Investments ratio (% Revenues)	9.9%	-14%	-10%	-14%	-2.7%	-2.8%
Other	0.00	0.00	0.00	0.00	0.00	0.00
Free Cash-Flow	**14.88**	**13.91**	**11.10**	**10.16**	**4.86**	**3.02**

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Company Analysis

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7.2 WACC

The discount rate was calculated by deriving the weighted cost of capital. We assume that the target capital structure will not change in the subsequent business years.

WACC Assumptions	
Growth Propositions	
Long-Term growth rate / Inflation	3.0%
Assimilation Phase (from 2015)	5 Jahre
Revenue growth in the beginning	1.0%
Margin development (p.a.)	+1 BP
	0
Equity Cost	0
Long-Term risk-free rate	3.8%
Market Risk Premium	5.0%
Beta of the Company / Approximation	0.63
Equity Cost	**7.0%**
Debt Cost	0
Debt Cost (before tax)	7.0%
Tax rate on Debt interest	30.0%
Debt Cost (after tax)	**4.9%**
	0
Equity Value	43
Market Value of net debt	0
Gearing (Market Values)	0.0%
WACC	**6.95%**

Adjustments for debt to current interest were not made. Risk free profitability is based on the average profitability of the 30-year bond.

Figuring a risk prime follows the capital asset pricing model (CAPM) and covers in particular the systemic risks (market risk prime esp. company specific risk). The beta value we used to identify the company specific risk is based on the performance of the reference index DAX.

7.3 Fair Value – Sensitivities

Our derived fair value per share amounts to EUR 4:98. This implies an upside potential of 67 % to the current share price (EUR 2:98). The modification of the action parameter in terminal value is shown below in the sensitivity analysis. It shows variance in our derived fair value in variant scenarios.

Sensitivity analysis	Fair value per share				
(EUR)	Discount rate				
ß = 0.63	6.45%	6.70%	6.95%	7.20%	7.45%
Growth 2.0%	4.98	4.81	4.66	4.53	4.40
2.5%	5.17	4.98	4.81	4.65	4.51
3.0%	5.41	5.19	**4.98**	4.80	4.64
3.5%	5.74	5.46	5.21	5.00	4.81
4.0%	6.21	5.83	5.52	5.25	5.02

Sensitivity analysis	Market capitalization				
(EURm)	Discount rate				
ß = 0.63	6.45%	6.70%	6.95%	7.20%	7.45%
Growth 2.0%	65.55	63.38	61.41	59.62	57.98
2.5%	68.06	65.54	63.28	61.25	59.40
3.0%	71.30	68.28	**65.62**	63.26	61.14
3.5%	75.64	71.88	68.64	65.81	63.32
4.0%	81.74	76.81	72.68	69.17	66.14

7.4 Peer Group Analysis

The rating for Beta Systems Software AG derived from our DCF model was subjected to a plausibility test by means of a peer group analysis. We preferably selected companies for this, which are specialized in the software industry. Multiples approaches are based on a comparative view, in that suitable multiples are adopted for the company to be rated from capital market data and financial reporting of stock exchange listed comparative companies.

Initial data from comparative companies originate from information service provider Thomson Reuters.

Multiples - Peer Group

	EV/EBITDA		EV/EBIT		P/E		EBIT-Margin	P/B Ratio
Peer Group	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2010E
ATOSS Software AG	6.32	5.78	6.74	6.13	13.36	12.25	0.21	3.96
CompuGroup Medical AG	7.76	6.96	15.24	12.04	16.55	13.61	0.11	2.29
Heiler Software AG	n.a.	n.a.	1.30	n.a.	7.14	n.a.	0.10	0.86
IBS AG	7.23	6.57	9.04	8.03	15.20	14.07	0.12	1.76
InVision Software AG	neg.	171.08	239.51	199.59	neg.	44.11	0.07	1.59
Nemetschek AG	6.68	5.79	9.42	7.70	12.43	9.62	0.18	3.20
Software AG	9.28	8.66	10.62	9.63	14.92	13.33	0.24	3.97
Update Software AG	15.28	3.47	n.a.	4.78	97.50	12.19	n.a.	0.87
Median	7.49	6.57	9.42	8.03	14.92	13.33	0.12	2.03
Höft & Wessel AG	7.82	5.30	20.62	9.04	7.46	9.84	0.04	1.25
Discount (-)/Premium (+)	4.37	-19.30	118.90	12.59	-49.99	-26.18		-38.06
Valuation Range			**2.52 EUR to 4.19 EUR**					

In our peer group analysis we arrive at a fair value range of 2.52 Euro to 4.19 Euro. It should be noted that the EV/EBIT multiplier 2010E could not be included because Beta Systems extra charge of more than 100 percent for the key figure compared to the median of the peer group.

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