

# COMPANY UPDATE

DR. KALLIWODA EQUITY RESEARCH

Dec, 03, 2004



(unchanged) **BUY**

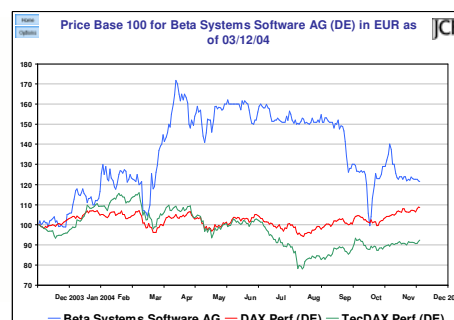
Infrastructure Software / Security Management/ Enterprise Content Management

Last price: € 12,20  
Fair value: € 19

- **Strong 4th quarter expected**
- **High growth of profits until 2007 expected (CAGR des EBIT von 41%)**
- **Increasing competition**

## COMPANY DESCRIPTION

Beta Systems Software AG is a leading provider of intelligent, high-performance solutions for the administration of bulk data. Beta Systems supplies software which enables companies to streamline and simplify their data center, backup, and document management processes. Security-Management- and Enterprise Content Management Solutions are the growth-drivers.



Beta Systems Software AG					
Figures in EUR	2003	2004e	2005e	2006e	2007e
EPS Dr.Kalliwoda Research	0,89	0,85	0,94	1,45	1,87
EPS Consensus	0,69	1,10	1,90	2,00	2,90
Revenues (mln)	55,8	106,0	128,0	148,8	163,0
net Income (adj.)	3,6	3,4	3,8	5,8	7,5
net cash per share	2,1	2,7	3,4	3,4	3,7
net Cash	8,7	11,3	14,0	13,9	15,4
Free Cash Flow	2,2	-9,8	-17,3	-2,5	3,0
P/E	16,8	17,6	15,9	10,4	8,0
P/S	1,3	0,7	0,6	0,5	0,4
EV/EBITDA	10,2	14,1	10,0	6,6	5,1

Source: DR.KALLIWODA RESEARCH			
Price (curr)	12,2	Shares out (mln)	4,1
52w high	17,9	6M avg Vol (000s)	22
52w low	6,1	Free Float (in %)	56
Market Cap (mln)	50,0	Weight in TecDaxPrimeStandard	0,2%
ROE curr	8%	Reuters code	BSS
Sales CAGR 020-07	26%	Bloomberg	BSS
Web Page	betasystems.com	WKN	522440

Source: DR.KALLIWODA|RESEARCH



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# 1. ESTIMATES FOR THE FOURTH QUARTER OF 2004

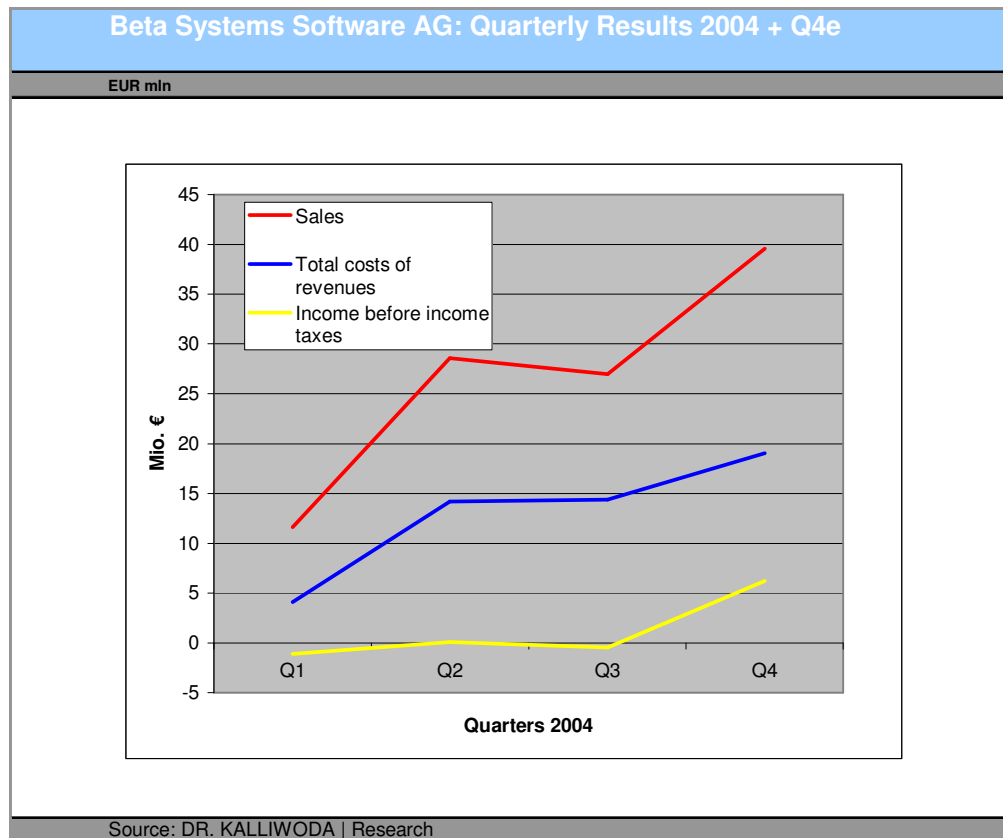
We expect sales of € 39,6 Mil for the fourth quarter. Seasonally, Beta Systems' fourth quarter is very strong. In the financial year of 2003 for example, sales increased from Q3 2003 to Q4 2003 from € 13,46 Mil to € 20,21 Mil. Numerous customers use up their IT/technology-budgets in the last quarter of the year. Further, the earnings before taxes grew in Q3 2003 to Q4 2003 by 71% to € 3,42 Mil. In Q4 2004, we expect sales of € 39,6 Mil., which would equal an increase of 47% compared with Q3 2004. The integrated Kleindienst AG contributes about one half (estimate of € 19,50 Mil.). The earnings before taxes (EBT) are estimated to be € 6,2 Mil.. For the complete year of 2004 we expect an EBT of € 4,67 Mil. and a group-profitability of € 4,4 Mil.. The Q3 result 2004 was lowered by one time integration costs of € 0,9 Mil. and special effects of € 1 Mil. through cash flow neutral expenditures for stock options and the handing out of shares to the work force. The following table compares all 4 quarters of 2004 with the corresponding quarters of the previous year.

Betasystems Q3/2004 Figures in Mio. € and Estimates for Q4/2004															
	Q1 2004	Q1 2003	Change to Q1 2003	Q2 2004	Q2 2003	Change to Q2 2003	Q3 2004	Q3 2003	Change to Q3 2003	Q4e 2004	Q4e 2003	Change to Q4 2003	Total 2004e	total 2003	Change to total2004
<b>Revenues:</b>															
<b>Product licenses</b>	4,51	3,24	39,0%	4,91	5,79	-15,3%	3,94	5,37	-26,7%	13,35	14,40		10,50	11,95	
New licenses							3,36								
License upgrades							0,58								
<b>Maintenance</b>	5,96	5,22	14,1%	5,89	5,72	2,9%	6,14	6,43	-4,5%	17,98	17,37	7,50	6,90	8,7%	25,48
<b>Service</b>	1,13	0,87	29,4%	1,45	1,29	12,8%	1,51	1,66	-9,4%	4,09	3,82	2,10	1,35	55,2%	6,19
<b>Kleindienst</b>				16,32			15,39					19,50			51,21
<b>Total revenues</b>	11,60	9,34	24%	28,56	12,79	123%	26,97	13,46	100%	67,13	35,59	39,60	20,21	96%	106,73
<b>Cost of revenues</b>															
<b>Product licenses</b>	0,60	0,52	15,1%	0,81	0,63	29,1%	0,71	0,44	59,7%	2,12	1,59	1,00	0,88	13,3%	3,12
<b>Maintenance</b>	1,87	1,34	39,4%	1,92	1,75	10,2%	1,78	1,79	-0,9%	4,88	2,05	2,19	6,3%	4,88	2,48
<b>Service</b>	1,65	1,08	53,0%	1,65	1,40	18,5%	1,74	1,36	28,5%	5,04	3,83	2,00	1,85	8,2%	7,04
<b>Kleindienst</b>				9,79			10,16					14,00			5,68
<b>Total costs of revenues</b>	4,11	2,94	40%	14,18	3,77	276%	14,39	3,59	300%	32,68	10,30	19,05	4,92	287%	51,73
<b>Gross profit</b>	7,48	6,40	17%	14,38	9,02	59%	12,59	9,87	28%	34,45	25,29	20,55	15,28	34%	55,00
<b>Operating expenses:</b>															
Selling	4,24	3,45	22,8%	6,49	3,94	64,7%	5,98	4,26	40,4%	16,71	11,65	7,00	6,70	4,5%	23,71
General and administrative	2,17	2,22	-1,9%	4,19	2,28	83,4%	3,63	1,92	89,3%	9,99	6,42	3,90	2,81	38,9%	13,89
Research and development	2,72	2,26	20,5%	3,52	2,32	52,0%	3,22	1,92	67,3%	9,46	6,50	3,20	2,56	25,1%	12,66
Amortization of intangible assets	0,02	0,01	114,3%	0,14	0,01	1260,0%	0,14	0,02	860,0%	0,30	0,03	0,15	0,02	900,0%	0,45
Severance payments				0,00	0,02	-100,0%	0,12	0,06	116,1%	0,12	0,08	0,10	0,00		0,08
<b>Total operating expenses</b>	9,15	7,93	15%	14,33	8,57	67%	13,09	8,17	60%	36,58	24,68	14,35	12,08	19%	50,93
<b>Operating income (loss)</b>	-1,67	-1,53	9%	0,05	0,45	-90%	-0,51	1,70	-130%	-2,13	62%	6,20	3,20	94%	4,08
<b>Other income, net</b>	0,44	0,18	142,8%	0,18	0,07	151,4%	0,23	0,34	-34,2%	0,84	0,59	0,20	0,14	48,1%	1,04
<b>Interest income (expense), net</b>	0,09	0,18	-49,7%	-0,13	0,04	-414,3%	-0,20	-0,04	367,4%	-0,25	0,17	-0,20	0,08	-346,9%	-0,45
<b>Income (loss) before income taxes</b>	-1,14	-1,18	-3%	0,09	0,56	-84%	-0,48	2,00	-124%	-1,53	1,38	6,20	3,42	81%	4,67
<b>Income tax expense (benefit)</b>	-0,42	-0,63	-32,9%	0,01	0,35	-98,6%	-0,12	1,14	-110,1%	-0,53	0,86	1,10	0,43	157,0%	0,57
<b>Minority interests</b>	0,00			0,32	0,00		0,16	0,00		0,48					0,48
<b>Net income (loss)</b>	-0,72	-0,55		-0,22	0,21	-203%	-0,53	0,86	-162%	-1,47	0,52	5,10	2,99	0,71	3,63
<b>Weighted average number of shares used to compute net income (loss) per ordinary share</b>															
Basic	3960,41	3914,63		4014,98	3914,63		4055,65	3914,63					4055,65	3922,01	
Diluted	3960,41			4014,98	3914,63		4055,65	3973,91					4055,65	3986,41	
<b>Net income (loss) per ordinary share</b>	-0,182	-0,14	29%	-0,055	0,05	-201%	-0,13	0,22		-0,37	0,13	5,10	0,76	570%	0,90
<b>Diluted Earnings (Losses) per Share</b>							-0,13	368			0,00				0,88
<b>Number of employees</b>															

Source: Beta Systems AG ; DR.KALLIWODA RESEARCH



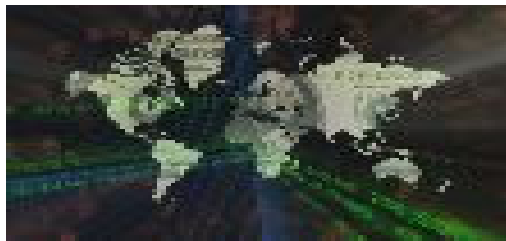
The following graph shows the development of sales, sales-costs and pre-tax-profits Q1 until Q3 incl. our estimates for Q4 2004.



## 2. ESTIMATES FOR 2005 UNTIL 2007

From 2005 until 2007 we expect a high growth in sales as before. Yet, we slightly reduce our sales and profit estimates because of the increasing competition and higher pressure on prices (on average 4%): We expect sales of € 128 Mil. in 2005, € 149 Mil. in 2006 and € 163 Mil. in 2007.

EBIT should grow to € 6,8 Mil. in 2005 and in 2006 to € 10,8 Mil. and in 2007 to € 13,9 Mil.. This means an average EBIT-growth in the time from 2004 until 2007 of 41%. Here, we have discounted the future EBIT-results with 8,2 % (WACC) to today's date (CAGR).



**On the basis of our estimates in our discount-cash-flow-model we receive a fair value of € 19 and recommend to buy the share.**

The following tables show our sensitivity analysis. The different economic scenarios show the following variability:

**Sensitivity analysis per share**

(EUR)		Diskontierungszinssatz				
β = 1,85		10,9%	11,9%	12,9%	13,9%	14,9%
	0,0%	23	20	18	15	14
langf. Wachstum	0,5%	24	21	18	16	<b>14</b>
	1,0%	25	21	18	<b>16</b>	14
	1,5%	26	22	<b>19</b>	17	15
	2,0%	27	<b>23</b>	20	17	15
	2,5%	<b>28</b>	24	20	17	15

Source: Dr. Kalliwoda Research

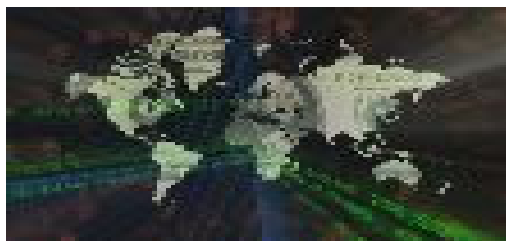
**Sensitivity analysis: Market Capitalization**

(Mio. EUR)		Diskontierungszinssatz				
β = 1,85		10,9%	11,9%	12,9%	13,9%	14,9%
	0,0%	93	80	69	61	54
langf. Wachstum	0,5%	96	82	71	62	<b>55</b>
	1,0%	99	84	73	<b>64</b>	56
	1,5%	103	87	<b>75</b>	65	57
	2,0%	107	<b>90</b>	77	67	59
	2,5%	<b>111</b>	93	80	69	60

Source: Dr. Kalliwoda Research

The results show a wide valuation-spread. We consider a long-term growth of only 0,5% to be highly unrealistic. Even with a long-term growth of only 1%, the fair value would move between € 10 and € 33 under the assumption of a weighted capital market interest rate (WACC) of 6,2% to 10,2%. Analogously, the market capitalization would lie between € 40 Mil. and € 132 Mil.. We regard a long-term growth 1,5% (Terminal Growth Rate) and our calculated discount rate of 8,2% (WACC) as realistic. This results in a market capitalization for Beta Systems of € 77 Mil., which equals a fair value of € 19.

Our rating is: **BUY (share price goal € 19).**



### 3. INCOME STATEMENT UNTIL 2007

The following graph shows the income statement with estimates until 2007.

Beta Systems Software AG: PROFIT & LOSS							
EUR mln							
	2002	2003	2004e	2005e	2006e	2007e	CAGR 2002-2007
<b>Revenues</b>	<b>45,1</b>	<b>55,8</b>	<b>106,0</b>	<b>128,0</b>	<b>148,8</b>	<b>163,0</b>	<b>23,6%</b>
% change	-0,2%	23,7%	90,0%	20,8%	16,3%	9,5%	
<b>COGS</b>	<b>-9,9</b>	<b>-15,2</b>	<b>-51,7</b>	<b>-73,5</b>	<b>-83,9</b>	<b>-89,9</b>	
% change	n.m.	65,1%	239,9%	42,0%	14,2%	7,2%	
% of revenues	<b>22%</b>	<b>27%</b>	<b>52%</b>	<b>49%</b>	<b>57%</b>	<b>55%</b>	
<b>Gross income</b>	<b>35,2</b>	<b>40,6</b>	<b>54,3</b>	<b>54,5</b>	<b>64,9</b>	<b>73,1</b>	<b>15,6%</b>
% change	12,6%	15,3%	33,8%	0,5%	19,0%	12,6%	
<b>Gross margin</b>	<b>78%</b>	<b>73%</b>	<b>51%</b>	<b>43%</b>	<b>45%</b>	<b>45%</b>	<b>55,7%</b>
<b>S,G&amp;A</b>	<b>-26,8</b>	<b>-27,6</b>	<b>-37,6</b>	<b>-42,4</b>	<b>-36,3</b>	<b>-14,4</b>	
% of revenues	<b>59%</b>	<b>49%</b>	<b>-35%</b>	<b>-42%</b>	<b>-36%</b>	<b>-14%</b>	
<b>R &amp; D</b>	<b>-7,7</b>	<b>-9,1</b>	<b>-12,6</b>	<b>-15,2</b>	<b>-17,7</b>	<b>-19,4</b>	
% change	n.m.	17,2%	39,2%	20,8%	16,3%	9,5%	
% of revenues	<b>17%</b>	<b>16%</b>	<b>-12%</b>	<b>-15%</b>	<b>-19%</b>	<b>10%</b>	
<b>Other op. Income</b>	<b>-0,5</b>	<b>-0,1</b>	<b>-0,1</b>	<b>-0,1</b>	<b>-0,1</b>	<b>0,0</b>	
<b>EBITDA</b>	<b>-0,2</b>	<b>3,8</b>	<b>3,5</b>	<b>6,8</b>	<b>10,8</b>	<b>13,9</b>	<b>34%</b>
% change			-7,4%	91,4%	59,3%	28,0%	
<b>EBITDA margin</b>	<b>0%</b>	<b>7%</b>	<b>4%</b>	<b>5%</b>	<b>7%</b>	<b>8%</b>	<b>6%</b>
<b>Depr. &amp; Amort.</b>	<b>0,3</b>	<b>0,0</b>	<b>0,5</b>	<b>0,1</b>	<b>-0,1</b>	<b>0,0</b>	
<b>EBIT</b>	<b>0,1</b>	<b>3,9</b>	<b>4,0</b>	<b>6,8</b>	<b>10,8</b>	<b>13,9</b>	<b>27%</b>
% change			3,1%	71,3%	58,8%	28,0%	
<b>EBIT margin</b>	<b>0%</b>	<b>7%</b>	<b>4%</b>	<b>5%</b>	<b>7%</b>	<b>14%</b>	<b>7%</b>
<b>Financial result</b>	<b>2,2</b>	<b>1,0</b>	<b>0,6</b>	<b>-0,4</b>	<b>-0,4</b>	<b>0,0</b>	
<b>Pre tax income</b>	<b>2,3</b>	<b>4,8</b>	<b>4,6</b>	<b>6,4</b>	<b>10,4</b>	<b>13,5</b>	<b>40%</b>
% change	129,3%	111,1%	-5,6%	40,5%	62,5%	29,1%	
<b>Taxes</b>	<b>-2,0</b>	<b>-1,3</b>	<b>-0,6</b>	<b>-2,0</b>	<b>-3,7</b>	<b>-4,7</b>	
Tax rate	86,2%	26,6%	12,5%	31,1%	35,0%	35,0%	
<b>Minorities</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,6</b>	<b>-0,6</b>	<b>-1,0</b>	<b>53,3</b>	
<b>Net income (Ex adj.)</b>	<b>0,3</b>	<b>3,6</b>	<b>3,4</b>	<b>4,4</b>	<b>6,8</b>	<b>53,3</b>	<b>298%</b>
% change	-63,6%	1025,6%	-4,1%	29,0%	53,3%	685,0%	
<b>Net margin</b>	<b>1%</b>	<b>6%</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>
# shares out (mln)	3,95	3,95	4,02	4,02	4,02	4,02	4,02
<b>EPS</b>	<b>0,08</b>	<b>0,89</b>	<b>0,85</b>	<b>0,94</b>	<b>1,45</b>	<b>1,87</b>	<b>219%</b>
% change	-63,6%	1005,2%	-4,1%	10,6%	53,3%	29,1%	

Source: Dr. Kalliwoda Research



## 4. CONTACT



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